

**SPECIAL AUDIT REPORT OF THE
NUTRITION PRODUCTS LIMITED (NPL)**

**Auditor General of Jamaica
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Auditor General's Overview

The core mandate of the Nutrition Products Limited (NPL) is to provide nutritious snacks to students in public schools at the lowest possible costs. The initiative constitutes one aspect of the Government of Jamaica (GOJ) school feeding programme to provide a third of the daily caloric nutritional needs of students. Among the programme's objective is to provide a basic incentive for ensuring higher attendance levels in schools. The GOJ subsidised the initiative to an aggregate of \$3.3 billion in the last six years, 2006-07 to 2011-12.

I commissioned a special audit of NPL's operations to determine whether NPL is managing efficiently and effectively its resources to meet its objectives. Our audit revealed that NPL is not meeting its mandate to utilise local resources, wherever possible, in the snacks produced and distributed to students. NPL is also facing difficulties achieving aspects of its main corporate objectives and is challenged by high production costs and spoilage of finished goods. This report also highlights failure to adhere to GOJ Procurement guidelines and unauthorised payments.

The inefficiencies highlighted in this report, threaten NPL's ability to meet its corporate objectives and fulfil its mandate. NPL, and by extension the Ministry of Education (MOE), should seriously consider, for implementation, the recommendations contained within this report.



Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

Executive Summary

The Nutrition Products Limited (NPL), which falls under the ambit of the Ministry of Education (MOE), has the responsibility to provide nutritious snacks (Nutri bun, bulla, rock cake and milk/juice) at the lowest possible costs to students in approximately 849 Schools Island wide.

The Government of Jamaica (GOJ) subsidised the initiative, which forms part of the School Feeding Programme, through subventions provided to NPL. NPL's audited Financial Statements for the period 2006-07 to 2011-12 showed the aggregate subvention over the six-year period totalling \$3.3 billion increasing from \$318 million in 2006-07 to \$7 million in 2011-12.

Our audit sought to determine if NPL is managing efficiently and effectively the resources provided to it by the GOJ in order to fulfil its mandate to provide nutritious snacks to students at the lowest cost. Management decisions were also reviewed to determine if they were in keeping with sound administrative principles, practices, and policies.

Key Findings

PRODUCTION PROCESS

1. Part of NPL's mission is to "utilise *local resources wherever possible*" in the snacks produced and distributed to students. This is in line with the Vision 2030 National Development Plan, which recognised that the need for food security has emerged as a national priority, as global economic and environmental forces combine to threaten long-term food supply and prices. NPL seeks to achieve its mission by introducing at least one local raw material to the product line and develop and introduce new products, for each of the three years 2009-10 to 2011-12. To date, NPL has only introduced a pilot programme to produce natural juices for distribution to 32,000 students one day per week.
2. One of NPL's strategic objectives is "to improve the method of packaging of snacks; enhancing the appearance, and for hygienic purposes". NPL was able to complete the research and assessment for improved packaging of its products, but cited the lack of requisite funding as the main reason preventing the procurement of the necessary equipment. Fifty per cent of the respondents indicated that they had a problem with the packaging of the liquid products. The respondents also noted that the bags are of poor quality; prone to leaking causing difficulty in handling. NPL was unable to provide the estimated cost for the improved packaging of its products.
3. The Ministry of Education (MOE) has indicated that "*although there is a demand for more snacks, and NPL has the capacity to produce 196,000 snacks daily, the budgetary allocation does not allow for this.*" MOE did not quantify the additional demand. NPL has also indicated in its Corporate Objective to increase the production and distribution processes to deliver 195,000 snacks per day by 2011-12. NPL produces 136,000 snacks per day, in line with the Ministry of Education mandate for the school year September 2011 to July 2012. This amount is 32 per cent below the three plants' total capacity of 200,000 snacks per day.

NPL also cited the lack of funding to purchase raw material as the main reasons for its failure in meeting the targets.

4. NPL is facing increasing production costs while actual production of snacks remains constant. NPL's factory cost of production doubled from \$331 million as at March 2006 to \$610.9 million as at March 2012, an 85 per cent increase; while total production of snacks increased 1.88 per cent. Although NPL maintained its current production output of 136,000 snacks per day, frequent equipment breakdown has impacted negatively on attaining the targeted production level of 195,000 snacks per day. The three production plants have accumulated a total of 15 months (1.25 years) in equipment down time within the last three years, January 2009 to December 2011. The use of aging and inefficient equipment in the production process has deprived the NPL from effectively managing its labour cost in operating three 8-hour shifts to meet the current production.
5. We found that between April 2008 and January 2012, NPL distributed \$23.5 million worth of snacks to staff and charitable organisations. Of the total amount, \$7.7 million were distributed to MOE approved institutions. The additional amounts of \$6.3 million and \$9.3 million were distributed to institutions and staff respectively without the MOE and Ministry of Finance (MOF) approvals.
6. NPL did not conduct the required nutritional tests for the 2009-10 to 2011-12 school years, to ensure that snacks were providing the intended one third of the daily caloric requirement to students. NPL cited the lack of adequate funding for the absence of these tests. However, NPL's cash position for the related years appeared to have been more than adequate to conduct the tests. NPL subsequently indicated that the tests for the 2012-2013 school year have been conducted by *"the Bureau of Standards and the nutritional values are very much in line with results from previous years."*

LEGAL, REGULATORY AND OTHER BREACHES

7. Thirty-seven individuals were engaged to posts that were not on NPL's approved establishment resulting in unapproved expenditure of \$19.2M per annum.
8. There was no evidence that NPL verified the authenticity of certificates submitted to support employees' academic qualifications. This contradicts NPL's standard personnel clearance procedures that required the verification of academic credentials with the respective institutions, particularly those overseas. Also, we found four instances whereby officers qualifications seen on file were inconsistent with the stipulated requirements for the posts occupied.
9. Despite repeated requests, NPL failed to present evidence of MOF's ratification of the lunch subsidy totalling \$12 million over the period 2008-09 to 2010-11.
10. We observed that NPL overpaid a former board member fees amounting to \$119,500 for the period July to November 2011. The officer ceased being a board member since June 2011, but was paid fees up to November 2011. NPL subsequently requested that the individual repay the amounts. At the time of the report, the amount was not recovered.

11. We found that, contrary to the GOJ's procurement guidelines, NPL contracted the services of three contractors who are not registered with the National Contracts Commission (NCC). The three transportation services contracts amounted to \$4.3M. Further, NPL failed to produce evidence that the contractors are Tax Compliant in accordance with GOJ's procurement guidelines.

Recommendations

To improve the efficiency and effectiveness of the school feeding programme, the NPL should consider adopting the following recommendations:

1. In the medium term, NPL should consider introducing snacks for which the primary ingredients can be sourced locally, in order to reduce dependence on imported items in an effort to promote food security, stimulate agricultural production and influence student taste in local produce. For example, consistent with the government agricultural strategy, NPL should aggressively seek funding to expand the natural juice production as this would serve to stimulate demand for the Ministry of Agriculture Fruit Tree Crop Project. Further, NPL should urgently conduct periodical surveys at the schools to determine students' feedback about products and choices.
2. As a priority, NPL should find ways to better engage with the Ministry of Agriculture and Fisheries, local and overseas agricultural organisations, with a view to increase the input of local raw materials into NPL product mix. Thereby, stimulating demand for local foodstuff and ultimately increase overall national agricultural output. NPL should therefore conduct annual review of locally available raw materials and identify those that are cost effective to utilise and add value to the current product mix. Also, NPL should conduct comparisons of its school feeding programmes, with those of its counterparts in the Caribbean, to identify best practices, especially its product line.
3. NPL should prioritise the acquisition of the necessary equipment to improve the packaging of its products in order to improve customer satisfaction and reduce leakage and spoilage. NPL should also consider introducing modern technology to the production process to obtain productivity enhancements. Given that the factory is currently operating at 68 per cent capacity and running three 8-hour shifts, efficiencies obtained from modern equipment could result in productivity improvement and significant savings in factory overhead, labour cost and reduction in wastage. Further, NPL should immediately review its other costs, with a view to develop and implement a robust cost reduction strategy.
4. The Ministry of Education should quantify the additional demand for snacks and explore with the Ministry of Finance the possibility of increasing funding to NPL to satisfy this demand over a given period. This would enhance the MOE objective of providing *"nutritious food supplements to the children so as to stimulate the development of good food habits, improved diet and thereby contribute towards the maintenance of good health and increased learning capacity."*
5. NPL should also review its production processes in an effort to identify the main contributory factors for the spoilage and implement appropriate measures to reduce

this wastage. Recognizing the high repairs and maintainance costs, NPL could achieve cost savings by replacing the archaic equipment .

6. NPL should obtain the Ministry of Finance and Ministry of Education approval for its giveaway programme to staff and other organisations.
7. NPL should take immediate steps to ensure that all staff employment are approved by the MOF in accordance with Section 20 of the Public Bodies Management and Accountability (PBMA) Act. NPL should also engage the MOF to regularize the current situation where individuals are employed to posts that are not on NPL's approved establishment. Additional safeguards should also be implemented to prevent a recurrence of these breaches.
8. NPL should ensure that it complies with its personnel clearance procedures in relation to the verification of academic qualifications submitted by employees/prospective employees in order to reduce the risk of employing individuals who provide fictitious qualifications. Also, NPL should adhere to the requirements outlined in the GOJ procurement guidelines for procurement of goods and services.

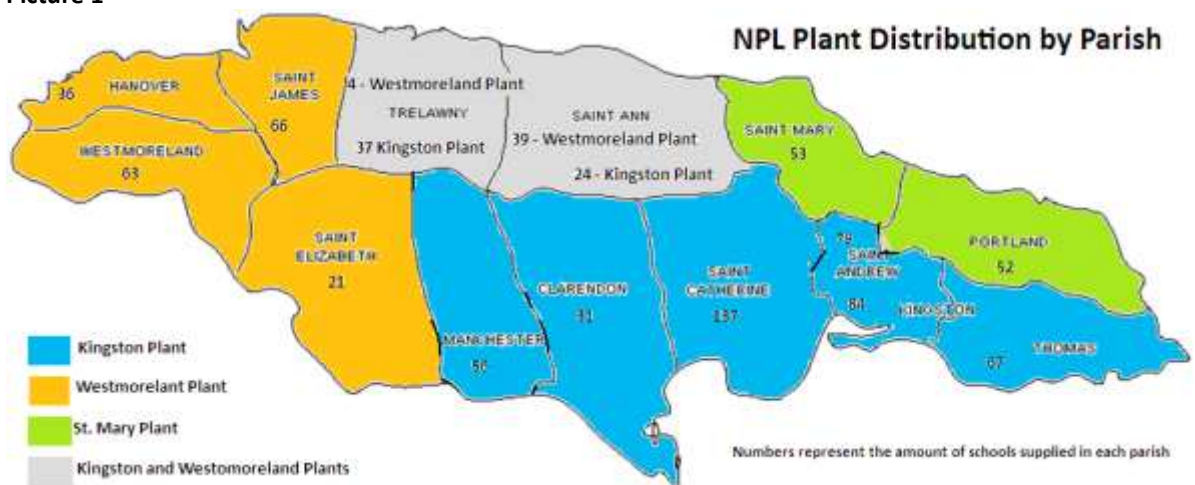
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Part One Introduction

Background

- 1.1 Nutrition Products Limited (NPL), established 1973, is a limited liability company wholly owned by the Government of Jamaica (GOJ). NPL has an authorised share capital of 100 shares of \$2.00 each. Its operations began with the School Feeding Programme undertaken by the Nutrition Products Centre, which was subsequently renamed Nutrition Products Limited (NPL). NPL's mission is *"to produce and distribute nutritious meals daily to designated school children at the lowest possible cost, utilising local resources wherever possible."*
- 1.2 NPL produces baked products (Nutri-buns, rock cakes), bag drink and milk. Production occurs at three plants located in Westmoreland, St. Mary and Kingston, with Kingston being its main office.
- 1.3 The school feeding programme falls under the ambit of the Ministry of Education (MOE). Information obtained from NPL revealed that it distributes to 849 Schools in 14 parishes. **Picture 1** shows that the Kingston plant distributes to 515 (61 per cent) schools in eight parishes, followed by the Westmoreland and St. Mary plants which service 229 (27 per cent) schools in six parishes and 105 (12 per cent) in two parishes respectively. The parishes of Trelawny and St. Ann are served by both the Kingston and Westmoreland plants. Students contribute \$2.00 per baked product and receive sachets of milk or drink free of cost.

Picture 1



Source: AuGD Compilation of data provided by NPL

Business Objectives

1.4 NPL's main objective, according to its Operational Manual, is:

"The preparation and delivery of nutritious meals for distribution to designated children attending Basic/Infant, Primary, All-Age, Junior High and a few Secondary Schools island wide."

1.5 At the beginning of each school year, the Ministry of Education through its School Feeding Unit submit to the NPL a listing outlining the daily requirement for each participatory school and the number of students to benefit from the programme. *The chief objectives of the Ministry of Education School Feeding Programme are to:*

- *"Provide a basic incentive for ensuring higher attendance levels in school, especially in rural/remote areas;*
- *Prevent or minimize dropouts; and*
- *Provide nutritious food supplements to the children so as to stimulate the development of good food habits, improved diet and thereby contribute towards the maintenance of good health and increased learning capacity."*

Sources of Funding

1.6 NPL receives its funding from the GOJ through subventions financed from the national budget and contributions from students. As shown in **Table 1**, over the six-year period, 2006-07 to 2011-12, NPL received subventions ranging between, \$318 million in 2006-07 to \$744 million in 2011-12. Over the same period, students' contribution ranged between \$32 million and \$42 million annually.

Table 1: Six-year Analysis of Income and Expenditure

	Total (\$)	2011-12 (\$)	2010-11 (\$)	2009-10 (\$)	2008-09 (\$)	2007-08 (\$)	2006-07 (\$)
Subvention ¹	3,307,068,960	744,831,156	757,551,000	661,558,808	449,652,000	375,329,000	318,146,996
Sale Revenue	215,731,282	32,415,023	36,012,000	33,529,581	41,650,156	34,830,622	37,293,900
Other Income ²	50,163,326	3,643,951	9,006,000	11,141,503	9,821,420	9,487,988	7,062,464
Gift items ³			-	83,032,488	155,986,825	144,474,277	97,712,438
Total Income	3,307,068,960	780,890,130	802,569,000	789,262,380	657,110,401	564,121,887	460,215,798

Source: AuGD compilation of information obtained from NPL's Audited Financial Statements

¹ GOJ Budgetary Support

² 2006-09 Interest on Deposit, other income, 2009-10 Bad debts recovered/written back, Interest on deposit,

³ The GOJ, through the MOE supplies the company with certain raw materials to be used in the production of lunches and snacks

Audit Scope and Methodology

- 1.7 We conducted a special audit of the management of NPL to determine whether the entity is effectively and efficiently managing its resources to fulfil its mandate to provide nutritious snacks at the lowest cost.
- 1.8 Our audit was planned and conducted in accordance with the Government Auditing Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI). The planning process involved gaining a thorough understanding of NPL and conducting an issue analysis to determine whether:
1. NPL is managing its resources effectively in order to fulfil its mandate;
 2. The Board of Directors is executing its fiduciary responsibility in keeping with good corporate governance practices;
 3. Effective internal controls exist over the storage and distribution of snacks;
 4. Appropriate policies are in place to govern the production process; and
 5. Appropriate mechanisms are in place to ensure production is of the highest quality.
- 1.9 Our assessment is based on the review of documents, interviews with senior officers and staff of NPL. We also visited and assessed the operations of the plant and distribution outlets in Kingston and St. Mary and conducted surveys in 13 corporate area schools.

Part Two Production Process

NPL Raw Material Input Yields Good Results

- 2.1 NPL established yield standard for each product and distributed raw materials to production on that basis. We reviewed a sample of raw materials issued from stores to production, over the period November 2011 to January 2012, and found the yield is generally above the standard (**Table 2**). Examination of the Yield and Packaging Report for the three plants, over the same period, shows that for the Kingston plant the overall production yield fell below standard by one per cent; while, the Westmoreland plant yielded between 8 and 11 per cent and the St. Mary Plant yielded between 2 and 13 per cent above the standard ([Appendix 1](#)).

Table 2: Overall productivity yield November 2011 to December 2012

Plants	Nov-11	Dec-11	Jan-12
Kingston	-1%	-1%	-1%
St. Mary	2%	6%	13%
Westmoreland	10%	8%	11%

Source: AuGD compilation of information provided by NPL

NPL Fails to Utilise More Local Raw Materials and Develop New Products

- 2.2 Part of NPL's mission is to "utilise *local resources wherever possible*" in the snacks produced and distributed to students. This is in line with the Vision 2030 National Development Plan, which recognised that the need for food security has emerged as a national priority, as global economic and environmental forces combine to threaten long-term food supply and prices. NPL seeks to achieve its mission by introducing at least one local raw material to the product line and develop and introduce new products, for each of the three years 2009-10 to 2011-12. To date, NPL has only introduced a pilot programme to produce natural juices for distribution to 32,000 students one day per week.
- 2.3 NPL currently produces baked products (Nutri-buns, rock cakes), and sachets of milk and flavoured drink. The major ingredients in the product formulation for the nutri-bun showed a high import content consisting mainly of imported baking flour, dried skimmed milk powder, brown sugar, butter oil and margarine. The milk component also showed a significant high import content utilising imported milk powder, butter oil and sugar. The flavoured drink comprises mainly water, sugar, citric acid, flavouring and vitamin C.
- 2.4 NPL indicated that the flavoured drink was manufactured due to the increasing cost of producing the milk products; as the main imported ingredients, butter oil and skimmed milk powder, have increased by 104 per cent and 112 per cent respectively between 2009 and 2011. We conducted surveys in 13 corporate area schools in February 2012, meeting with principals, guidance councillors and students. All the teachers interviewed complained about the nutrition of the snacks, especially the lack of the requisite calcium intake since the substitution of the milk products for the flavoured bag drink. Further, the teachers argued that the flavoured drink contributed to increased hyperactivity and

consequent sleepiness after consumption, given the high sugar content. NPL also indicated that they are actively conducting tests on the use of local liquid eggs, with a view to reduce the use of the imported butter oil by one third. If the tests prove successful, this will provide a ready market for the local egg industry.

- 2.5 NPL expenditure on raw material purchases represents an average of 53.5 per cent of total factory cost of production throughout the period April 2006 to March 2012. Expenditure moved from \$177.5 million as at March 2006 to \$358.4 million as at March 2012, a 100 per cent increase. NPL should consider strategies to increase the use of local raw materials in order to guarantee food security, stimulate agricultural production and influence customer taste. This provides an opportunity for NPL to contribute to national objectives of saving scarce foreign currency and increase market demand for output under the Ministry of Agriculture and Fisheries Fruit Tree Crop Project and the Dairy Sector Revitalisation Programmes.

NPL Fails to Improve the Method of Packaging Snacks

- 2.6 One of NPL's strategic objectives is *"to improve the method of packaging of snacks; enhancing the appearance, and for hygienic purposes"*. NPL was able to complete the research and assessment for improved packaging of its products, but cited the lack of requisite funding as the main reason preventing the procurement of the necessary equipment. NPL was unable to provide the estimated cost for the improved packaging of its products.
- 2.7 Further insight was gained from our surveys conducted at 13 corporate area schools in February 2012 (**Table 3**). Fifty per cent of the respondents indicated that they had a problem with the packaging of the liquid products. The respondents also noted that the bags are of poor quality; prone to leaking causing difficulty in handling.

Table 3: List of schools surveyed

No.	Schools	No.	Schools
1	Balmagie Primary	8	St. Georges Girl Primary
2	Constant Spring Primary	9	St. Joseph Infant
3	Denham Town Primary	10	St. Patricks Primary
4	John Mills Infant, Primary & Jnr High	11	St. Peter Claver Primary
5	Mona Heights Primary	12	St. Richards Primary
6	Rosseau Primary	13	Whitfield All Age
7	St. Aloysius Primary		

NPL Production Levels Below Corporate Objective Targets

- 2.8 The Ministry of Education (MOE) has indicated that *"although there is a demand for more snacks, and NPL has the capacity to produce 196,000 snacks daily, the budgetary allocation does not allow for this."* MOE did not quantify the additional demand. NPL has also indicated in its Corporate Objective to increase the production and distribution processes to deliver 195,000 snacks per day by 2011-12. NPL produces 136,000 snacks per day, in line with the Ministry of Education mandate for the school year September 2011 to July 2012. This amount is 32 per cent below the three plants' total capacity of 200,000 snacks per day.

NPL cited the lack of funding to purchase raw material as the main reasons for its failure in meeting the targets.

NPL Faces Increasing Production Costs

- 2.9 NPL is facing increasing production costs while actual production of snacks remains constant. NPL's factory cost of production increased from \$331 million as at March 2006 to \$610.9 million as at March 2012, representing 85 per cent increase. On an average annual basis, factory cost of production increased by 11.6 per cent (**Table 4**), while production of snacks over the period increased by only 1.88 per cent.

Table 4: Factory Cost of Production from 2005-06 to 2010-12

Production Cost/Units	2011-12 \$'000	2010-11 \$'000	2009-10 \$'000	2008-09 \$'000	2007-08 \$'000	2005-06 \$'000	2006-07 \$'000	Average Change
Raw Material	358,361	354,812	301,624	298,542	211,706	168,908	177,491	14.0%
Staff Costs	72,604	136,474	107,540	101,242	84,321	79,384	68,750	5.0%
Factory Overheads	179,915	178,440	148,297	128,857	97,405	89,361	84,819	14.0%
Total Costs	610,880	669,726	557,461	528,641	393,432	337,653	331,060	11.6%
Total Units	42,328,970	46,581,919	45,514,158	48,992,923	42,095,384	44,400,540	42,340,929	-
% Change	-9.13%	2.35%	-7.10%	16.39%	-5.19%	4.86%	-	1.88%

Source: AuGD compilation of information obtained from NPL's Audited Financial Statements

- 2.10 Further, **Table 5** shows that over the period 2005-06 to 2010-11, production cost per unit for solids averaged 16 per cent; while, increases in liquid averaged 23 per cent.

Table 5: Increase/Decrease in Production Cost Over 2006-07 to 2010-11

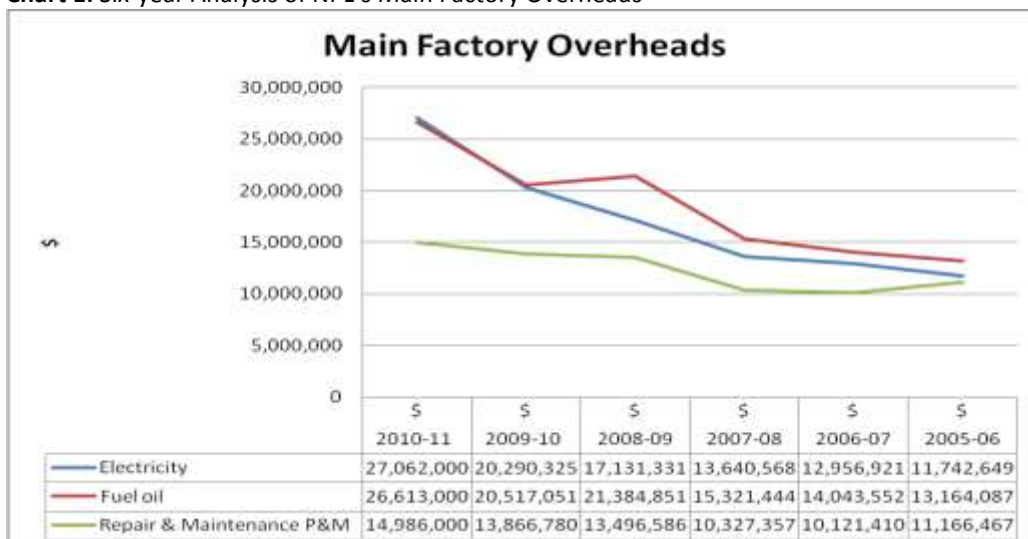
Item Description	2005-06	2010-11	Increase/ Decease	Percentage Increase/ Decease
<u>SOLID PRODUCTS:</u>	\$	\$	\$	
Bulla	14.37	19.33	4.96	35%
Spice Cake	13.79	17.87	4.08	30%
Spice Bun	13.02	15.57	2.55	20%
Cheese Bread	16.71	20.13	3.42	20%
Rock Cake	15.83	18.11	2.28	14%
Corn Bread	11.94	9.38	-2.56	-21%
Average	14.28	16.73	2.46	16%
<u>LIQUID PRODUCTS:</u>	\$	\$	\$	
Drink – Flavoured	5.86	7.87	2.01	34%
Milk – Plain	17.78	21.18	3.4	19%
Milk – Cherry	16.71	19.89	3.18	19%
Milk – Banana	17.02	20.18	3.16	19%
Average	14.34	17.28	2.94	23%

Source: AuGD compilation of information obtained from NPL

NPL Experiencing Declining Productivity

- 2.11 NPL is experiencing declining productivity in its operations due to its aging and inefficient equipment, the majority acquired over 30 years ago. This has impacted negatively on attaining and maintaining targeted production levels of the 195,000 snacks per day. The frequent breakdowns and repairs to its equipment contributed significantly to the rising maintenance costs. For example, maintenance and repair costs over the three year period 2009-10 to 2011-12 amounted to \$42 million. Further, NPL acknowledged that over the period 2005 to 2011, electricity rates have increased by 65 per cent. To operate the aging and inefficient equipment, NPL has incurred significant cost in repairs and maintenance, fuel oil and electricity costs. These costs have increased by 34, 102 and 130 per cent respectively over the six-year period. **(Chart 1)**

Chart 1: Six-year Analysis of NPL's Main Factory Overheads



Source: AuGD compilation of information obtained from NPL's Audited Financial Statements

- 2.12 The use of archaic equipment in the production process has deprived NPL from effectively managing its labour cost. Factory labour cost increased from \$68.7 million as at March 2006 to \$136.5 million as at March 2011, a 98.5 per cent increase over the period. This represents an average of 20.8 per cent of total factory cost of production throughout the period. Although, increases in the wage bill were attributable to periodic increases in wages, the aging equipment and the resulting break-down have contributed significantly to NPL maintaining three 8-hour shifts to meet the current production output of 136,000 snacks per day.
- 2.13 **Table 6** shows that NPL requested amounts totalling \$115 million, between 2006-07 and 2009-10, for capital expenditure to allow them to undertake the necessary replacement of their aging equipment. However, none of the amounts requested were received.

Table 6: NPL Request for Capital Expenditure

Years	Amounts Requested (\$)
2009-2010	33,539,500
2008-2009	31,663,680
2007-2008	16,610,000
2006-2007	33,522,121
	115,335,301

- 2.14 NPL acknowledged in its Strategic Plan 2009-12, that *“the equipment for the production of the meals/snacks is both archaic (over thirty years old) and inefficient. As such the operations are labour intensive and the maintenance costs are high.”* This resulted in frequent breakdown and repairs to its equipment as reflected in machine down time and loss of production. ([Appendix 2](#))

- 2.15 NPL achieving productivity gains is vital to improving efficiency. As a consequence of capital and labour both being scarce resources, NPL may obtain productivity enhancements by the acquisition of modern equipment. Given that the factory is running at 68 per cent capacity and running three 8-hour shifts, efficiencies obtained from modern equipment and cheaper raw material input could result in productivity improvement and significant cost savings, especially in direct labour cost and waste.
- 2.16 NPL was unsuccessful in its stated Corporate Plan to *“realise a 10 per cent savings from (alternative) sourcing of goods and services”*. NPL has not taken proactive decisions to analyse their cost segments and take proactive strategy to reduce these costs. For example, the cost of butter oil, a key ingredient in both the solid and liquid products, has increased by 104 per cent over the 2009 to 2011 period. While NPL acknowledged that liquid eggs can be substituted for imported butter oil, to date, the project has not been implemented. NPL indicated that they are in active discussions with the Jamaica Egg Farmers Association and the Ministry of Agriculture and Fisheries to implement the project.
- 2.17 Notwithstanding that the increases in raw material and labour were beyond its control, cost containment is crucial as the NPL is unable to pass on cost increases to its customers, the school children. NPL’s corporate objective to increase its income generating capacity did not materialise. This, as its Cabinet submission for an increase in the price of snacks, from \$2 to \$5, was not approved.

NPL Accumulates Over 15 Months of Machinery Downtime in Three Years

- 2.18 We found that the three production plants located in Kingston, Westmoreland and St. Mary accumulated 15 months (1.25 years) in machinery down time within the last three years, January 2009 to December 2011. **Table 7** shows that the Westmoreland plant accounted for the greatest period of machinery breakdown totalling 7 months (212 days), followed by St. Mary and Kingston which recorded 6 months (189 days) and 2 months (57 days) of downtime respectively over the period. NPL responded that *“due to the age of most factory machinery and equipment they have to be constantly repaired to ensure the level of functionality that is required to meet production targets.”*

Table 7: Analysis of Down Time Reported by NPL

Plants	Items	Total Hours Jan-Dec 2011	Total Hours Jan-Dec 2010	Total Hours Jan-Dec 2009	Total Hours	Total Days 2009–2011	Total Days Per Plant
Kingston	Solid	268	254	249	771	32	
	Liquid	199	191	206	596	25	57
St. Mary	Solid	79	918	762	1,759	73	
	Liquid	149	1,027	1,601	2,776	116	189
Westmoreland	Solid	45	326	60	431	18	
	Liquid	1,248	1,950	1,466	4,664	194	212
Total (Hours)		1,988	4,665	4,344	10,997	458	
Total (Days)		83	194	181	458		

Source: AuGD Analysis of information obtained from NPL Operation Manager's Monthly Report

NPL Fails to Maintain Adequate Operational Efficiency Records

- 2.19 NPL fails to maintain appropriate operational efficiency records that showed the maintenance cost for each equipment. NPL acknowledged this deficiency and indicated that the operational efficiency records will be updated to show the maintenance cost for each equipment. Over the six-year period 2005-06 to 2010-11, NPL repair and maintenance costs for plant and machinery, increased by 36 per cent from \$11 million to \$15 million.

NPL Waste From the Production and Distribution Processes Appears Satisfactory

- 2.20 Contrary to its Corporate Objective, NPL failed to devise and implement initiatives and strategies to reduce overall production and distribution waste from 1 per cent in April 2009 to 0.5 per cent by March 2012. We observed that the production and distribution waste averaged 1.2 per cent. However, NPL's current waste level appears consistent with industry standard in manufacturing operations. NPL recorded \$11.5 million in spoilage of finished goods, between the period April 2008 and January 2012 as shown in **Table 8**. NPL categorised as spoilt, snacks that fail to meet the production standard; snacks unfit for distribution as determined by the Quality Control Officer, and snacks damaged during the storage and distribution processes.

Table 8: Spoilage of Finished Goods

Periods	Spoilage (\$)
April 2008 – March 2009	3,427,088.90
April 2009 – March 2010	2,090,963.38
April 2010 – March 2011	1,977,857.79
April 2011 – January 2012	3,987,857.21
Total	11,483,767.28

Source: AuGD compilation of information provided by NPL

- 2.21 The Quality Control Officer is required to conduct random daily checks and issue Detention Orders if any product fails to meet the specified standards, and to report such matters to

the Operations Manager within 24 hours⁴. Due to a combination of the absence of Detentions Orders and poor record keeping, we were unable to determine the composition of the categories which contributed to the \$11.5 million in spoilage. In addition, there was no policy or procedure to indicate how these goods should be disposed of.

- 2.22 NPL is failing in its Corporate Strategic Objective to modernise the distribution system by introducing 14 additional refrigerated trucks by March 2012. Only six of the NPL 46 trucks are refrigerated, contrary to the contract agreement with its delivery contractors. The standard contract states that *“the contractor shall operate a delivery truck with a refrigerated compartment temperature range at (+2)2°C to 4°C.”* Table 9 shows the amount of returned products classified as ‘damage goods’ as per NPL’s Distribution Monthly reports for the period April 2010 – January 2012.

Table 9: Listing of Damage Goods

Products	Quantity
Bulla	22,237
Spice Bun	5,180
Cheese Bread	2,000
Rock Cake	2,890
Spice Cake	2,680
Flavoured Drink	14,970
Banana Milk	3,510
Cherry Milk	27,360
Plain Milk	3,130
	83,957

Source: AuGD compilation of information obtained from NPL

- 2.23 Included in the spoilage figure for May 2010 to October 2011, are “damage goods” costed at \$1.64 million returned by the delivery trucks. NPL attributes the spoilage and damage goods to improper handling of the products during packaging and delivery resulting in the liquid leaking and solids crumbling. Although NPL stated that the spoilage in the liquid products was not attributable to the transportation in the non-refrigerated trucks, the Ministry of Education⁵ had expressed concerns regarding the quality of the milk based products that are being distributed in the non-refrigerated trucks.
- 2.24 NPL stated in its Cabinet Submission, for an increase in the price of snacks, that *“only 13% of NPL trucks currently transport milk to schools in refrigerated trucks as required by health standards. We have been criticised by the Ministry of Health and Environment for this breach, and we have been instructed to discontinue this practice of delivering milk to schools in un-refrigerated trucks. To transport milk in refrigerated trucks according to food and safety standards, an annual amount of \$38 million will be required.”*

⁴ Section IV(c) iii NPL Manual

⁵ Extracted from NPL Distribution/Warehouse & Security report for April 2010

NPL did not Conduct Nutritional Tests for 2009-10 to 2011-12 School Years

- 2.25 NPL is failing in its main objective to “*prepare and deliver nutritious meals for distribution to designated children attending Basic/Infant, Primary, All-Age, Junior High and a few Secondary Schools island wide.*” The objective of the School Feeding Programme is to provide one snack consisting of one solid and one liquid, which should comprise one third of the daily caloric requirement for each student. This is in accordance with World Health Organisation (WHO) nutritional standards. To achieve this objective, NPL rely on the Bureau of Standards Jamaica (BSJ) to conduct independent nutritional tests, usually at the beginning of the school term, to ensure that the nutritional value of the products meet the required standards. However, NPL did not conduct the required test for the 2009-10 to 2011-12 school years. Failure to conduct these tests provided no independent assurance that the snacks are meeting the stated daily caloric intake of students.
- 2.26 NPL acknowledged that “various challenges encountered during the 2011-12 period militated against the performance of these tests”. NPL assured that there will not be a recurrence and the tests for the 2012-2013 school year have since been conducted by “*the Bureau of Standards and the nutritional values are very much in line with results from previous years.*”

NPL “Give Away” Snacks Valued \$23.5 Million Between April 2008 and March 2012

- 2.27 Information provided by NPL shows that \$23.5 million worth of snacks were distributed to staff and institutions between April 2008 and March 2012 (**Table 10**). Of this amount, \$7.7 million were distributed to MOE approved institutions. The additional amounts of \$6.3 million and \$9.3 million were distributed to institutions and staff respectively without the MOE and Ministry of Finance (MOF) approvals. NPL issues one bag of liquid and one bag of baked product⁶, from production, to each staff member on a weekly basis in keeping with NPL Employee ‘Give Away’ Policy. In addition, NPL gives to staff snacks returned from schools and products deemed below standard and unfit for distribution.

Table 10: Amount of snacks donated by NPL

Periods	MOE Approved Institutions \$	STAFF \$	Non MOE Approved Institutions \$	Total \$
April 2011 – March 2012	1,784,997.29	1,638,805.18	1,082,310.53	4,506,113.00
April 2010 – March 2011	2,045,817.15	2,732,383.06	2,011,711.62	6,789,911.83
April 2009 – March 2010	2,636,735.02	1,714,136.94	1,338,485.09	5,689,375.05
April 2008 – March 2009	1,281,621.99	3,312,429.37	1,890,301.76	6,484,353.12
Total	7,749,171.45	9,397,754.55	6,322,809.00	23,469,753.00

Source: AuGD compilation of information obtained from NPL

- 2.28 NPL responded that there is a historical practice of giving limited amounts of products to staff. However, the practice is currently being assessed by the Board which has directed management to streamline this activity and establish a give-away policy for its approval.

⁶ Each bag contains ten snacks

Part Three Legal, Regulatory and other Breaches

NPL Employs Staff in Excess of Approved Establishment

- 3.1 We observed that 37 individuals were engaged to posts that were not approved by the Ministry of Finance resulting in unauthorised expenditure of \$19.3M. [Appendix 3](#) shows a listing of the excess staff engaged by NPL and their respective positions. NPL subsequently responded that the necessary assistance will be sought from the Public Sector Reform Unit (PSRU) of the Cabinet Office to rectify the matter.

NPL Did Not Verify Authenticity of Academic Qualifications

- 3.2 There was no evidence that NPL verified the authenticity of certificates submitted to support employees' academic qualifications. NPL personnel clearance procedures requires the verification of academic credentials with the respective institutions, particularly those overseas. This increases the risk of NPL employing individuals with fictitious qualifications. Also, we found four instances whereby officers qualifications seen on file were inconsistent with the stipulated requirements for the posts occupied (**Table 11**).

Table 11: Employees qualification compared with minimum requirement

Position	Qualification	
	Job Description	Presented
Employee 1	Masters in Business Admin or Accounting	Bachelors in Business Administration
Employee 2	BSc in HR Mgnt	Diploma - HR Development
Employee 3	Degree in Mgnt Studies	Diploma - Financial Management
Employee 4	BSc in Public Sector Mangement or Business Admin	Diploma - Financial Management

Unapproved Meal Subsidy Paid to Employees

- 3.3 NPL paid meal subsidy on behalf of staff members totalling \$12 million over the 2008-09 to 2010-11 period. The Board approved the increases as per Board Minutes dated October 24, 2008 and December 02, 2009; however, the requisite MOF's ratification of the payment of this employee benefit was not sought. NPL subsidized 70 per cent of lunch cost to staff members. The subsidized rate increasing from \$110 to \$220 per day between 2008 to 2011. We were unable to ascertain the authority for the institution of this staff benefit.
- 3.4 As a public body, NPL is subject to the directions of the provisions of the Public Bodies Management and Accountability (PBMA) Act. Section 20 of the PBMA Act requires that in relation to emoluments, the board shall act in accordance with such guidelines as are issued from time to time by the Minister responsible for the Public Service.

Unauthorised Payment of Board Fees

- 3.5 We observed that NPL overpaid a former board member fees amounting to \$119,500 for the period July to November 2011. The officer ceased being a board member on June 30, 2011 but was paid fees up to November 2011. The NPL subsequently requested the individual to repay the amounts as shown in **Table 12**. At the time of the report, the amount was not recovered.

Table 12: Overpayment of board fees

Date	Meetings (\$)	Travelling (\$)	Meal (\$)	TOTAL
15.7.11	24,000.00	8,400.00	2,800.00	35,200.00
9.8.11	3,500.00	2,100.00	700.00	6,300.00
11.8.11	3,500.00	2,100.00	700.00	6,300.00
19.11.11	8,500.00	2,100.00	700.00	11,300.00
16.9.11	15,500.00	6,300.00	2,100.00	23,900.00
11.10.11	3,500.00	2,100.00	700.00	6,300.00
13.10.11	3,500.00	2,100.00	700.00	6,300.00
21.10.11	8,500.00	2,100.00	700.00	11,300.00
8.11.11	3,500.00	2,100.00	700.00	6,300.00
10.11.11	3,500.00	2,100.00	700.00	6,300.00
	77,500.00	31,500.00	10,500.00	119,500.00

NPL Engages Contractors in Breach of the GOJ Procurement Guidelines

- 3.6 We found that NPL contracted the services of three contractors, to provide transportation services for workers on the night shifts (**Table 13**). A review of the contracts for the period April 1, 2011 to March 31, 2013, revealed that the contractors were not registered with the National Contracts Commission (NCC) in the related category. Further, NPL failed to produce evidence that the contractors are Tax Compliant in accordance with GOJ's procurement guidelines.

Table 13 Schedule of the contracts signed between NPL and the contractors

Contractor	Period of Contract Seen on File	Contract Value
Contractor No. 1 – Kingston	April 1, 2011 - March 31, 2013	1,460,379
Contractor No. 2 - St. Mary	April 1, 2011 - March 31, 2013	1,296,000
Contractor No. 3 – Westmoreland	April 1, 2011 - March 31, 2013	1,592,000

Collectors Contracted in Contravention of NPL Guidelines

- 3.7 NPL guidelines allow the engagement of collectors to collect, from schools, contributions outstanding for over sixty days⁷. However, NPL's Operations Manual and the existing contracts with collectors, allow for the collection of all contributions due and payable to

⁷ NPL Guidelines for the Operations of the Nutri-bun Component of the School Feeding Programme (Page 12)

the NPL by schools. The commission payable, as shown in **Table 14**, ranges from 5 per cent to 20 per cent.

Table 14: Commission paid to collectors

Percentage	Aged of Receivables
5	Over 1 day but less than 30 days
10	Over 30 days but less than 60 days
15	Over 60 days but less than 90 days
20	Over 90 days

Source: AuGD compilation of information obtained from NPL

- 3.8 We found that NPL paid collectors \$9.6 million, inclusive of \$2.5M for collection under 60 days, to collect \$78 million from schools between April 2008 and January 2012. (**Table 15**).

Table 15: Commission paid to collectors between April 2008 and January 2012

Period	Contribution Collected ⁸ (\$)	Commission Paid (\$)	Commission Paid for under 60 Days
April 2011 –January 2012	13,209,887.50	1,688,569.39	380,031.12
April 2010- March 2011	19,057,403.39	2,099,046.95	648,717.54
April 2009-March 2010	23,839,087.00	2,785,517.51	762,067.20
April 2008-March 2009	21,809,421.00	2,996,627.47	703,944.86
	77,915,798.89	9,569,761.32	2,494,760.72

Source: AuGD compilation of information provided by NPL

- 3.9 We found that the tardiness of schools in paying over contributions has been a long-standing issue. The Auditor General's Annual Report for financial year 1998-99 indicated that, *"The unaudited financial statements revealed that as of the 31st March 1999, outstanding debtors totalled \$15,064,219.76. Receivables over 31 days totalled \$11,539,940.50. Further analysis of the debtor schools showed that over 1000 schools had outstanding balances of less than \$20,000, 145 less than \$30,000, 65 less than 40,000 and 27 over \$40,000."*⁹

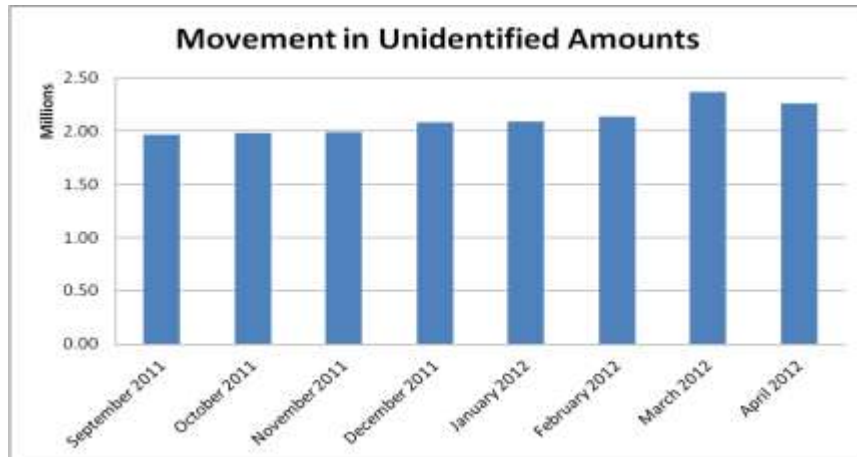
NPL Unable to Identify Lodgements from Respective Schools

- 3.10 An effective receivables system allows an entity to identify and trace receipts from its debtors. We found that NPL was unable to trace lodgements totalling \$2.3 million to the respective schools as at April 2012. NPL explained that schools are required to deposit sales proceeds to any of its bank accounts established with three commercial banks. However, they noted that some schools do not indicate their names on the related lodgement slips. The problem is compounded where more than one school deposit similar amounts. This prevents NPL from identifying the schools that make the respective lodgement. NPL classifies this amount as unidentified lodgements. **Chart 2** shows the movement of such lodgements for the period September 2011 to April 2012.

⁸ Gross amount

⁹ Extract from the AuGD Report - Value for Money on Nutrition Products Limited, 1998-99

Chart 2



Source: AuGD analysis of information provided by NPL

- 3.11 In January 2012, NPL started the phased implementation of a Consolidated Cash Plan system, which involves the issuing of cards with a unique identification number and lodgement books to schools. The card facilitates the tracking of each lodgement made by schools. NPL has already issued 45 of the initial 100 cards to selected schools. NPL stated that if the system is successful, the problem of unidentified lodgements would be alleviated. NPL was unable to provide information on the 45 schools to facilitate an assessment of the system. However, for the period January to April 2012, unidentified lodgements increased from under \$2M to \$2.3M, an 8 per cent increase.

Appendices

Appendix 1 Production Yield November 2011 to January 2012

Location	Products	Total Standard	Total Yield	Total Variance	Variance (%)
November 2011					
Kingston	Bulla	1,545,000	1,532,360	- 12,640	-1%
	Rock Cake	233,200	222,720	- 10,480	-4%
		1,778,200	1,755,080	- 23,120	-1%
St. Mary	Rock Cake	49,400	48,320	- 1,080	-2%
	Straight mix	141,000	149,820	8,820	6%
	Sponge mix	463,500	470,420	6,920	1%
		653,900	668,560	14,660	2%
Westmoreland	Bulla	498,000	546,860	48,860	10%
	Spice Cake	56,000	59,540	3,540	6%
	Spice Bun	54,000	60,470	6,470	12%
		608,000	666,870	58,870	10%
December 2011					
Kingston	Bulla	280,000	278,532	- 1,468	-1%
	Rock Cake	47,700	46,368	- 1,332	-3%
		327,700	324,900	- 2,800	-1%
St. Mary	Sponge mix	135,000	144,210	9,210	7%
	Rock Cake	7,800	7,560	- 240	-3%
		142,800	151,770	8,970	6%
Westmoreland	Bulla	111,000	120,920	9,920	9%
	Spice Cake	16,000	16,630	630	4%
		127,000	137,550	10,550	8%
January 2012					
Kingston	Bulla	1,085,000	1,079,373	- 5,627	-1%

Location	Products	Total Standard	Total Yield	Total Variance	Variance (%)
	Rock Cake	174,900	169,656	- 5,244	-3%
		1,259,900	1,249,029	- 10,871	-1%
St. Mary	(Sponge mix)	251,100	299,320	48,220	19%
	(Straight mix)	112,000	120,100	8,100	7%
	Rock Cake	31,200	30,500	- 700	-2%
	(sponge mix)	4,000	3,800	- 200	-5%
	(straight mix)	13,500	12,130	- 1,370	-10%
		411,800	465,850	54,050	13%
Westmoreland	Bulla	363,000	406,830	43,830	12%
	Spice Cake	32,000	32,480	480	2%
	(Sponge mix)	54,000	58,220	4,220	8%
		449,000	497,530	48,530	11%

Source: AuGD analysis of information provided by NPL

Appendix 2 Production Equipment

Machine/Equipment	Kingston	St. Mary	Westmoreland	Purchase Date	NBV	Description
Bulla Dropper/ Dough Breaker Machine	1	1	1	Not Known	Nil	Makes and forms the shape of the bulla
Holding Tank	3	2	2	Not Known	Nil	Holds liquid before packaging
Homogenizer	1	1	1	Not Known	Nil	Mixes the milk and butter
Industrial Oven	4	2	2	Not Known	Nil	Bakes solids
Processing Vat	2	1	1	Not Known	Nil	Processes liquid
Plm-Vertical Mixer	4	2	2	Not Known	Nil	Mixes all the ingredients
Storage Tank	1	1	1	Not Known	Nil	Liquids flow to the holding tank
Sachet Pk. Machine	-	2	1	Not Known	Nil	Fills and seals the cello-film (bags)
Sachet Holding Bin	?	?	1	Not Known	Nil	Holds liquid sachet

Source: AuGD compilation of information provided by NPL

Appendix 3 Unapproved Positions

Grades	Variances	Total Salary (\$)
LMO/TS 4	6	2,929,680.00
LMO/TS 4	12	5,577,312.00
LMO/TS 2	1	406,692.00
LMO/TS 1	6	2,148,120.00
LMO/DR 2	1	510,692.00
LMO/TS 6	2	833,914.00
FMG/AC 2	1	631,484.00
GMG/AM 2	1	808,600.00
OPS/SS 2	1	613,262.00
OPS/SS 3	1	854,061.00
GMG/AM 4	1	1,209,522.00
GMG/AM 2	2	1,501,732.00
GMG/AM 1	2	1,226,404.00
	37	19,251,475.00

Source: AuGD analysis of information provided by NPL