

**AUDITOR GENERAL'S DEPARTMENT**  
**COMPENDIUM OF SPECIAL INVESTIGATIONS REPORT**  
**ON THE MINISTRY OF LABOUR & SOCIAL SECURITY**  
**NIF EQUITY MANAGEMENT AND REHABILITATION PROGRAMME**



The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies.

The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial Administration and Audit Act.

This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.



Auditor General of Jamaica  
Auditor General's Department  
40 Knutsford Boulevard  
Kingston 5, Jamaica, W.I.  
[www.auditorgeneral.gov.jm](http://www.auditorgeneral.gov.jm)

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## Auditor General's Overview

National Outcome #3: Effective Social Protection, of the Vision 2030 National Development Plan (NDP), outlines one of the national strategies to 'promote greater participation in, and viability of social insurance and pension schemes' to achieve the National Goal - *Jamaicans are empowered to achieve their fullest potential*. This is consistent with the Sustainable Development Goal - Target 1.3 to 'Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable'.

This report comprises a compendium of findings of special investigations of the acquisition of equity investments by the National Insurance Fund (NIF) and the Ministry of Labour and Social Security (MLSS) Rehabilitation Programme. The audits revealed poor governance practices and instances where actions of public officials were in contravention of Government policies and guidelines.

Whereas NIF Investment Policy established thresholds for the approval of investments by the National Insurance Advisory Board, the Minister of Finance and the Cabinet, there were transactions that breached the guidelines regarding approval levels as well as, created a conflict of interest. In the case of the MLSS, control deficiencies in the Rehabilitation Programme, led to breaches of the related policy. The Auditor General's Department warned the Ministry, that it had a high-risk exposure to irregular activities because of its failure to address these weaknesses in its control environment in a holistic manner; from as far back as 1990, in successive years and even more recently in our December 2015 – National Insurance Scheme (NIS) activity-based audit.

I wish to express my sincere thanks to the Management and staff of the entities for the cooperation and assistance given to the audit team.



Pamela Monroe Ellis, FCCA, FCA  
Auditor General

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## Executive Summary

The National Insurance Fund was established under statutory powers contained in Section 39 of the National Insurance Act. The National Insurance Act designated the National Insurance Fund (NIF) as the vehicle into which all NIS contributions and interest, investment income, fines, fees, penalties or costs should be paid. Consistent with the provisions of the PBMA Act<sup>1</sup> and in accordance with Section 39(4) of the National Insurance (NI) Act, the Minister with responsibility for Finance approved NIF's Investment Policy (IP) in September 2014.

The Chief Technical Director of the NIF is responsible for administration of the investment portfolio of the National Insurance Fund; however, the Ministry of Finance approved Investment Policy limits the authority to approve investments to the National Insurance Advisory Board, the Minister of Finance and the Cabinet, within established thresholds. The General Guidelines of the Investment Policy states that the responsibility of the Chief Technical Director, Investments is to administer the investment portfolio of the NIF to ensure maximization of returns from investments, and that the portfolio mix is structured to maintain a prudent level of liquidity to facilitate timely payments of NIS benefits.

A special audit was conducted to determine whether proper due diligence was observed in relation to NIF's acquisition of equity investments, and if the transactions accorded with the guidelines of the Ministry of Finance approved Investment Policy. The audit focused on the purchasing decisions related to the acquisition of shares in 19 companies at a cost of \$2.78 billion and USD\$2.34 million, during the period February 2015 to September 2017. Our assessment of these areas reflected on two of the Auditor General's strategic themes namely, Governance and Resource Management.

The audit exercise commenced in November 2017 with a letter requesting information from the MLSS. Audit fieldwork started in December 2017 and the draft audit report was submitted to the MLSS and NIF for response on January 12, 2018. An Exit Interview was conducted with representatives from MLSS, NIF Board and the AuGD on January 23, 2018. MLSS submitted a response on February 5, 2018, for which relevant information was incorporated in the final report for submission to Parliament. The key findings and recommendations are outlined below:

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<sup>1</sup> Section 4 of the PBMA Act

## Key Findings

### Conflict of Interest

1. Our audit of equity purchases revealed a conflict of interest, whereby NIF acquired listed shares<sup>2</sup>, totalling \$27 million in two companies, owned by the spouse of a senior officer employed in NIF's Equity Management unit. In the first instance, NIF purchased 1.96 million shares on April 25, 2017, at \$6.18 per share at a cost of \$12.1 million. Prior to this transaction, NIF had also acquired shares in the same company, at prices ranging from \$5.00 to \$5.75, during the period April 21-24, 2017. In the other instance, NIF acquired 3.35 million shares at \$4.45 per share (\$14.9 million) on July 27, 2017; approximately three times the price paid (\$1.50), one month earlier in the IPO<sup>3</sup> on June 28, 2017. However, the requisite approval from the Minister with responsibility for Finance was not sought for the acquisition of the shares, in breach of the Investment Policy.

Further, NIF did not present any evidence that the conflict of interest was brought to the attention of the Chief Technical Director (CTD) and the Board by the senior officer, contrary to the Ministry of Finance approved Staff Order. The Staff Order stipulates that *'that in order to address the potential for conflict of interest, officers should in all instances inform the appropriate authority of any such undertaking, seek clarification and get permission'*. In response to our draft report, the Permanent Secretary, MLSS by way of correspondence dated February 5, 2018, indicated that the senior officer:

*"has advised that he disclosed orally to the former CTD that the shares purchased in a company<sup>4</sup> by the NIF is likely to include shares being sold by his wife. However, the former CTD indicated that no such disclosure was made. The Investment Policy currently does not include a requirement to disclose such personal transactions. Recognizing the potential conflict that may arise, the policy will be reviewed and revised to address this deficiency"*.

**NIF Response dated February 5, 2018.**

### Absence of Due Diligence

2. NIF did not faithfully conduct due diligence in deciding on equity investments to properly inform investment decisions and financial exposure. Between February 2015 and September 2017, NIF purchased shares in eight companies at an approximate cost of \$783 million. However, we found no evidence that the qualitative and quantitative assessments were done, as the investment proposals were not presented. NIF indicated *"no formal full analysis was done"* for these companies and *"purchases were made on the basis of already being in our portfolio and their past performance."* Nonetheless, NIF should have conducted reviews in accordance with its Investment Policy.

<sup>2</sup> Listed on the Junior Stock Market of the Jamaica Stock Exchange

<sup>3</sup> Initial public offering

<sup>4</sup> Company name redacted

The Investment Policy guidelines state that the responsibility is entrusted to the Investment Analyst-Equities:

*“to ensure prudent management of the NIF Equity portfolios, as well as maintaining the integrity of the Fund by adhering to proper risk management guidelines and the prescribed parameters as set out by the key internal and external administrators”.*

### Lack of transparency and accountability in significant share acquisitions

3. The Investment Policy established thresholds for the approval of investments by the National Insurance Advisory Board, the Minister with responsibility for Finance and the Cabinet, within an established threshold. However, NIF purchased shares in two companies on the JSE Junior Market, in excess of the approved limits and at a cost of \$1.19 billion, without the review of the Investment Committee and the approval of the Board and Minister of Finance. The purchase of shares in 11 additional companies at a cost of \$903.26 million and USD\$340,200 was also undertaken without the review of the Investment Committee and the requisite approval of the Board. The transactions not only breached the investment policy guidelines regarding approval levels, but raises questions regarding transparency and accountability.<sup>5</sup>
4. Over three trade days in April 2017, NIF purchased 103.8 million shares in a company for \$522.4 million acquired through two brokerage firms from 34 shareholders. The total investment represented 0.56 per cent of NIF net asset value, and as such, the approval of the Minister of Finance was required to accord with the NIF Investment policy. Further, there was no evidence that the investment opportunity was reviewed by the Investment Committee and approved by the Board. We requested that NIF provide us with the due diligence report, which informed the investment decision to acquire the Company shares. Instead, NIF submitted an undated Technical Note that detailed industry and financial analyses based on audited financial information, as at March 2016, though the Company posted its unaudited Financial Statements for the Third Quarter ended December 31, 2016<sup>6</sup>. There is no evidence that the Technical Note was reviewed by the Chief Technical Director. Our review of the Technical Note provided, revealed that no conclusion was arrived at regarding purchase of the Company shares and we saw no evidence that NIF, in deciding to acquire the shares, contemplated the stocks’ fundamental standing (such as an industry analysis) and technical position (such as the stock’s price-earnings multiple, PE). The Board Minutes did not reveal the source of the offer and the offer document was not presented for audit scrutiny, despite our requests.

<sup>5</sup> The GOJ Corporate Governance Framework states that accountability implies a relationship, a hierarchy and the duty of a body to explain and justify its conduct to another body.

<sup>6</sup> See link: <https://www.jamstockex.com/lasm-unaudited-financial-statements-third-quarter-ended-december-2016/>

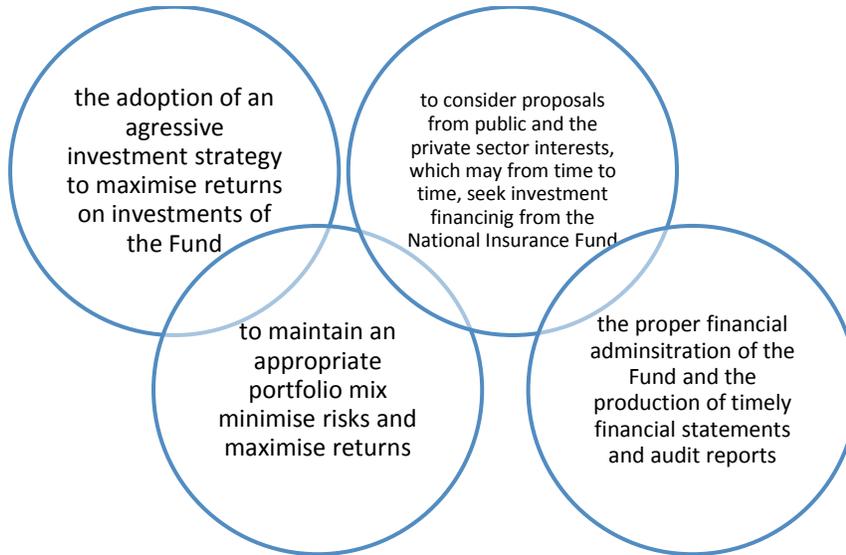
## **Recommendation**

NIF should faithfully comply with its Investment Policy and further enhance the control system governing investments by adherence to the risk management framework. The Investment policy should also be amended to establish a protocol for staff and Board members to disclose conflict of interest on an ongoing basis.

## Investment Activities

### National Insurance (Advisory) Board

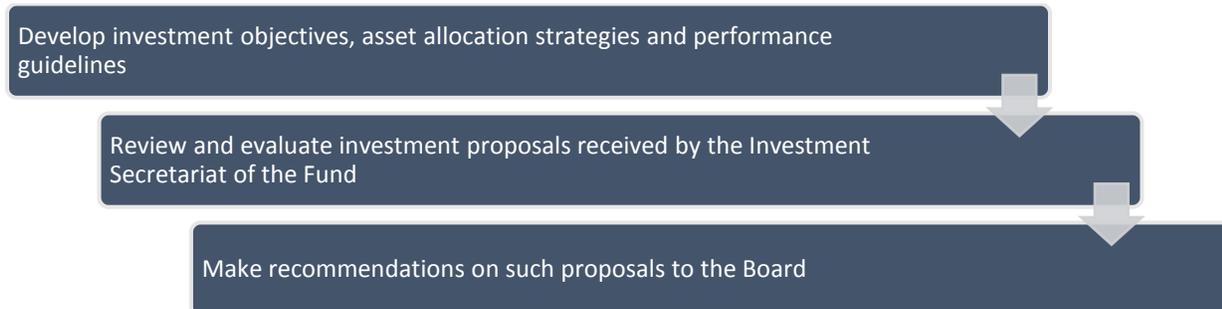
1.1 The National Insurance Board was established as an advisory body on April 1, 1990. The Board members are appointed by the Minister with responsibility for Labour & Social Security. The Board main responsibilities are:



1.2 The Board is comprised of several committees, namely: Audit, Investment and Real Property, whose members include representatives of Ministry of Finance and the Ministry of Labour & Social Security (MLSS).

### Investment Committee of the National Insurance (Advisory) Board

1.3 The Investment Committee comprises eight members including the Chief Technical Director and members of the Advisory Board. The Investment Committee makes recommendations to the Advisory Board, which retains ultimate responsibility for investment recommendations. Its main responsibilities include:



### National Investment Fund Secretariat - MLSS

- 1.4 The NIF's Secretariat manages the investment portfolio in accordance with Board policies as well as, for reporting to the Board. The Secretariat is headed by the Chief Technical Director (Senior Director, Investments).
- 1.5 Section A10 of the NIF Investment Policy - General Guidelines states that the responsibility of the Senior Director, Investments is to administer the investment portfolio of the National Insurance Fund to ensure;
- i. the maximization of returns from investments; and
  - ii. that the portfolio mix is structured to maintain a prudent level of liquidity to facilitate timely payments of NIS benefits.
- 1.6 The Investment Policy established thresholds for approval of investments; the National Insurance Advisory Board has the non-discretionary authority to approve investments up to 0.5 per cent of the Fund's Net Asset Value (NAV), on the recommendation of the Investment Committee. For investments above 0.5 per cent up to 1.5 per cent of NAV, approval is required from the Minister with responsibility for Finance, while investments in excess of 1.5 per cent of NAV require the approval of Cabinet.
- 1.7 The separation of duties, wherein the Senior Director, Investments administers the National Investments, while the Board approve investments recommended by the Investment Committee, is consistent with good fiduciary responsibilities; whereby the fund manager execute transactions after due diligence by the independent and external Investment Committee and the Board. This is also consistent with the Cabinet approved Corporate Governance Framework<sup>7</sup>, which outlines a clear separation of oversight and executive/administrative responsibilities between the Board of Directors and the Chief Executive Officer. Recommended Practice No. 4 (PRINCIPLE 1: GOVERNANCE OF BOARDS) of the Policy<sup>8</sup> states:

*There should be a clear separation of the responsibilities at the very top leadership of the Public Body where the Chairperson is responsible for leading the Board in the development of the policies and strategies of the organization, while the Chief Executive Officer is responsible for the day to day management of the Public Body.*

### NIF failed to urgently put in place the mechanisms to support its risk management process

- 1.8 The Ministry of Finance approved NIF Investment Policy - Risk Guidelines<sup>9</sup> required the establishment of a Risk Committee, primarily comprising senior members of the Fund and Board members. This committee would be responsible for ensuring the coherent collection and analysis of operational risk

<sup>7</sup> National Investment Fund is classified as a public body as per Appendix 1 of the Revised Corporate Governance Framework (October 12, 2012)

<sup>8</sup> The Corporate Governance Framework was revised and approved in October 2012 and tabled in the Houses of Parliament on November 19 and 23, 2012 respectively

<sup>9</sup> Section B8 of the NIF Investment Policy - Risk Guidelines

data and events across the Fund. Further, in December 2016, Ministry of Finance approved the establishment of a post of Risk Manager, whose key responsibilities include the management of the 'process for developing investment risk policies and procedures, risk limits and approval authorities'. However, at the time of our audit, the Risk Committee was not established and the risk manager was not engaged. A formal risk management framework would have enabled NIF to determine the material risks associated with its current operations and inform its investment decisions.

1.9 The Permanent Secretary, MLSS indicated that:

*"the NIF has been unable to identify a suitable candidate to fill this position despite it being advertised twice, the most recent being November 2017. The monitoring of risk parameters is of paramount importance for the NIF, but requires the urgent attention of a dedicated risk management personnel. The Board is committed to establishing an Enterprise Risk Committee."*

**NIF Response dated February 5, 2018.**

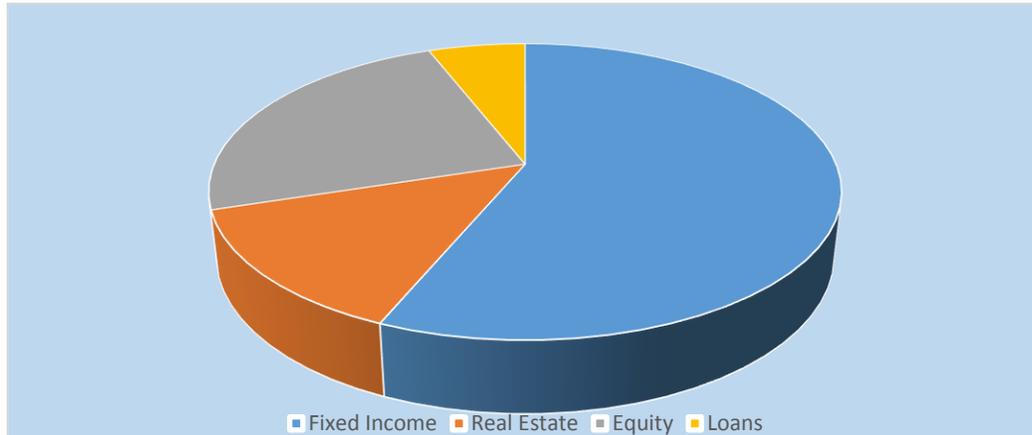
### Investment Mix

1.10 NIF's Investment Policy - General Guidelines indicates that the Fund shall observe the outlined 'Limits of Authority' with respect to its total Net Asset Value (NAV) when engaging in local, regional or international investment acquisition activities<sup>10</sup>. As at September 30, 2017, the Fund's net assets totalled \$98.7 billion; representing a 6.8 per cent increase when compared to March 31, 2017 (\$92.4 billion). NIF's obligation to invest NIS pension funds is reflected in its major assets, investments in real estate, fixed income, equity and loan instruments, which stood at approximately \$101.04 billion as September 30, 2017. Except for the fixed income and real estate portfolios, the allocations for the other investment asset classes within the NIF portfolio were generally in conformity with the NIF Investment Policy as detailed below (**Figure1**).

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<sup>10</sup> Section A13 of the Investment Policy – General Guidelines (LIMITS OF AUTHORITY)

Figure 1: Analysis of NIF Investment Portfolio



Asset Class	Allocation	Breakdown of Net Assets as at September 30, 2017	
		%	(\$'000)
Fixed Income	50% +/- 5%	56.32	56,902,160
Real Estate	25% +/- 5%	13.79	13,932,974
Equity	20% +/- 5%	23.98	24,225,343
Loans	5% +/- 4%	5.91	5,976,626
<b>TOTAL</b>		<b>100%</b>	<b>101,037,103</b>

Source: NIF's Investment Policy and Financial Statements

### NIF Equity Investments

1.11 In undertaking investments in equity instruments, we expected NIF to evaluate investment products, by reviewing all financial records and other information deemed material, to confirm all facts. Therefore, prior to making equity investment decisions, NIF should conduct due diligence to assess the acquisition in line with the objective of the Investment Policy – Equity Guidelines, which is to:

primarily, invest in blue-chip stocks and those with good long-term growth potential, while providing sufficient income to help meet the funds liquidity needs while maintaining an acceptable risk exposure to the Fund.

1.12 NIF investment policy outlined the procedures for qualitative and quantitative assessments, including risk assessment in determining whether to buy, sell or hold equities<sup>11</sup>. These techniques would assist NIF in assessing the issuer’s operations and the associated risks in order to evaluate the issuer’s potential as an investment opportunity.

1.13 NIF purchased shares (ordinary and preference) in 19 companies at a cost of \$2.78 billion and USD\$2.34 million, during February 2015 to September 2017. Of the 19 companies, NIF did not prepare the required investment proposals for eight showing the qualitative and quantitative assessments. NIF indicated that “no formal full analysis was done” for these companies and “purchases were made on the basis of already being in our portfolio and their past performance.” Our review of the investment proposals submitted to the Board for the 11 companies revealed varying degrees of quantitative analysis (Table 1).

**Table 1: NIF Equity Investment – Quantitative Analysis**

Investments	Type of Share	Financial Analysis (Revenue, profit margins, expense, current ratio)	Price Earning (PE) Ratios Analysis	Share Price Analysis	Profitability Ratios Analysis	Liquidity Ratios Analysis	Cash Flow Projections	Solvency Ratios Analysis
Company No. 2	Ordinary	Seen	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen
Company No. 10	Preference	Not Seen	Not applicable	Not applicable	Not Seen	Not Seen	Not Seen	Not Seen
Company No. 11	Ordinary	Seen	Seen	Not applicable	Seen	Seen	Seen	Seen
Company No. 8	Ordinary	Seen	Seen	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen
Company No. 4	Preference	Seen	Not Seen	Not Seen	Done	Not Seen	Not Seen	Not Seen
Company No. 4	Preference	Seen	Not Seen	Not Seen	Done	Not Seen	Not Seen	Not Seen
Company No. 9	Preference	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen
Company No. 5	Ordinary	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen
Company No. 6	Ordinary	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen	Not Seen

Source: AuGD review of NIF Investment Proposals

1.14 We were not satisfied that NIF consistently and adequately conducted qualitative and quantitative assessments prior to deciding on its investment options, potentially exposing NIF to material financial losses on the individual investment and by extension the overall portfolio. Section E11 of NIF Investment Policy – Equity Guidelines outlined the risks associated with the equities markets, including systemic, correlation and asset liquidity, sector risk, market and specific risks and the need to establish Value at Risk Loss limits.

<sup>11</sup> Section E4 of the **Equity Investment Guidelines (Buy-Sell-Hold Strategy)** states that ‘for each stock in its respective sector, a buy, sell or hold strategy will be employed, with respect to the given stocks’ fundamental standing (such as an industry analysis) and technical position (such as the stock’s price-earnings multiple, PE).’



1.15 The investment policy guidelines state that the responsibility is entrusted to the Investment Analyst - Equities “to ensure prudent management of the NIF Equity portfolios, as well as maintaining the integrity of the Fund by adhering to proper risk management guidelines and the prescribed parameters as set out by the key internal and external administrators<sup>12</sup>”. However, our review of the investment proposals for the 11 companies revealed inconsistent risk analyses (Table 2).

**Table 2 - NIF Share Purchase Analysis**

Company	Cost (USD)	Cost (\$)	Investment Proposal – Risk Documentation
Company No. 1	2,000,000.00*	NA	Definition of key risk consideration and outline the risks typically applicable to new firms and the ways they can be mitigated
Company No. 2	340,200.00**	NA	No information seen
Company No. 3	NA	300,000,000.00	Default risk identified as the key risk and outlined the defined key risk considerations, and noted the plans the Issuer of the preference shares intends to undertake to mitigate risks
Company No. 4	NA	59,400,000.00	NIF defined the key risk considerations, such as liquidity/marketability risks, legal, tax and regulatory risks, foreign currency risk and equity risk
Company No. 5	NA	24,999,999.60	No information seen
Company No. 6	NA	94,999,996.00	Appendix III of the Investment Proposal details risks that the company believes are material to shareholders
Company No. 7	NA	\$30,000,000.00	No information seen
Company No. 8	NA	522,399,243.99	NIF identified and assessed key risks, such as Risk of Changes in Macro Economic Policies, Operational Risk, Regulatory and Compliance Risk, Suppliers and Distributors Risk, Key Personnel Risk, Transfer Pricing Risk, Intellectual Property Risk and Debt Finance Risk
Company No. 9	NA	40,440,108.00	NIF assess default risk and project risk as fair; and Regulatory Risk assessed as fair-high
Company No. 10	NA	260,000,000	Default risk assessed as low; NIF stating that the firm is generating significant cash flow and profits; and that the ability to raise additional funding appears good
Company No. 11	NA	664,067,641.78	Franchise model risk and non-diversification risks were assessed; operational risk, risk of catastrophic events and market risk were defined
Company No. 12	NA	100,000,000.00	Investment Proposal not provided

<sup>12</sup> Section A15 of the Investment Policy – General Guidelines (Responsibilities)

## PART ONE NIF Equity Management

Company No. 13	NA	45,960,000.00	Investment Proposal not provided
Company No. 14	NA	179,995,065.84	Investment Proposal not provided
Company No. 15	NA	68,070,000.00	Investment Proposal not provided
Company No. 16	NA	3,688,117.58	Investment Proposal not provided
Company No. 17	NA	183,787,304.00	Investment Proposal not provided
Company No. 18	NA	56,484,307.40	Investment Proposal not provided
Company No. 19	NA	145,271,746.40	Investment Proposal not provided
<b>Grand Total</b>		<b>2,340,200.00</b>	<b>2,779,563,530.59</b>

1.16 The Permanent Secretary, MLSS indicated that:

*“In addition to the analyses provided by the senior officer, both the Investment Committee and the Board utilize additional information to deliberate and assess the risks involved in varying investment opportunities. In terms of the transactions relating to stocks that are already in the portfolio, steps have been taken to formalize the analysis and portfolio review in keeping with the Investment Policy”.*

**NIF Response dated February 5, 2018.**

1.17 To its credit, NIF developed a ‘Selection Process Paper’ and Equity Management: Quantitative Analytics schedules wherein key indicators were outlined to aid in determining options for the purchase or sale of stocks listed on the Jamaica Stock Exchange (JSE). Review of the Equity Management: Quantitative Analytics schedules revealed that based on the quantitative criteria, 14 and one of the stocks listed on the JSE Main and Junior Market respectively, were classified as a ‘buy’. The schedule stipulates a ‘buy’ consideration if a company meets three of the indicators for both stocks listed on the Main and Junior markets **(Table 3)**.

**Table 3: NIF Quantitative Indicators**

Indicator	NIF Values (JSE Main Market)	NIF Values (JSE Junior Market)
Price Earnings (P/E) ratio	12	14
Earnings per Share (EPS)	Positive	Positive
Book Value	CP	CP
Return on equity (ROE)	9	15
Dividend yield %	4	N/A

Source: NIF Equity Management: Quantitative Analytics schedule

### NIF purchased equity for \$1.19 billion without the requisite approval

1.18 Our Review of NIF purchases revealed that the NIF Secretariat purchased shares in 11 companies over the period February 2015 to September 2017 at a cost of \$903 million and USD\$340,200 without the review of the Investment Committee and the requisite approval of the Board. In addition, NIF purchased shares in two companies, hereafter referenced as Company No.8 and Company No. 11) without the approval of the Minister of Finance at a cost of \$1.19 billion (**Table 2**). Only six or 31.6 per cent of the 19 share acquisitions were approved by either by the Minister of Finance or the Board of the Directors (**Appendix 6 and Table 4**).

**Table 4: NIF Share acquisitions**

	Company	Share Cost (\$)	Share Cost (USD)
No Board approval	11	\$903,256,536.34	\$340,200.00
No MOF approval	2	\$1,186,466,886.25	
MOF approval	1		\$2,000,000.00
Board approval	5	\$689,840,108.00	
<b>TOTAL</b>	<b>19</b>	<b>\$2,779,563,530.59</b>	<b>\$2,340,200.00</b>

Source: AuGD's analysis of NIF data

### Conflict of Interest

1.19 The primary responsibility of public bodies is to serve the public interest; as such, staff and Board members of public bodies must discharge their duties, including critical decision making, in a manner that is seen to be honest, fair and unbiased. Consequently, public bodies, such as the NIF, must ensure that conflicts of interest are identified and managed in a way that safeguard the integrity of staff and Board members and maximizes public confidence in the organization's ability to deliver on its mandate. The Public Bodies Management & Accountability (PBMA) Act and the Ministry of Finance approved

Staff Order for the Public Service (2004) outline a code of conduct for Board members and staff<sup>13</sup> respectively, clarifying circumstances and relationships that could lead to potential conflicts of interest.

1.20 Our audit of equity purchases revealed a conflict of interest, whereby NIF acquired listed shares<sup>14</sup>, totalling \$27 million in two companies (Companies Nos. 8 & 11), owned by the spouse of a senior officer employed to NIF, in its equity management unit. In the first instance, NIF purchased 1.96 million shares on April 25, 2017, at \$6.18 per share in Company No. 8 at a cost of \$12.1 million. Prior to this transaction, NIF had also acquired shares in Company No. 8, at prices ranging from \$5.00 to \$5.75, during the period April 21-24, 2017. In the other instance, NIF acquired 3.35 million shares in Company No. 11 at \$4.45 per share (\$14.9 million) on July 27, 2017. Further, the requisite approval was not sought for the acquisition of the shares, in breach of the Investment Policy, which requires that investments above 0.5 per cent up to 1.5 per cent of Net Asset Value (NAV), must receive approval from the Minister with responsibility for Finance.

1.21 NIF did not present any evidence that the conflict of interest was brought to the attention of the Chief Technical Director and the Board by the senior officer, contrary to the Staff Order. The Staff Order stipulates that *'in order to address the potential for conflict of interest, officers should in all instances inform the appropriate authority of any such undertaking, seek clarification and get permission'*. By way of correspondence, the Permanent Secretary, MLSS indicated that the senior officer:

*"has advised that he disclosed orally to the former CTD that the shares purchased in Company 8<sup>15</sup> by the NIF is likely to include shares being sold by his wife. However, the former CTD indicated that no such disclosure was made. The Investment Policy currently does not include a requirement to disclose such personal transactions. Recognizing the potential conflict that may arise, the policy will be reviewed and revised to address this deficiency".*

**NIF Response dated February 5, 2018.**

1.22 Section 4.2.9 of the Staff Orders indicate that the circumstances where a conflict of interest may be deemed to exist, such as:

- using information and/or any material gained from official position for private gain,
- exploiting the status and privilege of one's position for private gain,
- engaging in transactions with relatives or family members, or an organization in which relatives or family members have interest and
- ownership of investment or shares in any company or undertaking.

1.23 We expected NIF to have systems and practices to mitigate the risk of non-compliance with measures set out in the Ministry of Finance approved Staff Order. However, we found that there was no protocol

<sup>13</sup> Civil servants

<sup>14</sup> Listed on the Jamaica Stock Exchange Junior Stock Market

<sup>15</sup> Company name redacted

for staff and Board members to disclose conflict of interest on an ongoing basis through, for example, a yearly declaration of interest or a standing item on the agenda of Management and Board meetings.

- 1.24 The need for protocol is critical, given that the Minister of Labour and Social Security (MLSS) appointed board members who were representatives employed by the portfolio Ministry and the Ministry of Finance as well as, representatives of the financial sector, the Fund's main customer of investment products. Further, employees and Board members could utilize market sensitive investment information, by virtue of their position at NIF, to determine investment decision to their advantage and as a result, gain from his/her connection to the public body. Consequently, the interest might influence decision-making by the employee/Board member and result in damage to the reputation of the public body.

### Lack of transparency and accountability in significant share acquisitions

#### Company No. 8 - \$522 million

- 1.25 Over three trade days in April 2017, NIF purchased 103.8 million shares in Company No. 8 for \$522.4 million, without the approval of the Minister of Finance. These trades which were brokered by two financial advisory and brokerage firms were acquired from 34 shareholders including the brokerage firm (\$500 million, or 98 per cent) that also brokered the deal, and the spouse of a senior officer employed to NIF, in its equity management unit (**paragraph 1.20**).
- 1.26 The total investment represented 0.56 per cent of NIF net asset value, and as such, the approval of the Minister of Finance was required to accord with the NIF Investment policy. Further, there was no evidence that the investment opportunity was reviewed by the Investment Committee and approved by the Board. This not only breached the Ministry of Finance approved investment policy guidelines regarding approval levels, but deprived the Minister of Finance, NIF's Board and the Investment Committee entrusted with fiduciary responsibility, from exercising their duties.
- 1.27 By way of memorandum dated June 29, 2017, the Chief Technical Director, NIF in response to the Permanent Secretary's request for authority to conduct the share purchase, indicated that *'as allowed job-description, the stock purchase was approved by me, in the capacity of Chief Technical Director'*. However, review of the Job Description for the Senior Director, Investment indicates *the 'authority to authorize buy/sell quoted equities investments, within established limits'*.
- 1.28 We requested NIF to provide due diligence report, which informed the investment decision to acquire the Company shares. Review of NIF's Board Minutes for June 2017 revealed that the Chief Technical

Director, NIF ‘pointed out that NIF Officer<sup>16</sup> has a proper due diligence report’. Instead, NIF submitted an undated Technical Note that detailed industry and financial analyses based on audited financial information, as at March 2016. There is no evidence that NIF utilized current financial and other information to inform its purchase of shares in the Company; though the Company posted its unaudited Financial Statements for the Third Quarter ended December 31, 2016<sup>17</sup> on February 9, 2017, approximately two months prior to the share purchase in April 2017.

- 1.29 We were not provided with any evidence that the Technical Note was reviewed by the Chief Technical Director and based on that analysis, authority was given to purchase the shares, within the approved limits. Further review of the Technical Note provided revealed that no conclusion was arrived at regarding purchase of the Company shares and we saw no evidence that NIF, in deciding to acquire the shares, contemplated the stocks’ fundamental standing (such as an industry analysis) and technical position (such as the stock’s price-earnings multiple, PE). As a result, we are unable to determine the basis upon which the Chief Technical Director approved the purchase of the shares in the company (Table 5).

**Table 5: Comparison of NIF Quantitative Indicators versus Company No. 8**

Indicator	NIF Values (JSE Junior Market)	Company No. 8 Shares	Buy Indicator
Price Earnings (P/E) ratio	14	27.23	No Buy
Earnings per Share (EPS)	Positive	Positive	Buy
Book Value	CP	CP	No Buy
Return on equity (ROE)	15	17.71	Buy

Source: NIF Equity Management: Quantitative Analytics Schedules

- 1.30 NIF records<sup>18</sup> showed that the approval process for the acquisition of the shares involved discussions held with the senior officer regarding the company and the preparation of a document detailing key information on the company:

*“given that the purchase of shares in this particular company would have been the first for the portfolio, initial discussions with the senior officer<sup>19</sup> focusing on the company and its prospects would have been taken. After which, the senior officer would prepare a document that would include the key information on the company (inclusive of its: financial, background, management team, potential risks etc.). A hard copy of this document would have been prepared and further discussions would have taken place surrounding whether the company is worthy of being bought or not”.*

**NIF Response dated February 5, 2018.**

<sup>16</sup> Name redacted

<sup>17</sup> See link: <https://www.jamstockex.com/lasm-unaudited-financial-statements-third-quarter-ended-december-2016/>

<sup>18</sup> Memorandum dated June 29, 2017 addressed to the Permanent Secretary, MLSS and submitted to the AuGD on November 15, 2017 as Appendix No. IX

<sup>19</sup> Employee position redacted

1.31 Review of NIF’s Board Minutes revealed that an offer was made to NIF to acquire the shares, as outlined below.

- i. *“the meeting was advised that the offer came to the Fund”; and*
- ii. *NIF Director indicated that ‘he has since learned that he<sup>20</sup> was in possession of the offer document for 30 days prior to the purchase and he was wondering how comes the purchase did not come to the Investment Committee or the Board for a stock that is not liquid and is trading at 24 times its earnings”.*

**Source: NIF’s unsigned Board Minutes dated June 28, 2017.**

1.32 The Board Minutes did not reveal the source of the offer and the offer document was not presented for audit scrutiny, despite our requests.

1.33 Board Minutes for June 28, 2017 revealed that the Chief Technical Director stated that *‘based on an approval they<sup>21</sup> got from the Ministry of Finance (MOF) in 1995 for shares and the Investment Policies that were signed off by the same ministry it was the interpretation of the Secretariat that purchases of shares listed on the Jamaica Stock Exchange does not require Board approval’*. However, correspondence from the Ministry of Finance dated June 9, 1995 stated that the (then) Financial Secretary *‘has given approval for an increase in the monthly trading limit from a net of \$5M per month to \$10M in blue chip stocks’ and instructed that the Investment Committee develop a list of companies, with justification for perusal’*. However, we found no evidence that NIF had developed such a list of ‘blue chip’ companies for review.

### Company No. 11 - \$664 million

1.34 Review of the unsigned Board Minutes dated June 28, 2017 revealed that NIF Board approved the investment of \$62 million in Company no.11 initial public offering (IPO). On June 28, 2017, NIF paid \$49.125 million to acquire 32.75 million shares for \$1.50 on the JSE junior market. Over a three-week period, between July 26, 2017 and August 14, 2017, NIF purchased via its broker(s), an additional 146.3 million shares costing \$614.9 million, at prices ranging from \$3.50 to \$5.57 per share. Included in the amount, were 3.35 million shares acquired for \$14.9 million, via the broker, from the spouse of the same senior officer in the Equity Management unit at NIF on July 27, 2017. This additional investment represented 0.68 per cent of NIF net asset value and as such, would require the approval of the Minister of Finance in accordance with the NIF Investment Policy. However, NIF did not seek the approval of the Minister of Finance and there was no evidence that the additional share purchases were reviewed by the Investment Committee and approved by the Board.

<sup>20</sup> NIF senior officer

<sup>21</sup> Refers to NIF

## Executive Summary

The Ministry of Labour and Social Security (MLSS) has island wide authority to oversee labour-related matters and promote good working relations between employers and employees. The Ministry also seeks to promote social integration and equal opportunities for persons with disabilities among other responsibilities of the various departments under its purview.

The Ministry indicates that it seeks *“to contribute to national development through the provision of efficient and effective labour and social security services within the context of a globalised economy”*. In this regard, the Ministry issues various grants and benefits through its programmes and projects. One such channel is the Rehabilitation Programme, through which four types of grants are issued and administered by the Public Assistance Department (PAD).

We conducted an audit to determine whether the MLSS implemented effective controls over the Rehabilitation Programme. We identified deficiencies in the management of the process that are outlined in four key findings below. We have also proffered recommendations which management should consider as a matter for urgent implementation.

## Key Findings

1. **Contrary to the prevailing Rehabilitation Policy and Procedures (RPP), the MLSS made 4,749 direct grant payments totalling \$84.8 million to beneficiaries, instead of suppliers.** This heightened the risk of these grants not being used for the intended purposes. The RPP stipulates that payments should be made to the suppliers of goods and services, except for emergency grants. Despite this, the \$84.8 million was directly paid to the beneficiaries, while only \$7.5 million relates to Emergency grants. Additionally, we noted that 7,640 payments totalling \$166.7 million for the period April 2012 to March 2017, revealed that 394 beneficiaries received two to three payments totalling \$18 million. We also noted that 21 beneficiaries received in excess of three grants totalling \$5 million over the period. Additionally, grant type was missing from the payment advice for 167 payments totalling \$4.2 million from our sample.

Further the MLSS could not provide evidence that the appropriate due diligence was being carried out prior to the issuance of grants, as only 28 files were received to support the payment of \$2.1 million out 226 payments totalling \$10.8 million for rehabilitation grants. Therefore, rehabilitation grants totalling \$8.7 million or 81 per cent of our sample, could not be accounted for. Of the \$2.1

## PART TWO Contravention of Rehabilitation Programme Policy

million, we saw evidence of due diligence carried out by a social worker, for only four disbursements totalling \$560,000.

2. **MLSS did not adhere to its own policy in monitoring and evaluating projects under the Rehabilitation Programme to assess the overall effectiveness of Programme.** As such, management is unable to determine whether grants are used for their intended purposes, and if the Programme is achieving its objective. Consequently, beneficiaries receiving multiple payments for projects would have received benefits without an evaluation of the success of the previous projects, therefore, undermining the effectiveness of the programme.
3. **Our review of the payments database reflected approximately \$2 million in payments made to staff members over the period April 2012 to March 2017, however, there were no safeguards to mitigate conflicts of interest.** We noted that 65 per cent of the payments totalling approximately \$1.3 million were made directly to staff members and the remaining 35 per cent were made to two companies owned by a staff member. The officer who owned the company did not make a written declaration informing the Ministry of his companies. This represents a breach of Section 4.2.9 of the Government's Staff Orders (2004) and the principle of transparency. The Staff Orders (2004) stipulates that a conflict of interest may be deemed to exist in exploiting the status and privilege of one's position for private gain or the ownership of investment or shares in any company or undertaking.
4. **We noted control deficiencies in the Rehabilitation Programme, which were manifested in disbursements, which raised serious concerns in a context where MLSS made questionable payments. MLSS made payments to ten relatives and a friend of two staff members totalling approximately \$2 million for the period, April 2012 to November 2017.** These payments were made to 10 payees who were also the beneficiaries, as well as an education institution for a beneficiary. Sixty-four payments totalling approximately \$1.7 million were made to family members and one friend of an accounting clerk in the PAD unit. We also noted 13 payments totalling \$260,000 made to the PAD Administrator's mother. The accounting clerk was responsible for preparing the payment advice listing at the PAD Unit (Heroes Circle) and was also tasked with entering the payments on the FINMAN Accounting System (North Street Accounts). The said officer also assisted in batching the cheques according to parish and logging these for delivery to the parishes.

The payment advices for the grants disbursed reflected a different address for the same beneficiary on all occasions. However, each address recorded was consistent with the parish to which the payment advice related. Despite our requests, the grant application files were not presented, which would substantiate the due diligence carried out by the social worker and the approval at the parish committee. There was also no evidence that the cheques drawn for these grants were recorded in the dispatch logbook.

## PART TWO Contravention of Rehabilitation Programme Policy

The Auditor General's Department warned the Ministry, that it had a high-risk exposure to irregular activities because of its failure to address these weaknesses in its control environment in a holistic manner; from as far back as 1990, in successive years and even more recently in our December 2015 – National Insurance Scheme (NIS) activity-based audit.

MLSS indicated that: *“it will review the internal procedures by the end of July 2018 to ensure conformity with the manual. If the procedures outlined in the manual are no longer relevant, the appropriate adjustments will be made.”*

**MLSS Response dated February 5, 2018.**

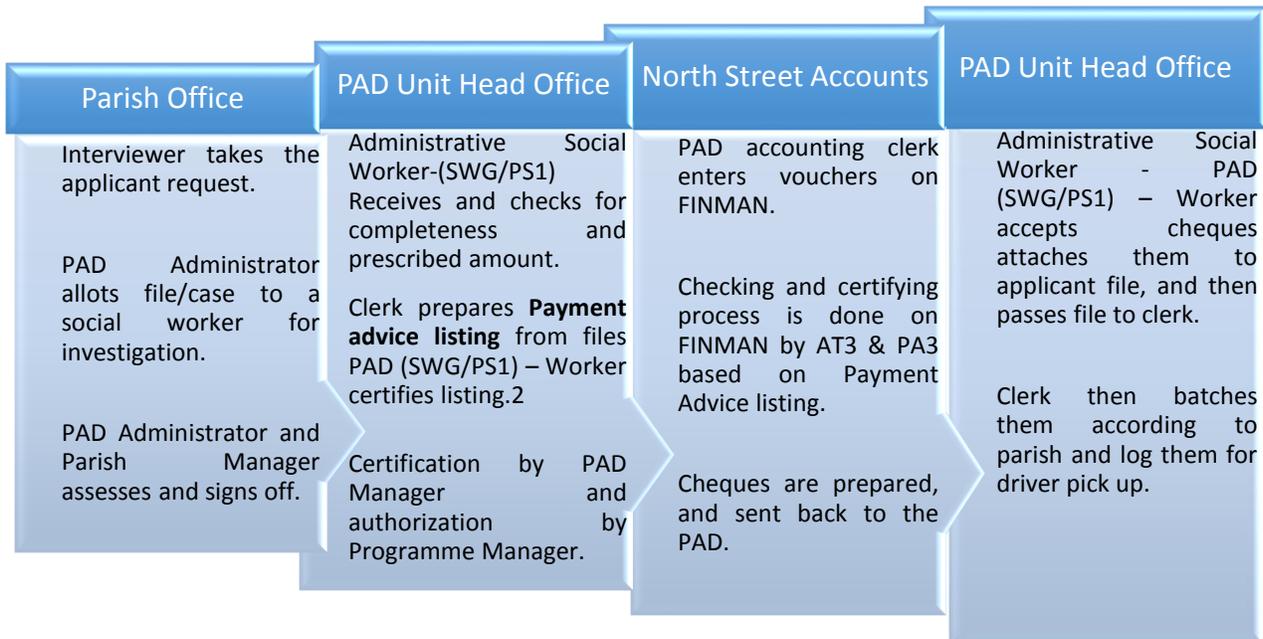
### Recommendations

5. MLSS should immediately implement the recommendation from our June 2011 performance audit report, by conducting a comprehensive risk assessment of its social protection programmes, inclusive of the Rehabilitation Programme with an aim of implementing risk management strategies to mitigate the risk of irregularities and fraud.
6. Further, MLSS should cease payments in beneficiaries' names, execute the appropriate due diligence prior to the disbursement of grants and carry out monitoring and evaluation of all projects in adherence to its own Rehabilitation Programme Policy and Procedures.
7. Additionally, the Ministry should undertake continuous data matching within its benefits programmes as well as with other government entities such as the Registrar General's Department and the Tax Administration Jamaica, to assist in the detection of irregularities.

## The Rehabilitation Programme

### Benefit Payments

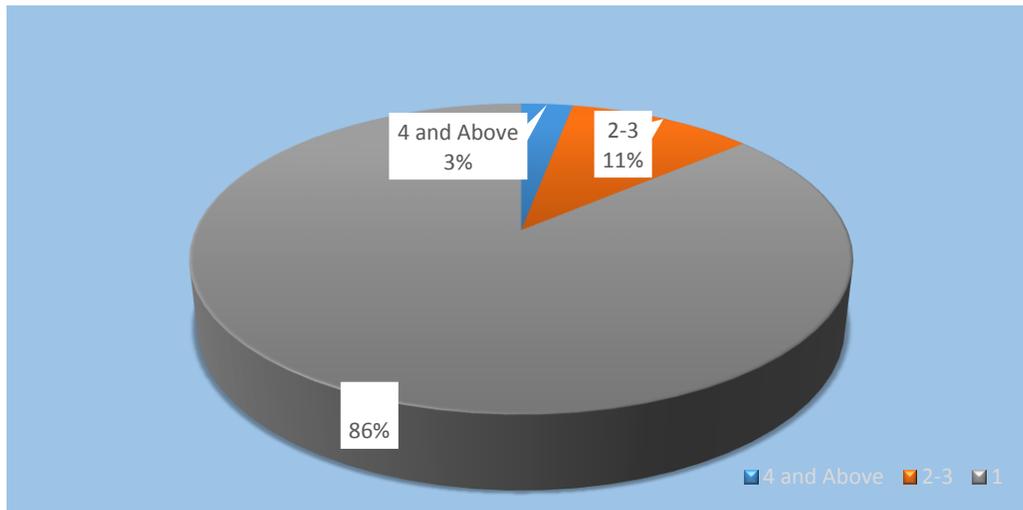
- 2.1 We analyzed payments totalling \$166.8 million to 7,640 beneficiaries, which represented 20 per cent of the population. Our review revealed that the Ministry of Labour and Social Security paid out \$0.8 billion under the Rehabilitation Programme for the period April 2012 to March 2017. The Ministry of Labour and Social Security Rehabilitation Programme Policy and Procedures manual dated March 2015, provides a framework for the operation of the Programme. It also serves as a guideline for the identification of individuals in need of benefit and the distribution of benefits to the vulnerable in society, especially the unemployed and under-employed. However, there was no evidence that this Policy was approved by the Accounting Officer. The policy presented was in Microsoft word format, lacking the necessary edit restrictions to prevent document modifications by unauthorized individuals. This concern was also noted in the 2011/2012 internal audit report by the Ministry’s Internal Audit Unit.
- 2.2 The RPP dated March 2015, indicates that the Rehabilitation Programme was instituted by the Government of Jamaica in 1972 by a Cabinet Decision. The aim is to provide assistance to the most vulnerable in society. The Rehabilitation Programme comprises of four types of grants, namely: Compassionate, Emergency, Education & Social Intervention and Rehabilitation. The policy also outlines detailed provisions for the grant applications under the Programme, which includes due diligence being carried out by the social worker and approval procedures by senior officers at the Parish Offices and the Head Office. Our review highlighted payments made in contravention of the RPP, as beneficiaries received payments without any evidence of an application or the required due diligence and approval by the requisite officers.



## PART TWO Contravention of Rehabilitation Programme Policy

- 2.3 Our attempt to determine if individuals are able to receive other benefits along with the Rehabilitation Grant proved unsuccessful. The computer systems used to process grants under PATH, NIS and the Rehabilitation Programme are separate and not linked by a unique identifier for each beneficiary, such as the TRN. A TRN was used in some instances and the NIS number for NIS-related benefits. Consequently, citizens may be benefiting and exploiting the social protection programmes regardless of their social status.
- 2.4 We requested files to support 226 payments totalling \$10.8 million for rehabilitation grants, of which only 28 files were received to support the payment of \$2.1 million. Therefore, rehabilitation grants totalling \$8.7 million or 81 per cent from our sample could not be accounted for. Of the \$2.1 million, we saw evidence of due diligence carried out by a social worker, for only four disbursements totalling \$560,000.
- 2.5 We also noted that the RPP did not indicate a maximum limit on the number of grants that a beneficiary may receive, considering that the Programme is primarily intended to rehabilitate the unemployed and the under-employed. Further analysis of our sample covering 7,640 payments totalling \$166.7 million for the period April 2012 to March 2017, revealed that 394 beneficiaries received two to three payments totalling \$18 million. We also noted that 21 beneficiaries received in excess of three grants totalling \$5 million over the period (**Figure 2**).

**Figure 2: Analysis of payments to beneficiaries**



No. of Beneficiaries	Grants Received	Amount (\$)	Percentage
21	Four and more	\$5,005,634	3%
394	Two to three	\$18,048,601	11%
7,225	One	\$143,713,937	86%
<b>7,640</b>	<b>Grand Total</b>	<b>\$166,768,172</b>	<b>100.00%</b>

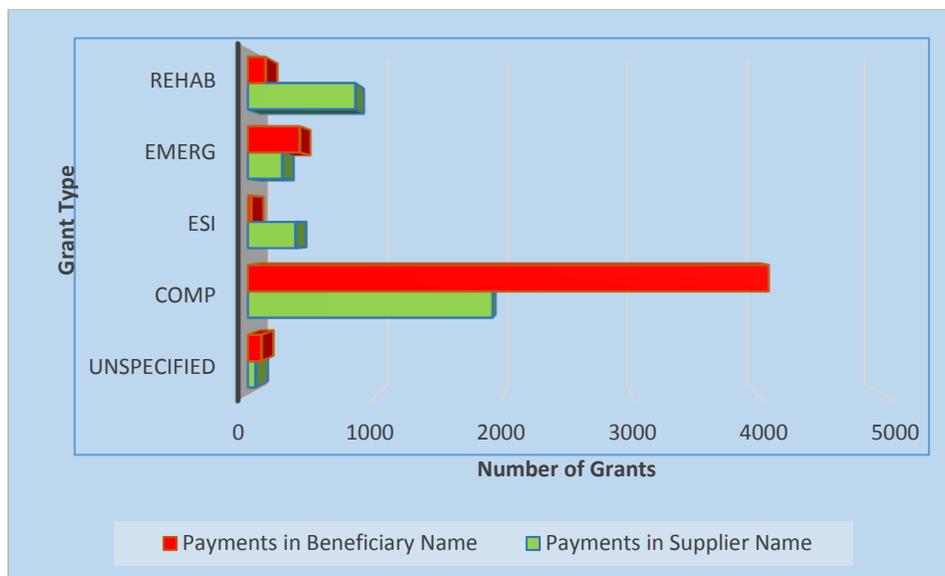
Source: AuGD's compilation of payments and beneficiary data (15% of population).

## PART TWO Contravention of Rehabilitation Programme Policy

### Grants paid directly to beneficiaries contravening the Rehabilitation Policy

2.6 We found that 4,749 payments totalling \$84.8 million out of the 8,209 payments totalling \$175.4 million or 58 per cent of the payments were made to beneficiaries instead of suppliers for all four types of grants (**Figure 3**). This practice contravenes the Rehabilitation Policy and Procedures. The policy stipulates that payments should be made to the suppliers of goods and services in all cases, with the exception of emergency grants. Despite this clause permitting emergency grants as the exception, it only accounts for 8 per cent or \$7.5 million of the \$84.8 million in grants paid directly to the beneficiaries. Additionally, grant type was missing from the payment advice for 167 payments totalling \$4.2 million from our sample.

**Figure 3: Analysis of Payments made to Beneficiaries vs. Suppliers**



Grant Type	Percent	No. of Grants	Payments in suppliers name	Payments in beneficiary name
Compassionate	73%	5,988	1,914	4,074
ESI	5%	398	373	25
Emergency	8%	676	270	406
Rehabilitation	12%	980	842	138
Unspecified	2%	167	60	107
<b>Total</b>		<b>8,209</b>	<b>3460</b>	<b>4,749</b>
			42%	58%

Source: AuGD's analysis of MLSS grant payments history

## PART TWO Contravention of Rehabilitation Programme Policy

### Absence of Follow-up Procedures and Monitoring mechanisms

- 2.7 Follow-up and Monitoring mechanisms are necessary to assess the effectiveness of the social programmes inclusive of the Rehabilitation programmes. There was no evidence that the MLSS was adhering to its own policy in monitoring and evaluating projects under the Rehabilitation programme. The policy stipulates that all projects should go through a monitoring and evaluation phase to be carried out by trained social workers in the parish in which the project exists. An evaluation is conducted at the start of the project (spot check), every three months within the first 6 months and thereafter every six months. As such, management is unable to determine whether grants are used for their intended purposes, and if the programme is achieving its objective.
- 2.8 Consequently, beneficiaries receiving multiple payments for projects would have received benefits without an evaluation of the success of the previous project, therefore, undermining the effectiveness of the programme. Additionally, the beneficiary's TRN is not required for the payment of grants except on occasions where the payments are made in the beneficiary's name. This deficiency undermines MLSS' ability to analyse the frequency of payments to beneficiaries and the type of grant received on each occasion.
- 2.9 Our analysis was impeded by the fact that the submission of the beneficiary's TRN was not a requirement. Further, the PAD Manager currently maintains an incomplete database, which also lacks the recording of the beneficiaries' TRN. The database had essential fields omitted in a number of instances, such as the TRN number for payees, the amount paid, payment date and cheque numbers (**Table 6**). The database reflected 2,830 applicants for the period April 2016 to June 2017. Additionally, applicant or client profiles were not maintained which would assist in the monitoring and evaluation of the Rehabilitation Programme.

**Table 6: Analysis of PAD Database**

Applicant fields	Present in Database	Missing
<b>Applicant File Number</b>	1556	1274
<b>TRN/CGT number for Payee</b>	2374	456
<b>Amount Paid</b>	897	1933
<b>Payment Date</b>	897	1933
<b>Cheque Number</b>	893	1937

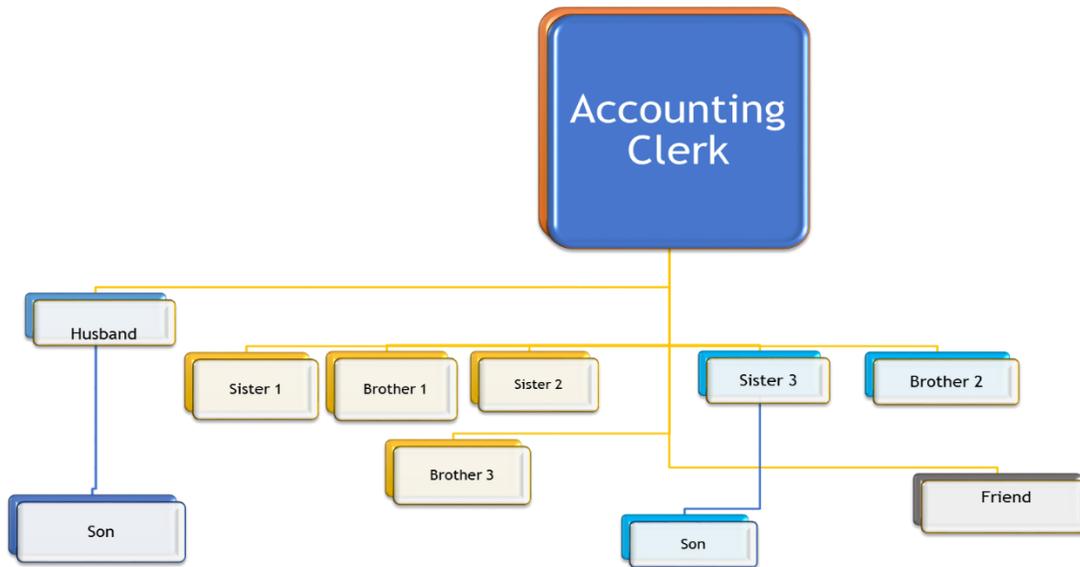
Source: AuGD's analysis of PAD Database

### Irregularities identified in Rehabilitation Programme

- 2.10 The control deficiencies in the Rehabilitation Programme, which were manifested in disbursements which raised serious concerns, in a context where MLSS made questionable payments to relatives and a friend of two staff members totalling approximately \$2 million for the period, April 2012 to November 2017 (**Appendices 3 and 4**). These payments were made to 10 payees who were also the beneficiaries and the

## PART TWO Contravention of Rehabilitation Programme Policy

education institution for a beneficiary. Sixty-four payments totalling approximately \$1.7 million were made to family members and a friend of an accounting clerk in the PAD unit. We also noted 13 payments totalling \$260,000 made to the PAD Administrator's mother. The Accounting Clerk was responsible for preparing the Payment Advice Listing at the PAD Unit (Heroes Circle), and was also tasked with entering the payments on the FINMAN Accounting System (North Street Accounts). The Clerk also assisted in batching the cheques for dispatch to the parishes.



- 2.11 We noted that the payment advices for the grants disbursed reflected a different address for the same beneficiary on all occasions. However, each address recorded was consistent with the parish to which the payment advice related. Despite our requests, the grant application files were not presented, which would substantiate the due diligence carried out by the social worker and the approval at the parish committee. There was also no evidence that the cheques drawn for these grants were recorded in the dispatch logbook.

### Potential for Conflict of Interest – MLSS Staff members receiving grants

- 2.12 2.10 Section 4.2.9 of the Staff Orders (2004) stipulates that a conflict of interest may be deemed to exist in exploiting the status and privilege of one's position for private gain or the ownership of investment or shares in any company or undertaking. The Staff Orders further states that in order to address the potential for conflict of interest, officers should in all instances inform the appropriate authority of any such undertaking, seek clarification and get permission. Any such permission would be subject to periodic review.
- 2.13 Analysis of the payment database outlined approximately \$2 million in payments made to staff members over the period April 2012 to March 2017 without MLSS implementing the appropriate safeguards. We

## PART TWO Contravention of Rehabilitation Programme Policy

noted that 65 per cent totalling approximately \$1.3 million were made directly to staff members and the remaining 35 per cent was made to two companies owned by a staff member.

- 2.14 We found 35 payments amounting to \$701,071 were made to two companies owned by a staff member. We requested 13 applications for audit scrutiny, however, only two were received. Notwithstanding, we noted that due process was not followed for these two payments. The process for grant application did not commence at the parish office but rather from the PAD unit; there was no social worker investigation to verify the legitimacy of the need. Nonetheless, payments were made based on the payment advice listing supplied by the PAD to the Accounts Department.
- 2.15 Review of the staff member’s personnel file revealed no declaration informing the Ministry of the staff member’s ownership interest, this action or lack thereof, represents a breach of Section 4.2.9 of the government’s Staff Orders (2004) and the principle of transparency.
- 2.16 Despite our requests for the files to support seven payments totalling \$130,000 made to another staff member, we only received one application form. Our review of the form confirmed similar weaknesses as noted above, whereby there was no evidence of social worker investigation and similarly the process started at the PAD unit.

Staff members	Total Grants Received	Amount \$
Staff Member 1 (Owner of the 2 companies)	15	700,000.00
Staff Member 2	7	130,000.00
Staff Member 3	4	70,000.00
Staff Member 4, Staff Member 5, Staff Member 6, Staff Member 7	12	210,000.00
Staff Member 8, Staff Member 9, Staff Member 10, Staff Member 11, Staff Member 12, Staff Member 13	12	209,800.00
41 other staff members	41	713,185.00
<b>54 staff Members</b>	<b>91</b>	<b>2,034,056.00</b>

### Business owner received grants to buy goods from himself

*The Rehabilitation Programme policy states under special cases: “All cheques are made payable to the suppliers of goods and services except in cases of disaster or other exceptional situations. In exceptional situations cheques are made payable to the applicants. In such cases the applicant must present a Tax Registration Number (TRN) and must have valid Identification”.*

- 2.17 We saw where 11 payments totalling \$210,000 were made to a beneficiary, owner of a registered company. Three applications were seen for compassionate grants to the beneficiary with the invoices used as the support for the claim bearing the registered company’s name and the beneficiary’s name and

## PART TWO Contravention of Rehabilitation Programme Policy

signature. These cheques were written in the name of the owner, which was tantamount to the owner purchasing goods from one's self.

- 2.18 Further investigations revealed that nine payments totalling \$175,000 to two other beneficiaries bearing the same surname as the owner of the registered company, were supported by invoices from said company. However, there was no evidence of any due diligence being carried by a social worker or any other officer prior to the payment of these grants. Despite the application being supported by an invoice from said registered company, the payments were made in the beneficiaries' names. This breach was evident throughout the Programme. We also noted that the claims originated from the PAD unit at the head office and not the parish office in breach of the RPP (**Appendix 5**).

### Control Deficiencies - Rehabilitation Programme



- 2.19 Our review of the roles and functions within the PAD, revealed that there is a lack of segregation of duties in relation to the processing of the grants. We noted that the Accounting Clerk involved in preparing the support for payments also took part in processing the payments and batching the related cheques. This deficiency was exacerbated by a lack of reconciliation of the payees and beneficiaries paid, which should be carried out by the PAD unit. The PAD unit did not retain a copy of the payment advice forwarded to the Accounts Department for payment. This risk exposes the Ministry to misappropriation of public funds and fraud with the need for little or no collusion.
- 2.20 Further, the payment advice was open to manipulation as it was hand-written, with no totals and the empty rows were not crossed, thus allowing for edits to be made. The form also does not use any numerical reference, which restricts the PAD's ability to track and monitor applicant files. The

## PART TWO Contravention of Rehabilitation Programme Policy

beneficiary's TRN was also not recorded on the payment advice listing, which would have aided greater control, analysis and reconciliation. We also noted that addresses were vague and missing in some instances. This limited the MLSS ability to properly assess grants administered under the programme.

- 2.21 Similarly, in June 2011, our performance audit report titled MLSS Strategy in Preventing, Detecting and Investigating Benefits Fraud, highlighted the absence of a risk profile relating to benefits programmes. It emphasized how the absence of a risk management profile contributed to the Ministry's failure to prevent or detect earlier, seven cases of fraud totalling \$8.7 million over the period 2006-07 to 2009-10, of which \$5.7 million involved the fraudulent re-encashment of PATH cheques. Based on our observations, it is evident that the Ministry has still not implemented effective risk management strategies to mitigate risks pertaining to its benefits programmes.

### Rehabilitation Programme cheques not recorded in Logbook

- 2.22 We noted that grant cheques were not faithfully recorded in the dispatch logbook, based on a sample test carried out for the 2016/2017 financial year. Twenty-two cheques from our sample totalling \$615,000 were not logged in the dispatch book. The RPP dictates that after cheques are prepared by the accounting unit and forwarded to the PAD unit for issue to the Parish offices, an officer from the PAD unit should record the cheques in the logbook for signature by the respective driver who picks up the cheques for dispatch to the parishes.

## Appendix 1: Extracts NIF Investment Policy - Equity Guidelines

## Section E10 - Technical Overview



For stocks that fall within their respective sectors, a Price Earnings (PE) range shall be assigned for the purpose of indicating whether to buy, hold or sell” For those stocks with a PE ratio above the established ceiling within their respective sector, an automatic sell consideration shall be given. The actual sell-volume to be considered shall be determined given the prevailing market conditions. For stocks with a PE below that of the established floor, an automatic buy consideration shall be given. The actual buy-volume to be considered shall be determined given the prevailing market conditions.



Any stock which breaches its VaR loss limit should be closed out within a reasonable amount of time so as to avoid further losses. Any exceptions to this must be granted, in writing, from the Investment Committee or the Board (if deemed necessary by the Committee).” Nevertheless, in relation to the above considerations/recommendations, it may be prudent not to adhere to the set guidelines. If information or market intelligence received proves contradictory to the above signals, considerations to perform outside the set guidelines may be done.

## PART TWO Contravention of Rehabilitation Programme Policy

### Appendix 2: Timeline for Acquisition of Company No. 8 Shares

Date	Share Price	Event	Audit Comment
February 9, 2017	\$5.51	The Company posted its unaudited Financial Statements for the Third Quarter ended December 31, 2016	
April 21, 2017	\$5.01	NIF purchased 103,794,541 shares for \$522.4 million in the Company in various purchases at share price ranging from \$5 to \$6.19 per share	Senior Director Investments approved the stock purchases.
April 24, 2017	\$5.38		
April 25, 2017	\$5.59		
April 26, 2017	\$6.10	At NIF Board Meeting, a Board Member indicated that a block of shares of the Company became available and the Fund invested some \$500M for a 2 per cent shareholding (as per undated Board Minutes).	Share purchase first mentioned at the Board Level, as per review of Board Minutes
May 30, 2017	\$5.15	The Company submitted its audited financial statements for the financial year ended March 31, 2017 and Report to the Shareholders –March 2017,	Financial statements showed net profit of \$707 million, when compared to \$821 million as at March 31, 2016). Further, the Independent Auditors Report (the Company ) <sup>22</sup> highlighted a key audit matter: impairment of net trade receivables (\$1.3B) – represents 18 per cent of the Company assets, of which \$1.2B is due from a related company.
June 8, 2017	\$4.84	Representatives of Inter-American Investment Corporation (IIC), the private sector arm of IDB met with the NIF Investment Committee (IC) and submitted a proposal for NIF to provide liquidity in local currency by funding 100 per cent of a corporate secured loan of up to US\$10M to the borrower, the Company.	Not supported. NIF Investment Committee indicated that the return of 6.65 per cent does not match the NIF's return objectives.
June 23, 2017	\$4.90	The Permanent Secretary (Ministry of Labour and Social Security) wrote to the Chief Technical Director (NIF) in relation to NIF purchase of shares in the Company shares, without the appropriate approval of the Board.	
June 26, 2017	\$4.93	The Chief Technical Director, Investments responded to the Permanent Secretary ; indicating that the acquisition was made under the governing principles as set out by NIF investment policy as approved by Ministry of Finance and Net Trading Limits guideline for Shares traded on the Jamaica Stock Exchange as approved by the Ministry of Finance .	Para 2.18 referred.
June 28, 2017	\$4.80	Minutes of the Board of Directors indicated that the Chairman requested a report on the Company share purchase (\$522.4M) to be included on the agenda. A NIF Board Member questioned whether such a large purchase should have been brought to the Investment Committee or the Board for their purview before signing off. The meeting was advised that the offer to purchase the Company shares came to the Fund.	The share purchase first discussed at NIF Board level (as per review of unsigned Board Minutes)
June 28, 2017		The Chairman reported the breach of NIF's Investment Policy to the Minister of Labour and Social Security in the purchase of \$522 million worth of common shares. The Chairman indicated that this acquisition was 0.55 per cent of the Fund's net assets value at the time and would have required approval of the Minister of Finance.	The Chairman's concern is consistent with our audit findings.
June 29, 2017	\$4.64	The Chief Technical Director, NIF acknowledged approving the stock purchase in the capacity of Chief Technical Director (CTD), and was allowed per job description.	Job Description outlines the CTD "authority to authorize buy/sell quoted equities investments, within established limits"
September 1, 2017	\$4.45	The Ministry of Finance indicated to NIF that they were not in agreement that the limits of authority as set out in the Policy do not apply to day to day investments, such as trading in shares of companies listed in the Jamaica Stock Exchange, Repurchase Agreements or Government Paper.	

<sup>22</sup> The Company Audited Financial Statement (2016/2017)

## PART TWO Contravention of Rehabilitation Programme Policy

### Appendix 3 – Irregularities Accounting Clerk (2012/13 to 2016/17)

Event/Voucher	Cheque	Cheque Date	Amount	Payee Name
NP1111307	1092827-P	13-May-16	25,000.00	Sister 1
NP1113051	1095183-P	23-Sep-16	30,000.00	Sister 1
NP1114069	1097178-P	13-Dec-16	50,000.00	Sister 1
NP2113547	1107328-P	26-Oct-17	30,000.00	Sister 1
DP4451243	312729-P	3-Jul-12	20,000.00	Sister 1
DP4451258	312942-P	10-Jul-12	20,000.00	Sister 1
DP4451351	313606-P	8-Aug-12	20,000.00	Sister 1
DP4451658	315344-P	9-Oct-12	20,000.00	Sister 1
DP4451978	317917-P	29-Jan-13	20,000.00	Sister 1
DP5451019	318942-P	11-Apr-13	20,000.00	Sister 1
DP5451223	320757-P	19-Jun-13	20,000.00	Sister 1
DP5451812	324630-P	13-Nov-13	20,000.00	Sister 1
DP5451975	326599-P	31-Dec-13	20,000.00	Sister 1
DP1452128	341596-P	14-Jan-15	40,000.00	Sister 1
<b>Total</b>			<b>355,000.00</b>	
NP2101123	1077865-P	29-Apr-15	40,000.00	Brother 3
NP1112465	1094022-P	17-Aug-16	40,000.00	Brother 3
DP4451752	316099-P	8-Nov-12	20,000.00	Brother 3
DP4451763	316168-P	14-Nov-12	20,000.00	Brother 3
DP4452078	318419-P	12-Mar-13	20,000.00	Brother 3
DP5451058	319290-P	30-Apr-13	20,000.00	Brother 3
DP5451689	323550-P	25-Sep-13	20,000.00	Brother 3
DP5451788	324508-P	6-Nov-13	20,000.00	Brother 3
DP1451113	332581-P	16-Apr-14	20,000.00	Brother 3
DP1451124	332752-P	23-Apr-14	20,000.00	Brother 3
DP1452181	342266-P	4-Feb-15	20,000.00	Brother 3
<b>Total</b>			<b>260,000.00</b>	
NP2102846	1085859-P	18-Nov-15	20,000.00	Friend
NP1111559	1092983-P	25-May-16	30,000.00	Friend
NP2111027	1101246-P	12-Apr-17	30,000.00	Friend
NP2111227	1101527-P	26-Apr-17	50,000.00	Friend
DP4451405	313963-P	21-Aug-12	30,000.00	Friend
DP4451621	315204-P	3-Oct-12	20,000.00	Friend
DP4451826	316654-P	30-Nov-12	25,000.00	Friend
DP4451999	318115-P	11-Feb-13	15,000.00	Friend
DP5451173	320439-P	4-Jun-13	20,000.00	Friend
DP5451536	322445-P	20-Aug-13	20,000.00	Friend
DP1451160	333052-P	2-May-14	30,000.00	Friend
DP1451396	335110-P	14-Jul-14	20,000.00	Friend
DP1451852	338352-P	16-Oct-14	30,000.00	Friend
<b>Total</b>			<b>340,000.00</b>	

## PART TWO Contravention of Rehabilitation Programme Policy

### Appendix 4 – Irregularities PAD Administrator (2012/13 to 2016/17)

Event/Voucher	Cheque	Cheque Date	Amount (\$)	Payee Name
DP1451178	333212-P	8-May-14	20,000.00	Mother
DP1451724	337194-P	17-Sep-14	20,000.00	Mother
DP1451781	337584-P	24-Sep-14	20,000.00	Mother
DP1452089	341254-P	22-Dec-14	20,000.00	Mother
DP1452102	341391-P	2-Jan-15	20,000.00	Mother
DP4451873	317010-P	19-Dec-12	20,000.00	Mother
DP5451162	320351-P	30-May-13	20,000.00	Mother
DP5451641	323222-P	17-Sep-13	20,000.00	Mother
DP5451915	325612-P	19-Dec-13	20,000.00	Mother
NP2101106	1077820-P	29-Apr-15	20,000.00	Mother
NP2101695	1079741-P	21-Jul-15	20,000.00	Mother
NP2102818	1085336-P	12-Nov-15	20,000.00	Mother
NP2102964	1086571-P	25-Nov-15	20,000.00	Mother
			<b>260,000.00</b>	

### Appendix 5– Owner of Registered Company and other Beneficiaries with same surname (2012/13 to 2016/17)

Event/Voucher	Cheque	Cheque Date	Amount (\$)	Vouch Date	Payee Name
NP2103105	1087527-P	11-Dec-15	20,000.00	10-Dec-15	Owner of Registered company
NP1112443	1091920-P	17-Aug-16	20,000.00	15-Aug-16	Owner of Registered company
NP1114421	1099180-P	18-Jan-17	20,000.00	18-Jan-17	Owner of Registered company
NP2113157	1106311-P	21-Sep-17	20,000.00	21-Sep-17	Owner of Registered company
DP4451875	317058-P	19-Dec-12	15,000.00	19-Dec-12	Owner of Registered company
DP5451543	322533-P	20-Aug-13	20,000.00	20-Aug-13	Owner of Registered company
DP5451755	324156-P	23-Oct-13	20,000.00	23-Oct-13	Owner of Registered company
DP5451982	326665-P	7-Jan-14	15,000.00	7-Jan-14	Owner of Registered company
DP1451126	332768-P	23-Apr-14	20,000.00	23-Apr-14	Owner of Registered company
DP1451473	335515-P	23-Jul-14	20,000.00	23-Jul-14	Owner of Registered company
DP1452145	341724-P	19-Jan-15	20,000.00	19-Jan-15	Owner of Registered company
<b>Total</b>			<b>210,000.00</b>		
NP2103105	1087535-P	11-Dec-15	20,000.00	10-Dec-15	Beneficiary 1 with owner surname
NP1112443	1091924-P	17-Aug-16	20,000.00	15-Aug-16	Beneficiary 1 with owner surname
NP1114421	1099189-P	18-Jan-17	20,000.00	18-Jan-17	Beneficiary 1 with owner surname
NP2112802	1105216-P	31-Aug-17	20,000.00	31-Aug-17	Beneficiary 1 with owner surname
DP5451755	324170-P	23-Oct-13	20,000.00	23-Oct-13	Beneficiary 1 with owner surname
DP5451982	326682-P	7-Jan-14	15,000.00	7-Jan-14	Beneficiary 1 with owner surname
DP1451473	335523-P	23-Jul-14	20,000.00	23-Jul-14	Beneficiary 1 with owner surname
<b>Total</b>			<b>135,000.00</b>		
NP2103105	1087530-P	11-Dec-15	20,000.00	10-Dec-15	Beneficiary 2 with owner surname
NP1112443	1091923-P	17-Aug-16	20,000.00	15-Aug-16	Beneficiary 2 with owner surname
<b>Total</b>			<b>40,000.00</b>		



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### Appendix 6– Owner of Registered Company and other Beneficiaries with same surname (2012/13 to 2016/17)

SHARES	Date of Purchase	No. of Units	Unit Price (\$)	Cost (\$)	Total Cost (\$)	Net Asset Value		Proportion of Investment to NAV
						\$	Date	
Company No. 11 – IPO	28-Jun-17	32,750,000	1.50		49,125,000.00			
Company No. 11	26-Jul-17	60,000,000	3.50	210,000,000.00				
Company No. 11	27-Jul-17	66,539,696	4.45	284,221,407.30				
Company No. 11	4-Aug-17	529,418	4.69	2,482,970.42				
Company No. 11	8-Aug-17	6,235,501	5.34	33,928,112.60				
Company No. 11	11-Aug-17	12,161,879	5.19	65,072,544.06				
Company No. 11	14-Aug-17	3,500,648	5.46	19,198,998.70	614,904,033.08	97,684,984,000	7/31/2017	0.68%
Company No. 8	21-Apr-17	101,258,380	5.38	506,979,619.00				
Company No. 8	24-Apr-17	331,225	5.37	1,851,317.35				
Company No. 8	25-Apr-17	2,204,936	6.02	13,568,307.64	522,399,243.99	95,445,127,000	4/30/2017	0.56%
		<b>285,511,683</b>			<b>1,186,428,277.07</b>			

Source: AuGD compilation