AUDITOR GENERAL'S DEPARTMENT
ACTIVITY BASED AUDIT REPORT

HOUSING AGENCY OF JAMAICA (HAJ)

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 and Administration and Audit Act.

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

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Vision
Promoting a better country through effective audit scrutiny of Government operations.

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November 2, 2015

The Honourable Speaker
House of Representatives
Gordon House
81 Duke Street
Kingston
Jamaica

Dear Sir,

In accordance with the provision of Section 29 of the Financial Administration and Audit (FAA) Act, I have the honour to submit my report on the findings and recommendations of the Activity-based Audit on the Housing Agency of Jamaica for tabling in the House of Representatives.

Yours faithfully,

Pamela Monroe Ellis (Mrs.)
Auditor General

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Summary

HAJ is a land and housing development company owned by the Government of Jamaica (GoJ). The Agency was formed in 1998 from a merger of the Caribbean Housing Finance Corporation Limited (CHFC), National Housing Corporation Limited (NHC) and the Program for Resettlement and Integrated Development Enterprise (PRIDE) - Operation PRIDE. Being an Agency under the Ministry of Transport, Works and Housing, its core mission is to provide affordable housing solutions to Jamaicans. HAJ seeks to achieve this mission through the Operation PRIDE, the Jamaica Economical Housing Programme (JEHP) and Public Private Partnership Agreements (PPPA).

The audit was planned to determine if HAJ is effectively managing housing development projects to achieve its core mandate, to provide affordable housing solutions to the people of Jamaica, while remaining a viable and sustainable entity. The key findings are outlined in paragraphs one to three.

Key Findings

Housing development projects

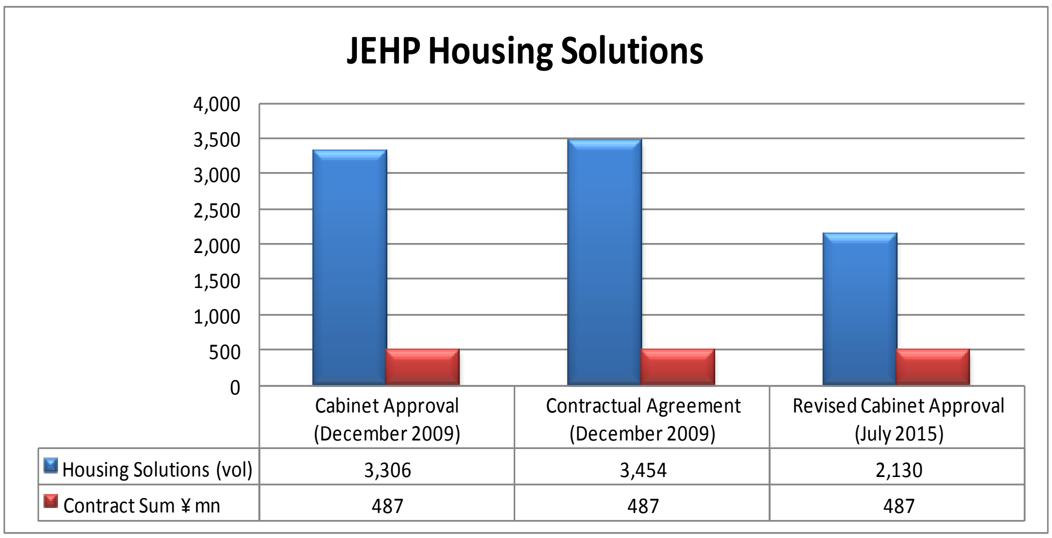
1. **HAJ did not engage the principles of good governance in its implementation of the Jamaica Economical Housing Project (JEHP), which was undertaken at a cost of $8.6 billion[1] (RMB (¥) 487 million/US$71.2 million).** HAJ entered into a contractual agreement without the benefit of a feasibility study and design works. Consequently, HAJ did not satisfy itself that value would be received for the $8.6 billion (¥487 million). Owing to HAJ's failure to undertake the necessary due diligence before committing funds, the project was significantly scaled down; despite that, the contract value remained unchanged. The JEHP should have delivered 3,306 housing solutions comprised of 937 housing units and 2,517 service lots. To date, the HAJ has only developed 70 housing units (with 80 in progress) and 1,980 service lots. As at August 2015, HAJ paid all the funds over to the contractor; this includes a $600 million (¥34 million) advance for incomplete works. The GOJ has not received value for money, based on the initial projections; only seven per cent and 79 per cent of the deliverables for housing units and service lots respectively have been achieved.

   Further, HAJ did not inform Cabinet of its plans to re-scope the deliverables and thereby prevented the requisite oversight and approval of Cabinet. As shown in **Figure 1**, we noted a disparity between Cabinet Decision and the JEHP Contract in relation to the deliverables under the JEHP. Cabinet decision dated December 7, 2009 granted approval for the development of 3,306 housing solutions. However, the contract signed by HAJ on December 18, 2009 provides for the development of 3,454 housing solutions. The

[1] RMB (¥) converted at the rate of $17.66 as per contract

current board of the HAJ inherited the JEHP programme and would not have had an input in the contract agreement and planned deliverables. Nonetheless, the Board had the opportunity to improve the governance practices. However, we noted that HAJ re-scoped the project by reducing the deliverables to 2,130 housing solutions. HAJ diverted approximately $49 million (¥2.8 million), earmarked for the JEHP, to the Hills of Boscobel and Whitehall III housing developments before receiving Cabinet approval. The re-scope was effected by way of `change orders' dated between April 2014 and June 2015. The Ministry of Transport, Works and Housing requested Cabinet's ratification, via submission dated July 20, 2015. Cabinet ratified the decision on the same day. We noted that Cabinet was still not advised in the submission dated July 20, 2015, that the contractual deliverables differed from the Cabinet approval granted December 2009.

Figure 1 Disparity in the JEHP deliverables



Source: AuGD analysis

2. **HAJ's weak project management contributed to significant delays on the Hills of Boscobel and the Whitehall III (Infrastructure) housing developments, which both suffered time overruns of 856 days and 777 days respectively**. HAJ's information management and record keeping practices require immediate review and improvement. The delays have contributed to cost over-runs of $682 million. HAJ also incurred time-overruns of 339 days on the Whitehall III development in respect of the housing units. The Monitoring Reports prepared by HAJ disclosed that soil suitability, change to design and re-scope of works contributed to the over-runs. HAJ projected that the Hills of Boscobel will suffer a loss of at least $318 million after factoring cost over-runs of $519 million.

3. **The HAJ's poor governance practices coupled with weak project management may have contributed to its current financial state of affairs.** HAJ's audited financial statements disclosed that the Agency incurred loss of $539 million and had accumulated deficits of $2.2 billion for year ended March 31, 2015. We found that HAJ operated an overdraft facility of $150 million for four months to finance working capital expenses. HAJ converted the facility into loan at the end of the four months owing to its inability to settle the obligation. Additionally, HAJ obtained two loans totalling $535.8 million from the National Housing Trust to offset expenses associated with the Hills of Boscobel and Whitehall III housing development. HAJ used its Head office and Mount Edgecombe V property as collateral for the loans.

Recommendations

Immediate action should be taken to review the governance arrangements and project management practices of HAJ. This should include establishing clear lines of authority of the Board and its reporting responsibility to the Parent Ministry, the Ministry of Finance and Cabinet. HAJ must ensure that its project management processes are structured to ensure that all projects are implemented to achieve the intended benefits and maximize the returns of scarce resources.

HAJ should conduct a rigorous assessment of it financial operations and formulate and implement an integrated strategy to put the Agency on a sustainable path. This integrated strategy should incorporate financial and risk management mechanisms to identify and manage the risks to the achievement of HAJ's intended outcomes.

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Part One

Introduction

Why HAJ was created?

1.1 The Housing Agency of Jamaica (HAJ) is a wholly owned government company that provides shelter solutions for Jamaicans. HAJ was form out of a merger of three entities; Caribbean Housing Finance Corporation Limited (CHFC), National Housing Corporation Limited (NHC) and the Program for Resettlement and Integrated Development Enterprise (PRIDE) - Operation PRIDE. HAJ falls under the Ministry of Transport, Works and Housing (MTWH). The core function of HAJ is to provide affordable housing solutions for Jamaicans. In this report, the term 'the Agency' is also used in reference to HAJ.

HAJ's Vision and Mission

1.2 HAJ's vision is to become *"The market leader providing affordable, innovative and environmentally friendly housing solutions and services."* The Agency's vision is supported by its mission to "*provide affordable housing solutions and services to potential home owners and agencies through product innovation, excellent customer service, and strategic partnerships delivered by highly motivated employees."*

1.3 HAJ seeks to provide affordable housing solutions to potential home owners through the Operation PRIDE by regularizing informal settlements resulting from the capturing of government owned lands, the Jamaica Economical Housing Project (JEHP) and other housing development projects.

How is the HAJ funded?

1.4 HAJ's executes these functions through the Operation PRIDE funded[2] by the GOJ, the Jamaica Economical Housing Project (JEHP) funded by the China EXIM-Bank and other development projects funded by Public Private Partnership Agreements (PPPAs) and loans from the National Housing Trust (NHT) and financial institutions. HAJ's operating activities are funded from revenues from the sale of lands and housing units under the Operation PRIDE, and profit earned from the sale of housing units constructed under JEHP and other housing development projects.

[2] GOJ provides grant funding for the Operation PRIDE and other short-term social projects such as Jamaica Emergency Employment Programme (JEEP). Grant funding is provided through the portfolio Ministry and, in some cases, other government agencies – such as the Urban Development Corporation (UDC) and the Tourism Enhancement Fund (TEF).

The audit scope and methodology

1.5 We conducted an audit to determine if HAJ is managing effectively housing development projects to achieve its core function. Our audit was planned and conducted in accordance with the Government Auditing Standards, which are applicable to Performance Audit and issued by the International Organization of Supreme Audit Institutions (INTOSAI). Our assessment was based on the review of internal and external documents, interviews with senior management and staff, observations, and analysis of information provided by HAJ.

Part Two

Housing Development Projects

2.1 HAJ provides affordable housing solutions through grants from the GOJ, the National Housing Trust (NHT) and other financial institutions, as well as Private Public Partnership Agreements (PPPAs). Between 2009 and 2015, in addition to Operation PRIDE projects, HAJ undertook 17 housing developments; five of which were funded under the JEHP, eight were funded from loans provided by NHT and one by the Jamaica Mortgage Bank (JMB), two were funded through PPPAs and one was funded by the Ministry of Transport, Works and Housing (MTWH).

Issues related to Developments funded under the Jamaica Economical Housing Project

2.2 Cabinet granted approval by way of Decision No. 51/09 dated December 7, 2009 for the construction of 3,306 housing solutions under the Jamaica Economical Housing Project (JEHP). However, on December 18, 2009, HAJ signed a contract valued at ¥487 million (US$71.2 million) for the construction of 3,454 housing solutions under the JEHP. On February 3, 2010, the GOJ borrowed ¥487 million (US$71.2M) from the China Exim Bank under a preferential agreement[3]. While the contract value remained the same at ¥487 million, the number of housing solutions varied by 148. HAJ indicated that "the loan agreement between the GOJ and the China Exim Bank was based on a provisional estimate of housing solutions. At that time, there were no designs."

2.3 HAJ, the beneficiary of the China Exim Bank loan, is responsible for the implementation of the housing developments. Based on HAJ's contract with the Contractor, 3,454 housing solutions should have been developed. The developments which were undertaken in St. Ann (Belle Air and Mount Edgecombe) and St Elizabeth (Luana Gardens) should have provided 260 two-bed-room houses, 397 one-bedroom houses, 280 studio/starter houses and infrastructure works for 2,517 service lots.

2.4 HAJ did not provide documentation to allow for our determination of the strategies and intended outcome of this major project. We sought to determine the level of research undertaken by HAJ to satisfy itself that the JEHP would have a meaningful impact. However, HAJ provided no evidence that it conducted a feasibility study or performed any other assessment to assure itself that its decision to spend ¥487 million (US$71.2 million) was grounded on the principle of sound and informed decision-making.

2.5 As discussed in paragraphs 2.7 to 2.16, the lack of a feasibility study and inadequacy of the financial information, in relation to the JEHP, frustrated our efforts to determine whether the GOJ would receive value for the loan of ¥487 million. The proceeds from the loan were provided to HAJ as grant funding. In addition to HAJ's responsibility for the development of the housing solutions, HAJ is also responsible for the sale of these housing solutions. HAJ does not remit revenue earned from the sale of the housing solutions to the Consolidated Fund.

[3] The loan, which is to be repaid over 20 years by the GOJ, attracts an interest rate of two per cent per annum.

2.6 It is our view that the absence of a feasibility study for the JEHP contributed to the myriad of challenges in the form of project delays, re-scoping, design errors, and the abandonment of one development (Mount Edgecombe V). These factors have resulted in the non-achievement of the deliverables to date – discussed further below.

A feasibility study should comprise[4]:

- The Development Budget
- Cash flow projection which, with minor adjustment, is equivalent to a projected Profit and Loss Account.
- Market research information establishing selling prices, estimates of demand, deposits and instalment structures and the developer's estimates on the pace of sales.
- Risk analyses.

2.7 The absence of a feasibility study would have undermined good governance in the rollout of the programme in the following ways:

i. Without a feasibility study, HAJ would not have been informed of the viability and sustainability of the JEHP as well as the potential challenges that could affect the achievement of the intended outcome. Whereas an indicative cost for the development of the JEHP was included in the Cabinet Submission, which sought approval for the JEHP, it is our view that the absence of a feasibility study would also impair Cabinet's ability to make an informed decision on the JEHP. This risk was actually manifested when HAJ was forced to abandon the Mount Edgecombe V development after it was determined that the land was unsuitable for housing development. This decision was made after spending $28.66 million for site clearance.

ii. There is no evidence that HAJ engaged stakeholders to determine the housing needs and where the demand was highest. This was evidenced by low interest for houses in the Luana housing development, the significant reduction in the number of housing solutions, the lowering of the selling price for the solutions and the shifting of resources to the Belle Air III housing development.

2.8 In addition to the absence of the feasibility study for the JEHP and the related issues stated above, we saw no evidence that the Board of Directors exercised due care regarding the monitoring and oversight of the JEHP. A sub-committee was constituted to monitor all projects, however, we saw no evidence that such monitoring was done. Further, in keeping with good public financial management arrangement, the MOF should have been an active party to any discussion regarding review of the feasibility budget and the re-scoping of the housing developments under the JEHP. There was no evidence that this was case. The Ministry of Transport, Works and Housing (MTWH) Strategic Business Plan 2014/2015 – 2016/2017 indicated that monthly monitoring of the JEHP would be undertaken in the form of site visits, technical

[4] Source: Jamaica Mortgage Bank

audits, quality cost and assessment. However, we saw no evidence that such monitoring was conducted.

2.9 The minutes of Board meeting did not provide any evidence that the Board had discussed the losses and concerns identified during the implementation of the JEHP in an effort to curtail these losses. For example, a feasibility budget was conducted for Luana IV, albeit, four years later (March 2014) after GOJ signed the loan agreement, which revealed potential losses of $878 million on the development of 230 housing solutions. We saw no evidence that the Board perused the feasibility budget and discussed proactive measures to improve efficiency. We noted that approximately one year later (February 2015), HAJ re-scoped the development to 96 solutions in an effort to curtail losses.

2.10 HAJ indicated that the high rates charged by the Contractor contributed to the financial challenges experienced with the JEHP. HAJ stated that its effort to modify the contract rates with the Contractor was unsuccessful; and in an effort to minimise the losses, the scope of work was adjusted and funds reallocated **(Figure 2)**. However, we found that good governance was not upheld as HAJ did not obtain Cabinet approval prior to its decisions and actions. This was confirmed by HAJ's admission in response to our query that changes, which were approved by the Board on March 26, 2013 in respect of the JEHP, were ratified two years later by way of Cabinet decision number 28/15 dated July 20, 2015. This in effect would have prevented Cabinet's scrutiny and input in the strategic reallocation of resources, as costly decisions and actions were already taken by HAJ. The Cabinet Decision No. 51/09 granted approval for the development of 3,306 solutions under the JEHP. However, the re-scoping and variations undertaken by HAJ reduced the deliverables to 2,130 solutions. Based on the terms of the agreement, this could not have had an impact on the financial value of the JEHP contract.

Figure 2 Strategy to minimise losses

1. *A reduction in the number of housing solutions at Luana from 828 to 96*
2. *Eliminating the proposed high energy-consuming new sewage treatment plant.*

   These changes enabled better use of project funds to construct 80 housing units on the previously completed service lots at Belle Air III and to cover expenditure commitments on JEHP and on other projects that the Agency could not satisfy given its financial position.
3. *The funds made available by the reduced scope were reallocated to Belle Air III (houses); provision of water supply transmission main for Luana IV and its environs; provision of electricity at Luana IV, Belle Air and Whitehall; sewer treatment plant upgrade for Luana IV and sewage pumps and back-up generators at Whitehall and Hills of Boscobel.*

Cabinet subsequently ratified all project changes by way of Cabinet Decision No. 28/15 dated July 20, 2015.

Source: Extracts from HAJ's response dated October 30, 2015

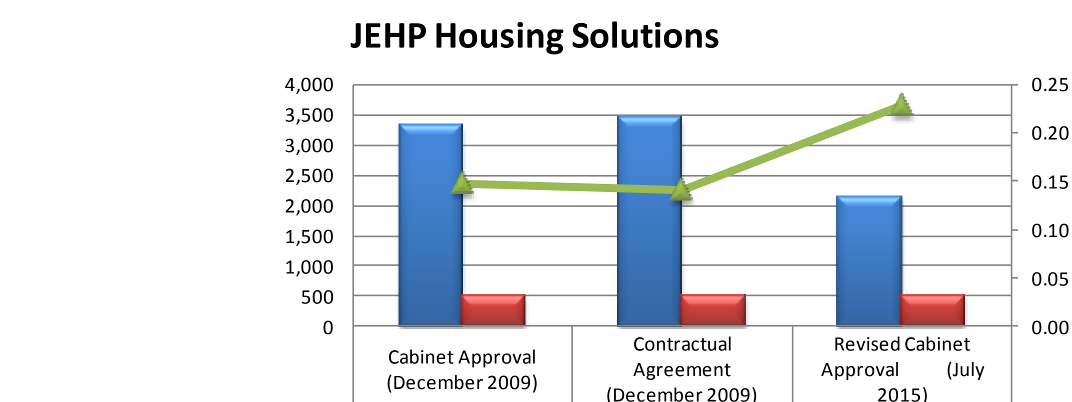
2.11 However, in March 2015 the revised feasibility budget that was prepared showed the loss would only be reduced by $3 million; despite the reduction in the number of solutions from 230 to 96. HAJ's policy is to undertake developments that would yield a return of at least 15 per cent. However, this policy was not applied to the JEHP.

2.12 Further, our attempt to assess the achievement of the deliverables under the JEHP was constrained by the discrepancies among the primary records and supporting documents. The following are the discrepancies:

i. Number of JEHP solutions to be developed differed between Cabinet approval dated December 7, 2009 and the contract dated December 18, 2009 being 3,306 and 3,454 respectively **(Figure 3)**.

ii. The number of units to be delivered under the specified housing developments also varied in different documents; for example, in the case of the Bell Air III development, the number solutions reported were 908 *(587 HU[5] & 321 SL[6])* , 764 *(SL)* and 744 *(80 HU and 664 SL)* among the Cabinet decision, contract and feasibility budgets respectively. The GOJ Estimate of Expenditure for 2015/2016 disclosed that 764 service lots and 100 two bed rooms units would be developed. The plan to develop 764 service lots was corroborated by the MTWH Strategic Business Plan 2014/2015 – 2016/2017.

Figure 3 Disparity in the JEHP deliverables



	Cabinet Approval (December 2009)	Contractual Agreement (December 2009)	Revised Cabinet Approval (July 2015)
Housing Solutions (vol)	3,306	3,454	2,130
Contract Sum ¥ mn	487	487	487
Average Cost ¥ mn per solution	0.15	0.14	0.23

Note: Average cost was used as costs per housing unit and service lot were not disaggregated
Source: AuGD analysis

2.13 We note that HAJ had completed only seven per cent or 70 of the 937 housing units and 79 per cent or 1,980 of the 2,517 service lots as at August 2015. Yet, the final Payment Certificate No. 30 dated August 22, 2015 indicated that the contract sum of ¥487 million has been paid to the Contractor, inclusive of an advance of ¥34 million.

2.14 Further, the payment certificate revealed net cumulated variations of $1.2 billion (¥70.08 million), which represents 14.39 per cent of the contract sum. These variations were initiated between January 2013 and July 2015; but were only ratified by Cabinet in July 2015. The GOJ

[5] Housing Units
[6] Service Lots

Procurement guidelines requires that net cumulative variations in excess of 10 per cent of the contract sum must be endorsed by the National Contract Commission and approved by Cabinet. We noted that the 10 per cent net cumulative variation was exceeded on January 5, 2015.

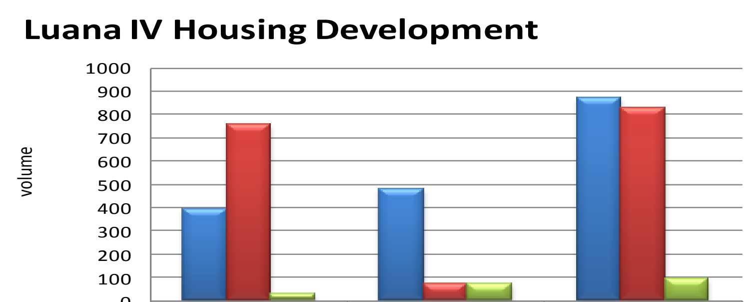
2.15 Further, $49 million (¥2.8 million) was diverted from the JEHP to two unrelated projects. We noted that J$39 million (¥2.2 million) was transferred to the Whitehall III housing development for electrical works from the Belle Air III housing development (a JEHP project), while, $10 million (¥0.604) million was transferred to the Hill of Boscobel from Belle Air III. We found that Cabinet retroactively ratified the diversion of funds from the JEHP to the Whitehall III and Hills of Boscobel housing developments. HAJ actions underscore the lack of transparency observed in its financial management.

Luana IV housing development

2.16 HAJ's did not conduct the necessary due diligence to determine potential demand for the housing units and as a result, 50 of the units were sold below the proposed costs. In addition, HAJ did not conduct a feasibility budget to determine the profitability of the housing development prior to the start of the construction works on March 3, 2014.

2.17 HAJ's original plan at December 2009 was to develop 828 housing solutions (70 studio units and 758 service lots) at a cost of $2.9 billion[7]. HAJ subsequently re-scoped the deliverables to 230 housing solutions consisting of 70 studio units and 160 service lots at a cost of $1.79 billion. HAJ further re-scoped the deliverables to 96 housing solutions (70 studio units, 26 service lots) at a cost of $1.1 billion[8] **(Figure 4)**. This represents a 96 per cent reduction in service lots. The re-scoping also included a modified proposal to connect the housing solutions in Luana IV to the existing stabilization pond in Luana I.

Figure 4 Analysis of Luana IV housing development deliverables



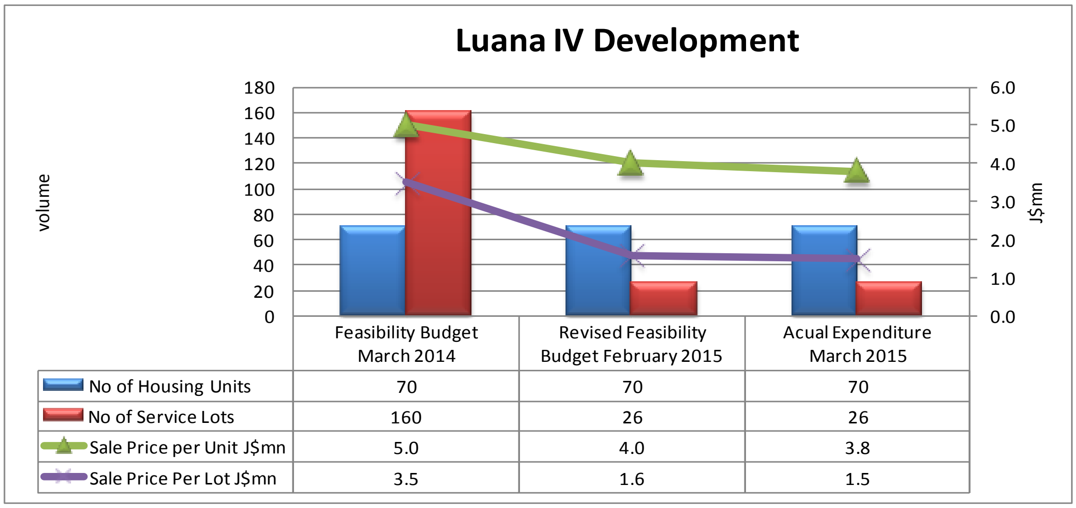
	Service lots	Housing units	Total no. Solutions
Cabinet Approval December '09	393	477	870
Contract December '09	758	70	828
Completed Solutions	26	70	96

Source: AuGD analysis

[7] JEHP Contract
[8] HAJ feasibility budget – February 2015

2.18 The construction which commenced on March 3, 2014 was undertaken without a feasibility study to determine the viability of the development. We noted that in February 2014, the Board requested that the Project Committee of the HAJ review the Luana IV housing development and submit for approval; however, we found no evidence that this directive was carried out. HAJ prepared a feasibility budget in April 2014, which indicated that the housing development would result in a loss of $878 million. The Board minutes did not provide any evidence that the feasibility budget was assessed and that the potential loss of the housing development was contemplated. Based on a valuation of the housing units, HAJ had to reduce the selling price per housing unit and service lot from $5 million and $3.5 million to $3.8 million and $1.5 million, respectively in March 2015 **(Figure 5)**.

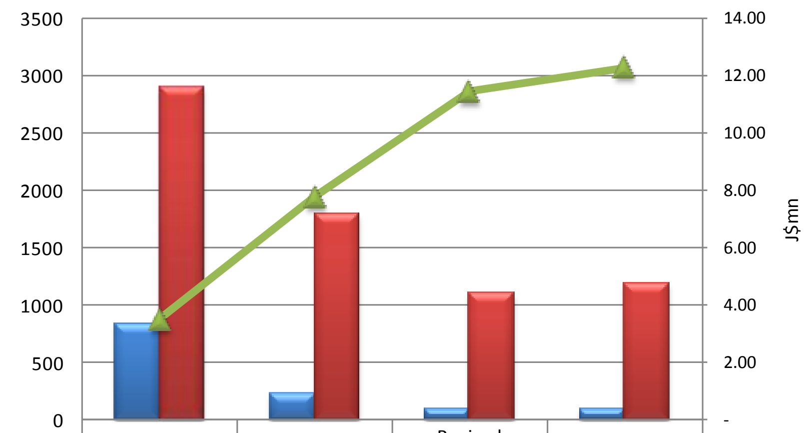
Figure 5 Luana Gardens IV feasibility budget



Source: AuGD analysis

2.19 The contract of December 2009 indicated that the average cost for the 828 housing solutions was $3.5 million. HAJ re-scoped the housing development in March 2014 to 230 solutions with an average cost per unit of $7.77 million. A further re-scoping of the housing development in February 2015 to 96 solutions saw a further increase in the average cost per unit to $11.46 million **(Figure 6)**.

Figure 6 Analysis of Luana IV housing development deliverables



	Cabinet Approval December 2009	Feasibility Budget March 2014	Revised Feasibility Budget February 2015	Acual Expenditure March 2015
Total Solutions	828	230	96	96
Total Expenditure J$mn	2,900.00	1,788	1,100	1,180.00
Average Expend per Solution J$mn	3.50	7.77	11.46	12.29

Note: Average cost per solution based on payment certificate, bill of quantities and feasibility budget
Source: AuGD analysis

2.20 We noted that Section 4.4 (B) of the contract between HAJ and the Contractor specified that the prior consent of the Engineer (HAJ) shall be obtained for Sub-contractors who are not named in the contract. Further, Section 4.4 (C) states that the contractor shall give the Engineer no less than 28 date notice of the intended date of the commencement of each sub-contractor's work, and of the commencement of such work on the site. Despite requests, HAJ did not provide a list of all sub-contractors assigned to the housing developments and their respective commencement dates in breach of the contract agreement.

2.21 However, our review of HAJ's records revealed that HAJ should have been aware that a sub-contractor was engaged on the Luana IV housing development. We saw evidence that the sub-contractor made two claims to the main contractor for sums totalling $12.6 million for work done on the Luana IV housing development **(Figure 7)**.

Figure 7 Correspondences which relate to the Sub-contractor

Correspondence 1	The sub-contractor submitted an $8 million payment application to the Contractor, for works done on the housing development. The application indicated that the value of the contract was $46.5 million and total previous payment was $4.6 million.
Correspondence 2 **(Letter dated November 13, 2014)**	The sub-contractor wrote to HAJ on behalf of the Contractor for the connection of additional lots at Luana IV to the existing sewage treatment plant at Luana I
Correspondence 3 **(Letter dated December 8, 2014)**	A utility provider confirmed receipt of $55,950 from the sub-contractor for sterilization pipeline at the Luana/Sandy Ground St. Elizabeth.

Source: AuGD analysis

2.22 HAJ indicated that:

1. *"The Housing Agency of Jamaica Limited (HAJ) does not enter contractual relationships with the subcontractors on projects;*
2. *HAJ does not review any documentation by the Contractor that would indicate who the subcontractors are and the nature and terms of the contractual relationship with those contractors; and,*
3. *HAJ has no documentation in its files with respect to the subcontractors."*

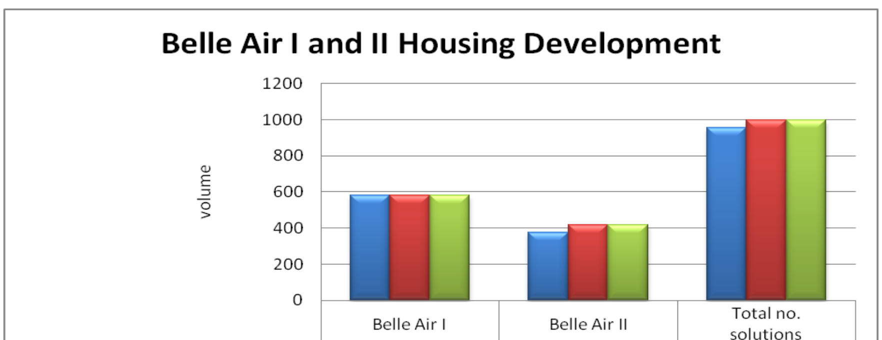
2.23 HAJ's response regarding its lack of relationship with sub-contractor raises concerns of its knowledge of the terms of contract, and brings into question the soundness of the mechanisms HAJ has in place to monitor adherence to the contract. Whereas the GOJ Procurement Guidelines do not address the issue of sub-contracting arrangements, the agreement HAJ forged with the main contractor provided that prior consent of the Engineer should be obtained for sub-contractors who are not named in the contract and notice of the intended date of the commencement date of each subcontractor's work should be disclosed to HAJ.

Belle Air and Mount Edgecombe housing developments

2.24 The Belle Air I, II and Mount Edgecombe IV housing developments were included under the JEHP to ensure completion of infrastructures works that was not completed under the Operation PRIDE programme for various reasons.

2.25 Works were undertaken to complete infrastructure in respect of Belle Air I and II. In keeping with the contract, 995 service lots were developed (Belle Air I; 580 lots & Belle Air II; 415 lots) **(Figure 8)**. However, there was a time overrun of 872 days, as the project which should have been completed on October 9, 2012 was instead completed February 2015.

Figure 8 Analysis of deliverables - Belle Air I and II housing developments

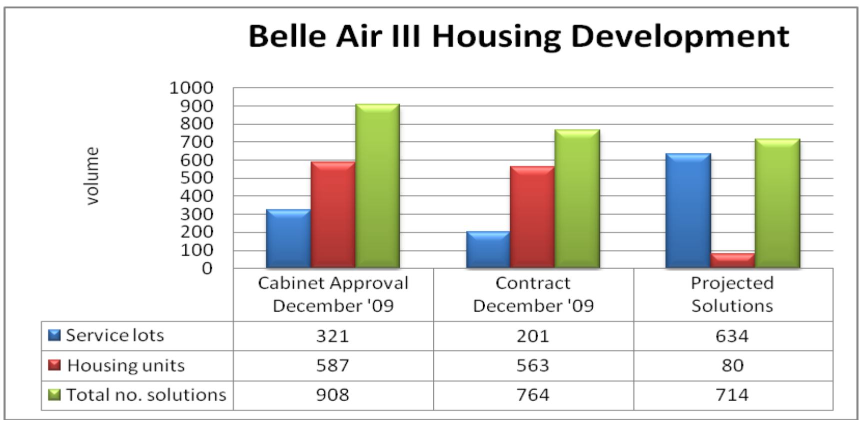


	Belle Air I	Belle Air II	Total no. solutions
Cabinet Approval December '09	580	373	953
Contract December '09	580	415	995
Completed Solutions	580	415	995

Source: AuGD analysis

2.26 The contract provided for the development of 764 housing solutions (201 service lots and 563 housing units) at a cost of $3.4 billion in respect of the Belle Air III housing development **(Figure 9)**. HAJ commenced construction of the infrastructure in March 2013 with the development to be completed by August 31, 2013. The date for completion was subsequently revised by 14 months to October 31, 2014. The housing development was subsequently re-scoped to provide only 201 service lots due to insufficient funds. As at February 2015, HAJ reported that the infrastructure works for the service lots were estimated to be 99 per cent complete with actual expenditure of $2.9 billion. In addition, HAJ has not commissioned the Sewer Treatment Plant for the Belle Air housing developments, which was developed at a cost of $1.06 billion (¥83.04 million) including installation costs. HAJ indicated the Sewer Treatment Plant cannot be tested because existing homes are not connected to the Plant.

Figure 9 Analysis of deliverables - Belle Air III housing development



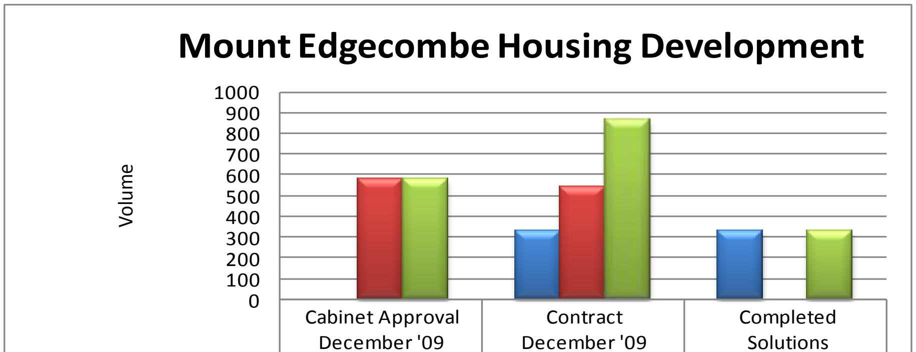
Source: AuGD analysis

2.27 HAJ indicated that in 2014 a decision was taken to reallocate funds from the Luana IV to construct 80 housing units. HAJ prepared a feasibility budget dated March 31, 2014, which indicated that the total development cost for the 80 solutions was $869.6 million. Construction commenced in June 2015, to be completed by December 2015. Despite requests, HAJ has not provided the required market research which determined the price of the housing solutions and effective demand. In addition, expenditure relating to the Whitehall III housing development amounting to $41.9 million (¥2.2 million) was charged to the Belle Air III housing development.

2.28 Included in the JEHP is the provision of 354 service lots for the **Mount Edgecombe IV** housing development at cost of $22.78 million (¥1.29 million). However, HAJ reported that the actual expenditure amounted to $119.3 million and the deliverables were re-scoped to 325 service lots. HAJ indicated that it collected $229.5 million of the expected revenue of $248.4 million from sale of the service lots.

2.29 We noted that Cabinet in December 9, 2009 approved the construction of 575 service lots infrastructure development in respect of the **Mount Edgecombe V** housing development **(Figure 10)**. However, HAJ indicated that following a preliminary assessment for the implementation of the housing development a decision was taken to the abandon the construction of the development. We noted that HAJ spent $28.66 million[9] for site preparation, road work and initial expenses.

Figure 10 Analysis of Mount Edgecombe IV housing development deliverables



	Cabinet Approval December '09	Contract December '09	Completed Solutions
House Edgecombe IV	0	325	325
House Edgecombe V	575	542	0
Total housing solutions	575	867	325

Source: AuGD analysis

Housing developments financed by National Housing Trust loans

Hills of Boscobel housing development

2.30 HAJ signed a contract for $802 million with a Contractor on April 11, 2011 for the construction of 99 housing solutions and 159 service lots at the Hills of Boscobel, St. Mary. The total development cost was projected at $1 billion. Actual expenditure at January 2015 was $1.6 billion and revenue from the sale of the 99 units and 159 service lots amounted to $1.26 billion. Consequently, as at January 2015, the projected loss on the housing development was $318 million, after considering a cost overrun of $519 million.

2.31 The housing development which commenced on April 26, 2011 was scheduled to be completed, within six months, on October 26, 2012. On October 17, 2012, the Contractor requested time extension of 220 days due to delays in mobilization payment, non-receipt of boundary surveying information, inclement weather, revision of housing design, redesign of drainage works and profile **(Figure 11)**. Additionally, our review of HAJ monthly monitoring reports for the period December 2011 to January 2014 cited several recurring reasons which led to the prolonged delays in completing the housing development. These include changes to the housing developments layout design, rocky soil condition, trenchers having mechanical problems and outstanding payment to the Contractor. HAJ only approved the extension of time for 130 days to March 5, 2013. We identified from a review of the monitoring reports that the completion date

[9] HAJ's variation orders No. 3 and 4 (Contract 3) totalling $1.623 million converted at $17.66

was subsequently revised to May 30, 2013, December 31, 2013, June 30, 2014 and December 31, 2014.

Figure 11 HAJ's response

HAJ indicated that *an aerial survey was used as the basis of the designs and this was later found to be inaccurate after the award of the construction contract and mobilization. Construction continued while modifications were being made. This modified scope of works of the contract required additional funds and lead to change orders and variations. Modified works were not completed at the end of the original project completion timelines, which resulted in an additional $150 million being borrowed in October 2013 to facilitate completion of the project. The additional funds were insufficient. The inability to honour payment requests further delayed the project while the Agency deliberated on a strategy for the way forward. Slow responses to information requests and construction documentation along with delayed payment forced the contractor to de-mobilize from the site. This led to fluctuations in materials and labour and extension of time claims from the contract as per the contract.*

Source: HAJ's response dated October 30, 2015

2.32 As shown in **Figure 12**, the time overrun on the housing development up to February 28, 2015 accumulated to 856 days (2 years and 4 months). HAJ's latest monitoring reports dated February, 2015 indicated that the housing development was 98 per cent complete. However, the Agency did not provide us with the projected cost to complete the housing development. Further, HAJ did not disaggregate the cost overrun of $519 million, which would enable us to determine the amount attributable to the contractor for liquidated damages in relation to equipment (trenchers) downtime on the site. The contract stipulates that HAJ can impose liquidated damages which would be computed at a rate of $150,000 per day to compensate the Agency for the Contractor's failure to complete the housing development within the planned completion date.

Figure 12 Analysis of time overrun on Hills of Boscobel housing development

Details	Completion dates and revised dates	Days
Initial duration	Apr. 26, 2011 to Oct 26, 2012	-
Revised to	March 5, 2013	130
Revised to	May 30, 2013	86
Revised to	Dec. 31, 2013	215
Revised to	June 30, 2014	181
Revised to	Dec. 31, 2014	184
	As at February 2015 (98% complete)	60
Total		**856**

Note: At February 28, 2015 - 2 years, 4 months and 2 days exceeding initial completion date
Source: AuGD analysis

2.33 We identified 12 variation orders with net increase of $237.5 million or 30 per cent of the contract value **(Appendix 1)**. Of note, the variation exceeded the 10 per cent requirement for approval by Cabinet on the February 27, 2014. However, HAJ did not obtain the requisite endorsement of the National Contracts Commission (NCC) and Cabinet's approval. For the variation orders inspected, the corresponding site instruction orders were only seen for two and these were not signed by the Contractor's representative. Further, 10 variation orders were signed by a Senior Officer on the same date, March 7, 2014; however, HAJ did not provide evidence that the variation orders were approved prior to the execution of the works. We noted that the Officer was formerly employed by the Contractor, and found evidence that he declared his previous relationship with the Contractor in March 2015.

Whitehall III housing development

2.34 The Whitehall III housing development consists of 154 housing units and 434 service lots. HAJ awarded two separate contracts valued at $1.31 billion for infrastructural works and the construction of the housing units. The contract for infrastructural works was scheduled to commence on July 12, 2011 and end on January 12, 2013, duration of one year and six months. The completion date was revised to February 28, 2013, May 31, 2013 and December 31, 2014. The contract for the construction of the housing units was scheduled to commence on June 27, 2013 and end March 26, 2014. However, as at February 2015, the infrastructural works was 95 per cent complete while construction of the housing units was 97 per cent complete. The redesign of road profiles, closure of work site due to attack on employees and reduction in workforce due to late payment to the Contractor were the reasons cited by HAJ for the delays in completing the projects. This resulted in time overruns of 777 and 339 days on the infrastructure and housing units respectively **(Figure 13).**

Figure 13 Analysis of time overrun of Whitehall III housing development

Details	Infrastructure		Housing units	
	Completion dates	**Days**	**Completion dates**	**Days**
Initial duration	July 12, 2011 to Jan 12, 2013	-	June 27, 2013 to Mar 26, 2014	-
Revised to	February 28, 2013	47	Feb 28, 2015	339
Revised to	Mar 31, 2013	31	-	-
Revised to	Dec 31, 2014	640	-	-
-	As at February 2015	59		-
Total		**777**		**339**

Note: **Infrastructure:** At February 28, 2015 - 11 month and 2 days exceeding initial completion date
Housing units: At February 28, 2015 - 339 days exceeding initial completion date
Source: AuGD analysis

2.35 Our review disclosed that up to February 2015, net variation in the scope of work totalled $79.43 million; this represents 20 per cent of the contract sum. However, we did not see any evidence that HAJ sought the National Contract Commission's endorsement and Cabinet approval for the variations. Actual expenditure on the housing development as at May 2015 was $1.47 billion, which is $163 million (11 per cent) above the contract sum. The Agency commenced advertising the housing units for sale at $4.2 million and the service lots for prices ranging between $1.3 million and $2.9 million. HAJ informed us that it expects to breakeven on this housing development, but did not provide a revenue projection to validate this assertion. The feasibility budget projected a profit of $59 million (5 per cent) for this project.

HAJ used its Head Office to secure additional financing to complete both Boscobel and Whitehall III housing developments

2.36 The Agency used its Head Office along with one of its investment properties, Mount Edgecombe, St. Ann, to secure loans to complete the Hills of Boscobel and Whitehall housing developments. HAJ initially signed a loan agreement with NHT on June 30, 2011, for $726 million to finance the Hills of Boscobel housing development. The Agency signed another agreement with NHT for $559 million on September 20, 2011 to finance the Whitehall III housing development. Both loans were to be repaid within 42 and 21 months, respectively at an interest rate of 12 per cent. However, HAJ's failure to properly plan and execute both housing developments resulted in the Agency having to secure additional funding totalling $535.8 million from NHT, on two separate occasions to complete the housing developments. As at March 2015, the outstanding balance on the loan is $1.56 billion.

Bourksfield Housing Development

2.37 The Bourksfield housing development, in Old Harbour Bay, St. Catherine, should be comprised 204 housing solutions - 127 service lots and 77 houses. Information obtained from HAJ's records revealed that *"the development was implemented due to the need to find an area to provide housing for persons who lost their houses during hurricane Ivan in 2004. The Government of Venezuela built 75 of the houses as a gift to Jamaica, and the Ministry of Transport, Works and Housing was responsible for the supporting infrastructure along with the titling of the lots."* HAJ did not provide the total development cost for the housing solutions. We noted from various correspondences reviewed that since 2004, the houses have been damaged by severe weather conditions, captured or vandalized, which has since cost the Agency $94.97 million to rehabilitate the housing units.

2.38 HAJ signed a six month contract on February 18, 2009 to provide infrastructure work for 135 lots at a cost of $49.89 million. The contract provided for the provision of road-works, drainage, water supply and sewage collection. HAJ's monthly monitoring reports highlighted the slow rate of progress, labour dispute, additional work and a dispute between the Agency and the Contractor, as some of the reasons contributing to delays in completing the project. This resulted in a cost overrun of $33.34 million of which $23.47 million represented variations to the original scope. We noted that the contractor received a final payment of $83.23 million on February 28, 2011. In addition, due to the HAJ's failure to honour the payment certificates in the agreed time, the Agency incurred interest expenses of $1.08 million on this contract. In its effort to complete the infrastructure works, HAJ engaged the services of another contractor at a cost of $17.9 million. The contractor took possession of the site on December 22, 2014, however the contract was signed on January 5, 2015. At the time of this report, HAJ indicated that the housing development was 85 per cent complete and additional funding is required to complete the project.

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Part Three

Financial and Operational Issues

HAJ not earning sufficient cash from operating activities to finance short-term obligations

3.1 HAJ's cash flow performance revealed an improved cash balance from $65.9 million as at March 2010 to $141.2 million as at March 2015. However, this does not reflect an improvement in revenue from the cash generating activities, but rather the result of loan intake in order to fund the Agency's core operations. HAJ informed us that the losses on housing projects were the main factor contributing to the decline in net operating cash flows; HAJ's inability to collect from beneficiaries of Operation PRIDE resulted in the Agency making provision for the write off of $1 billion. We noted that in order to address the cash flow challenges, HAJ obtained financing through an overdraft facility to offset operating expenses amounting to $150 million. HAJ also obtained two loans from the NHT amounting to $535.8 million to complete projects.

3.2 In addition, HAJ has a difficulty settling trade payables in a timely manner. As at March 2015, HAJ's trade payables amounted to $745 million, of which $580.7 million (77.9 per cent) was outstanding for periods over 180 days **(Figure 14)**.

Figure 14 Analysis of aged payables

Period	Contractors $'000	NHT $'000	Lands $'000	Others $'000	Total $'000	%
≤ 30 Days	385	-	-	15,337	15,722	2.1
> 30 Days ≤ 60 Days	887	9,709	-	15,630	26,226	3.5
> 60 Days ≤ 90 Days	-	2,628	-	4,048	6,676	0.9
> 90 Days ≤ 180 Days	115,934	-	-	-	115,934	15.6
> 180 Days	107,199	190,437	277,527	5,564	580,727	77.9
Total	**224,405**	**202,774**	**277,527**	**40,579**	**745,285**	**100.0**

Source: AuGD analysis of HAJ financial records

3.3 Further, as at March 2015, HAJ's loan payables were $3.4 billion, of which $3.1 billion (92 per cent) was the balance on the loans obtained from NHT for the construction of housing developments. These housing developments include, Westmeade, Stadium Gardens III, Hills of Boscobel and Whitehall III. We noted that although Stadium Gardens III and Westmeade were completed and the units sold, HAJ still has an amount of $106 million outstanding on these short-term loans. These were to be repaid from the sales proceeds.

HAJ had to dispose of lands held for housing development to support its operating activities

3.4 HAJ also generated cash resources from the disposal of land earmarked for housing development. In 2009, HAJ sold the Lady Musgrave and Oxford Road properties for a total of $470 million. In addition, we noted that HAJ's audited financial statements showed that proceeds from the disposal of land amounted to $806.02 million between 2011-12 and 2013-14.

HAJ does not have in place a formal risk management framework

3.5 Risk management forms an important component of project management in ensuring that projects achieve the desired goals. This involves developing a mechanism to identify, analyse, evaluate and manage the impact of financial and operational risks that threaten the achievement of objectives. We found that HAJ does not have in place a formal risk management framework to support its operations in order to mitigate or avoid potential risks. HAJ informed us that the Agency has a draft Risk Management Policy Framework that has not been finalized. The Agency did not provide a copy of the draft framework, despite requests. In addition, we also observed that the Finance Committee, which should have provided oversight of the Agency's financial management, only convened two meetings, April 2014 and June 2014, in 2014-15.

Appendices

Appendix 1 Analysis of variations on the Hills of Boscobel housing development

No.	Date Variation Order prepared	Date Variation Order signed	Nature of Variation	Variation Amount Increase/ (Decrease)	NCC/ Cabinet Approval Obtained	Cumulative variations value	%
1	*15/1/2014	7/3/2014	Additional excavation, blockwork to substructure fill etc, Site instructions issued for additional work	$5,707,704	N/A	-	-
2	15/1/2014	7/3/2014	Additional concrete works, fittings and finishes.	$37,843,731	N/A	43,551,435.00	5%
3	15/1/2014	7/3/2014	Retrofitting of lift stations, forced main to water tank-new pipe installations required to facilitate connecting to new tank.	$21,269,829	N/A	64,821,264.16	8%
4	15/1/2014	7/3/2014	Redesign water drainage network. Drainage structures including HDPE pipes, U-drain, culverts, swales.	($16,482.379)	N/A	48,338,885.16	6%
5	28/1/2014	7/3/2014	Installation of new water tank and preparation of tank site. New tank needed as existing is old and leaking.	$18,401,612	N/A	66,740,497.16	8%
6	28/1/2014	7/3/2014	Road needs repair from damage due to construction equipment. Patching/remedial works to road leading from North Coast Highway to the development.	$8,805,800	N/A	75,546,297.16	9%
7	28/2/2014	7/3/2014	Rock content is excessive and top soil is needed. Filling to lofts and raft foundations required for 6 units. Filling to lots to make up levels.	$4,004,949	N/A	79,551,246.56	10%
8	15/1/2014	7/3/2014	Filing to lots and raft foundation is needed for 6 units. Raft foundation construction to six(6) units, filling lots	$537,720	N/A	80,088,966.56	10%
9	28/2/2014	7/3/2014	Additional work needed to have a complete sewer system. Installations of sewer manholes, lift stations, reed bed tile field, septic tank, etc	$21,099,351	No	101,188,318.20	13%
10	28/2/2014	7/3/2014	Re-measured BQ quantities. Additional clearing, excavation to reduce - And filling to roads	$30,355,621	No	131,543,939.25	16%
11	28/2/2014		Infrastructure	$102,898,463	No	234,442,403.20	29%
12	28/2/2014		Infrastructure	$3,141,374	No	237,583,777.67	30%
			Net Increase/(Decrease)	$237,583,777			