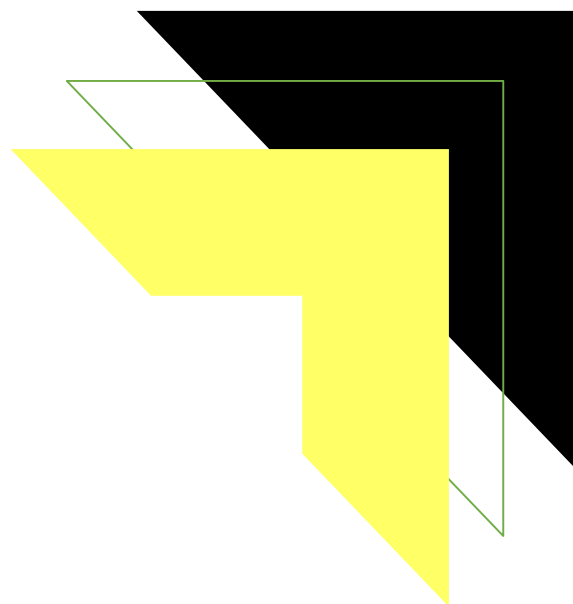




**AUDITOR GENERAL'S**  
DEPARTMENT OF JAMAICA

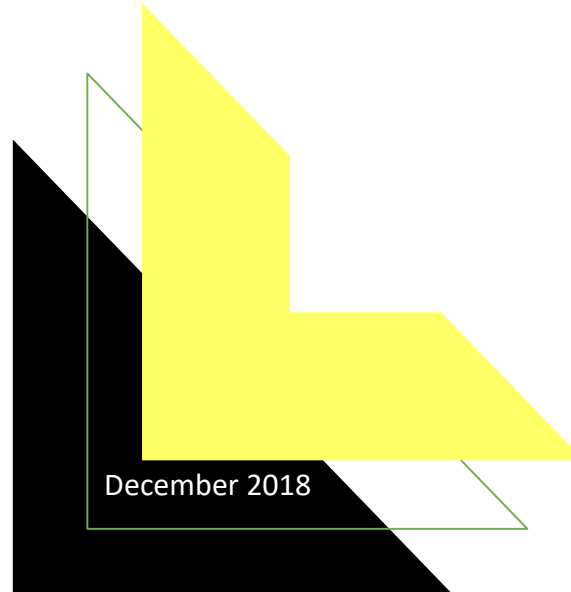


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# *A Review of Aspects of PCJ and a Comprehensive Audit of Petrojam Limited*

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## **Compendium Audit Report**



December 2018

*"A Better Country Through Effective Audit Scrutiny"*

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

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

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

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**AUDITOR GENERAL'S**  
DEPARTMENT OF JAMAICA

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# Foreword

The Petroleum Corporation of Jamaica (PCJ) is a statutory organization created by the Petroleum Act, with the exclusive right to explore and develop the petroleum resources of Jamaica. It is also the Government agency charged with the responsibility for facilitating the development of the country's energy resources in a manner that supports the overall strategy for national development in support of the National Energy Policy and Vision 2030 National Development Plan (NDP). PCJ's subsidiary Petrojam's primary function is to import and convert crude oil into various types of petroleum products for supply and use in the domestic market. Both PCJ and Petrojam's governance practices and financial operations are subjected to the Public Bodies Management & Accountability (PBMA) Act, GOJ Corporate Governance and Accountability Frameworks and applicable guidelines issued by the Ministry of Finance and the Public Service (MoFPS).

Stemming from public concerns regarding mismanagement at Petrojam, I commissioned a comprehensive audit using the performance, compliance and special audit methodologies, as well as financial statements assessment of Petrojam. I also reviewed specified areas of PCJ to assess whether its practices were consistent with the principles of good financial management and whether the practices accorded with GOJ Guidelines and good practices, to attain value for money. I also sought to assess whether PCJ provided robust oversight to Petrojam, based on its parent subsidiary relationship. This report is a compendium of the findings of the reviews of both entities.

The audit revealed a number of deficiencies, which have since been brought to the attention of the management of PCJ and Petrojam. I have proffered a number of recommendations for implementation aimed at strengthening the governance arrangements at both entities. However, I believe that these recommendations are of relevance to all public bodies and should be considered by the Office of the Cabinet and Ministry of Finance and the Public Service (MoFPS) for sector-wide implementation.

Thanks to the management and staff of Petrojam and PCJ for their co-operation and assistance during the audit.



Pamela Monroe Ellis, FCCA, FCA  
**Auditor General**

This report contains our findings from audit examination  
of the governance framework, resource, procurement  
and contracts management at the  
Petroleum Corporation of Jamaica  
and  
Petrojam Limited.



# Audit at a Glance

Comprehensive Audit Report  
on Petrojam's governance framework, resource,  
procurement and contracts management.



## Key Data

- 13 million Bbls oil refinery production capacity annually.
- Refinery production averaged only 7.4 million Bbls each year.
- Imported finished products to meet the shortfall averages 7.8 million Bbls each year.
- \$1 billion required to implement Refinery Upgrade Project (RUP) to improve production capacity and efficiency.

## Main Findings

- High levels of accountable and unaccountable oil losses
- Management's override of the procurement guidelines
- Poor management of capital investment project and consultancy arrangements
- Inconsistent recruitment and employment practices
- Weakening financial position
- Inadequate oversight and monitoring of Petrojam operations



## Conclusion & Recommendation

The Boards of PCJ, Petrojam and all public bodies should develop a framework document<sup>1</sup> in keeping with the Corporate Governance Framework, to strengthen the governance and management arrangements in their respective entities, over which they have been charged with governance responsibilities.

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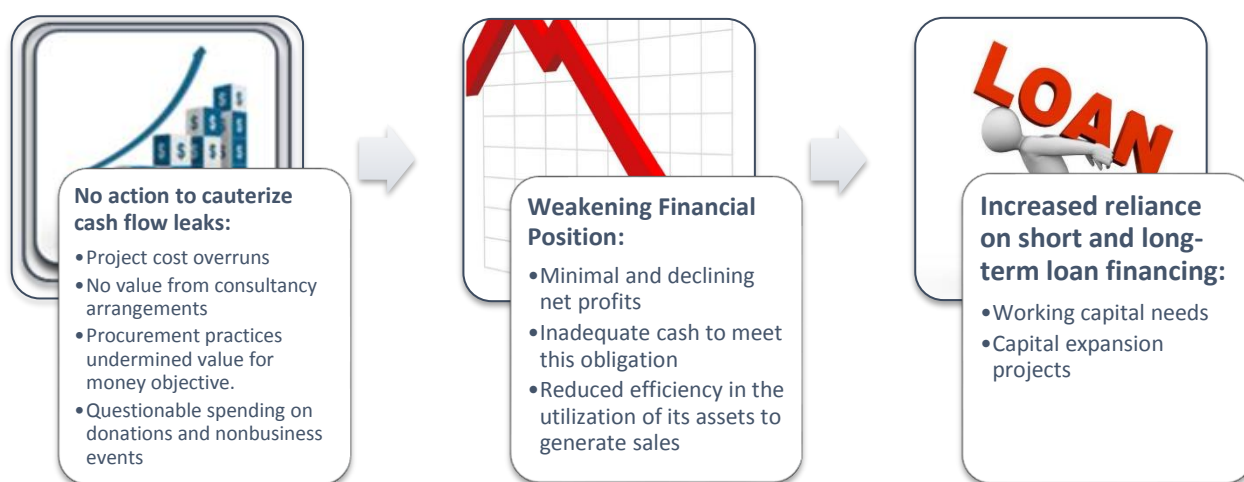
# Executive Summary

The Petroleum Corporation of Jamaica (PCJ) is the government entity mandated to manage the country's energy needs in a manner that supports the overall strategy for national development. The Corporation's mission is to undertake the development and promotion of Jamaica's energy resources in support of the National Energy Policy and Vision 2030, the National Development Plan. The PCJ is a partner in two joint venture companies, one of which is Petrojam Limited, 49 per cent of which is owned by PDVCaribe – a subsidiary of Petr leos de Venezuela (PDVSA). Petrojam's primary function is to import and convert crude oil into various types of petroleum products for supply and use in the domestic market, the productive and transportation sectors. Hence, Petrojam plays an important role in Jamaica's energy sector, which makes it necessary to ensure operational efficiency and economical management of resources for a viable and sustainable operation.

The audit was undertaken in response to public concerns about allegations of malpractice at Petrojam. A comprehensive audit was conducted using the performance audit, special investigation and financial statements analysis approach. The audit sought to assess whether the operational activities, governance and monitoring framework at both PCJ and Petrojam are consistent with the principles of good financial management and whether the procurement and contracts management practices accorded with GOJ Guidelines and good practices, to attain value for money.

The audit identified weaknesses in the governance and monitoring framework at both PCJ and Petrojam and deficiencies in Petrojam's procurement and contracts management practices and operational activities. These weaknesses and deficiencies, if left unresolved, will increase the risk of corrupt acts and further erode Petrojam's profitability, which has declined over the last three years. Our findings are summarized in this part of the report.

## What we found



1. **The Board of Directors was deficient in its oversight and monitoring of Petrojam's operations.** The inadequacy in the established oversight mechanism was demonstrated by the Board of Directors, and its sub-committees' failure to convene regular meetings, which impaired their ability to undertake strategic management and oversight responsibilities. The Accountability Framework, which complements Section 23 of the PBMA Act and Principle 15, Recommended Practice 2 of the GOJ Corporate Governance Framework, makes it a requirement for public bodies to submit minutes of board meetings and other specified reports to the portfolio Ministry. Petrojam's Board did not faithfully comply with these legally established reporting requirements to submit minutes of the Board meetings, annual, half-yearly and quarterly reports to the MSET. We found no evidence that MSET enforced the reporting requirements in ensuring that Petrojam faithfully complied with the reporting requirements and as such, the non-compliance would have curtailed its oversight responsibilities and reporting requirements to Parliament.
  
2. **GoJ's Corporate Governance framework states that the Board is the primary authority collectively responsible for making decisions.** Whereas, a Board may delegate responsibilities, such as oversight over financial, audit and other critical areas, to its chairman or subcommittees to approve decisions, the decision is subject to authorisation and/or ratification by the full Board. This approach is consistent with good governance; however, we identified inconsistencies in the application of the delegated function. For example, PCJ's Board approved the Sponsorship Policy, wherein the General Manager and Chairman were granted authority to approve sponsorship awards of up to \$100,000 and over \$100,000 respectively. From a sample of 36 sponsorship awards valuing \$39.7 million, over the period 2015-16 to 2017-18, we observed that 18 valuing \$22.9 million were approved by the Board. As a result of the delegated function, the Chairman approved 12 sponsorships valuing \$15.2 million; however, 10 of these sponsorships valuing \$11.6 million were not subjected to ratification by the Board. This approach was inconsistent with good governance, given the value of the sponsorships and the Board's accountability for the outcome of any delegated function and enabled an over extension of the authority of the Chairman.
  
3. **This was demonstrated by PCJ's management failure to evaluate potential sponsorship awardees, in breach of its Sponsorship Policy, which requires its Information and Corporate Affairs (ICA) Department to evaluate every sponsorship request against PCJ's sponsorship objectives, criteria and risk assessment<sup>1</sup>.** However, of the 36 sponsorships, 25 totalling \$30.5 million were not evaluated in keeping with the policy. Whereas we observed that the majority of the sponsorships were made to government entities, clubs and societies, for sponsorship approvals granted unilaterally and without the required due diligence PCJ risked sponsoring activities not supported by its policy. In addition, *whereas PCJ's Board consistently submitted board minutes to MSET*, we found no evidence that MSET was active in monitoring and overseeing PCJ's operations.

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<sup>1</sup> Meet one or more of the PCJ's sponsorship objectives, fulfil one or more of the PCJ's sponsorship criteria and successfully pass the risk assessment.

4. **Inadequate oversight and monitoring led to systemic breakdown in resource management practices at PCJ and Petrojam resulting in material financial losses.** In executing due diligence to inform its Refinery Upgrade Project (RUP), we found no evidence that Petrojam benefitted from \$17.4 million paid for consultancy services to conduct feasibility research and analysis as the deliverables were not achieved ([Case Study 1](#) and [Case Study 2](#)). We examined four projects amounting to \$1.5 billion and noted cost overrun totaling \$615.7 million on [New Petroleum Testing Laboratory Main Docking Facility](#) and the [F-2 Furnace Replacement](#). For the other project, [North Perimeter Fence Replacement](#), Petrojam made a bad business decision by awarding a contract which was \$67 million more than an initial estimate for which it could not determine that the additional value was received. This brought total financial exposure on the four contracts to \$682.7 million.

		A	B	C	D	E	E-A	E-B
		Initial Estimates	Contract Cost	Total Approved Variations	Total Variations Paid	Total Spent to date	Total in excess of Initial Estimates	Total paid in excess of Original Contract Sum
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
New Petroleum Testing Laboratory		402,310	409,149	132,149	131,009	536,902	134,592	127,753
North Perimeter Fence Replacement		29,771	96,761	-	-	96,761	66,990	-
Main Docking Facility		N/P	783,636	580,588	449,967	1,233,603	N/D	449,967
F-2 Furnace Replacement		138,450	245,495	37,963	37,963	283,458	145,008	37,963
<b>Total</b>		-	<b>1,535,041</b>	<b>750,699</b>	<b>618,939</b>	<b>2,150,724</b>	-	<b>615,683</b>

Note: N/P – Not provided; N/D – Not determined

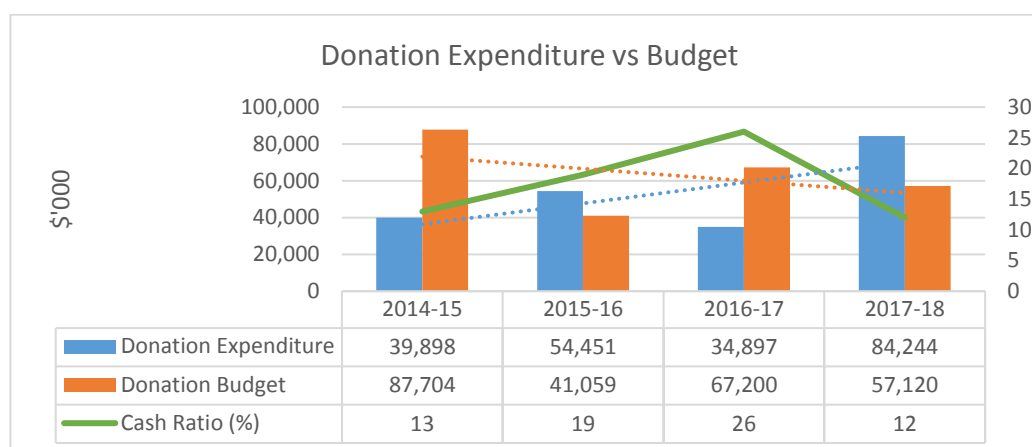
We found breaches of GoJ's Procurement Guidelines in the selection and award of contracts, poor planning and executions of projects and management's bad business decisions, which led to significant delays in the commencement and completion of projects. The details relating to these projects are outlined in [Case Studies 3\(a\)-\(d\)](#). In awarding contracts, Petrojam frequently contravened the terms of the procurement law and good practice by utilizing the Direct Contracting (DC) and Direct Contracting Emergency (DC-E) procurement methodologies without meeting the allowable circumstances, thus depriving itself of value for money.

5. **PCJ failed to undertake adequate due diligence prior to the engagement of an Architectural Firm to develop a design at a cost of \$22.6 million, for the [redevelopment of the resource centre](#).** PCJ paid the the Firm \$10.76 million for the conceptualization phase and obtained the related documents and subsequently decided to undertake the project in manageable phases as it did not have the financial capability to pursue the revised scope. PCJ, however, did not recover the mobilization advance of \$2.26 million.

6. **We also noted deficiencies in human resource recruitment and management practices at both PCJ and Petrojam, which included explicit acts of nepotism.** While Petrojam has policies that guide its recruitment and employment, its application of these policies was not always consistent. For example, we found instances where two individuals closely connected to employees of Petrojam were employed despite being rejected by the interviewing panel ([Case Study 5](#)). In addition, Petrojam's recruitment and promotion activities were not guided by an approved staff listing from the Ministry of Finance and Public Service.

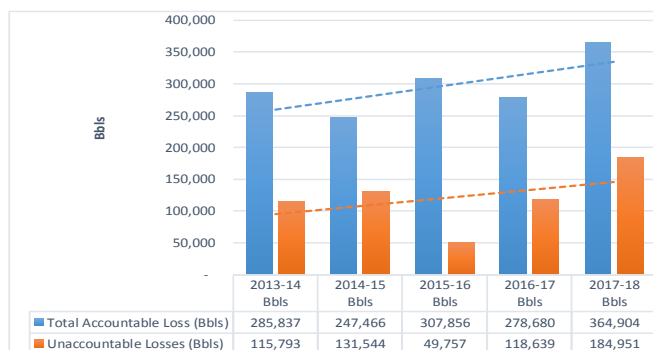
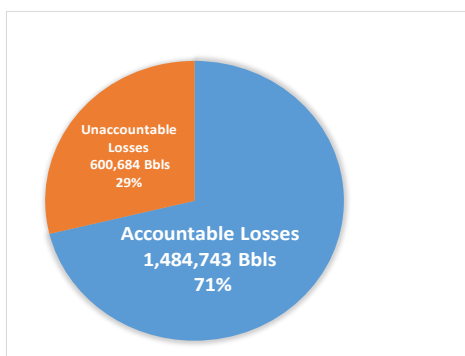
At PCJ, from a sample of 27 officers, we found that 11 of the related posts were filled without being advertised and there was no evidence that PCJ interviewed or conducted any other assessment for eight of the officers. Our investigations revealed inconsistencies in the application of the Human Resource Policy with the hiring of a Human Resource Officer/HR Specialist and the Business Intelligence Support Officer ([Case Study 7](#)). While we observed that MoFPS approved salaries and benefits for PCJ, there was no evidence that MoFPS approved the Performance Incentive and the Reimbursement of Gym fees to employees. In addition, PCJ paid travelling allowances to 29 officers without the approval of MoFPS. This resulted in unapproved payments totaling \$48.4 million over the 2015-16 to 2017-18 period.

7. **Although liquidity levels were inadequate to cover current obligations, Petrojam made questionable payments related to procurement activities, had significant project cost overruns and overspent on donations, which further impaired cash flow.** Petrojam could not provide documentary evidence to substantiate payments of \$14.9 million for counselling service for employees and consultancy services relating to its 35<sup>th</sup> Anniversary planning activities. Petrojam's management also spent \$2.6 million (US\$21,767) to host two 'birthday' parties, which were unrelated to its operations and did not conform with good corporate practices ([Case Study 6](#)). We also observed that the value of donations doubled between 2013-14 and 2017-18 with the largest year-on-year increase of 141 per cent occurring in 2017-18, when donations totalled \$84.2 million relative to \$34.9 million in 2016-17. We noted that Petrojam exceeded the donation budget in 2015-16 and 2017-18 by 33 per cent and 47 per cent respectively, without approval from the Board and in contravention of its Donation Policy, despite cash flow challenges. These expenditures underscore the need for Petrojam's management to be prudent over the costs for which it has control ([Case Study 4](#)).



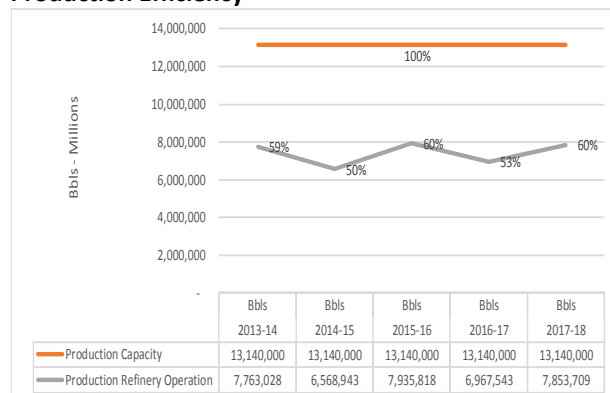
8. **Petrojam's core refinery operation remains vulnerable given the need to improve production efficiency and capacity to meet the demand for petroleum products.** Petrojam's refinery production averaged 7.4 million Bbls each year, representing 56 per cent of the total production capacity of 13.1 million Bbls; as such, Petrojam could only satisfy 49 per cent of its customers' demand for 15.2 million Bbls. Petrojam indicated that the aging refinery infrastructure, a factor which was outside of its control, not only contributed to its inability to meet its production capacity, but also to the high levels of oil losses.
9. **Over the last five years, Petrojam recorded total estimated oil losses of two million Bbls valuing approximately \$18 billion.** The total oil loss included 1.5 million Bbls utilized during refinery production and flaring<sup>2</sup>. However, Petrojam could not account for 600,684 Bbls valuing \$5.2 billion. The reported unaccountable losses increased over the period by 60 per cent to 184,951 Bbls in 2017-18 from 115,793 Bbls in 2013-14. Petrojam's average annual unaccountable oil loss of 0.75 per cent was almost two times its own Key Performance Indicator (KPI) of 0.4 per cent. However, while Petrojam identified the sources of the unaccountable oil loss, it was not successful in addressing the problem despite spending US\$990,811 to implement measures aimed at minimising oil loss, for which it had control. Petrojam's failure to act in implementing corrective works to improve working conditions at the Refinery also resulted in Petrojam having to pay monthly discomfiture allowances to staff, totaling \$57 million between April 2015 and July 2018.

<sup>2</sup> **Flaring:** Burning of unwanted or excess gasses and liquids release during normal operation (accounted for 93,226 Bbls)

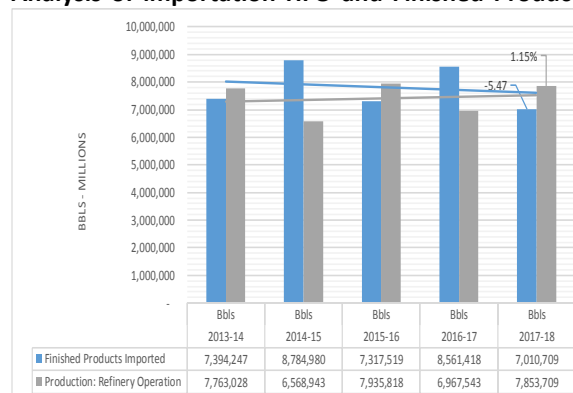


- 10. Petrojam did not have an efficient system to validate the volume of products received against the volume ordered.** Consequently, Petrojam made payments for the volumes billed on the suppliers' invoices without validating the actual volumes received. In keeping with industry practice, Petrojam used independent cargo surveyors to gauge the actual volume of product off-loaded by observing the pre and post-product volume readings of the ship. However, this method did not accurately compensate for normal temperature adjustment, which would have contributed to inventory inaccuracies. In an attempt to minimise the reported losses during custody transfers for one of its products, Liquefied Petroleum Gas (LPG), Petrojam acquired a meter and prover system in 2010, at a cost of US\$495,611, to accurately measure the volume of LPG received. However, Petrojam has not commissioned it into use and an assessment conducted in February 2018 at a cost of US\$11,100 revealed that a major component is now obsolete, rendering the system unusable.
- 11. Petrojam relied on imported finished products as refinery production fell below customers' demand.** Although Petrojam reported that the yield (throughput) from imported crude oil averaged 94 per cent, over the last five years, 2013-14 to 2017-18, refinery production averaged 7.4 million Bbls each year, representing 56 per cent of the annual total production capacity of 13.1 million Bbls. This could only satisfy 49 per cent of its customers' demand for 15.2 million Bbls. To ensure the availability of petroleum supplies, Petrojam relied on imported finished products to meet the shortfall, which averaged 7.8 million Bbls each year.

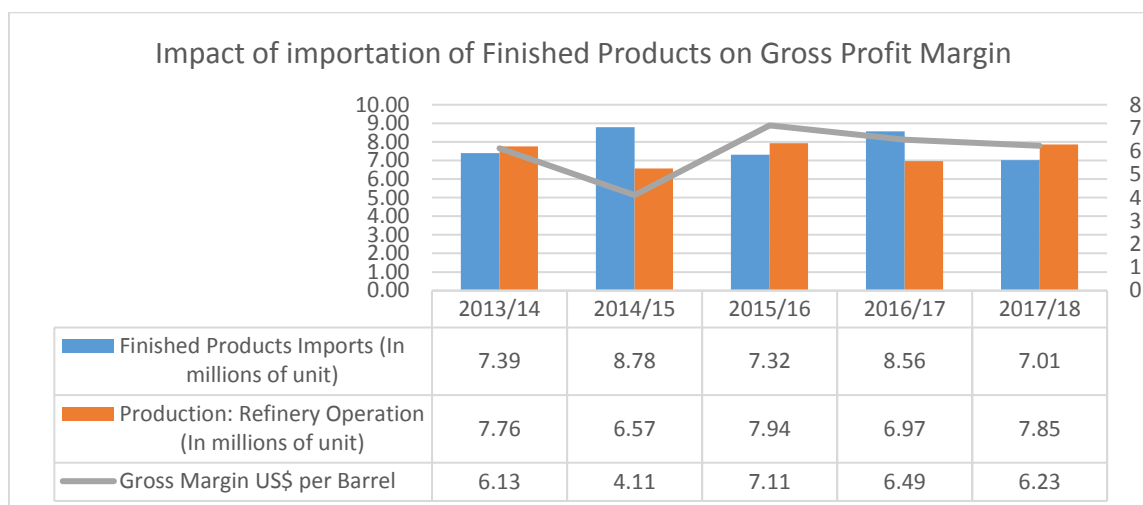
#### Production Efficiency



#### Analysis of importation HFO and Finished Products



- 13. Petrojam gained greater financial benefit from its core refinery operations even with its aged plant infrastructure.** We observed an inverse relationship between gross profit margin and imports, which was demonstrated in FY2014/15 when gross profit margin fell in response to a sharp increase in imported finished products. Conversely, there was a direct relationship between gross profit margin and refinery production, where in FY2015/16 gross profit increased significantly in response to an increase in production from crude oil. The adverse impact of the importation of finished products underscored the importance of Petrojam improving its core refinery operations for sustainability.



We noted a marginal five per cent reduction in importation of finished products in FY2017/18, relative to FY2013/14. Petrojam indicated that this decline was partly related to a reduction in customer demand for automotive diesel oil and Heavy Fuel Oil from industrial customers and power generating companies. On the other hand, Petrojam's refinery production only increased by one percent over the same period. ([Financial Statement Analysis](#)).

- 14. Following two consecutive years of losses, Petrojam recorded minimal net profits for the last three years, albeit with a declining trend.** Net profit declined to US\$18.6 million in FY2017/18 from US\$34.98 million in FY2015/16, following a net loss of US\$13.53 million in FY2014/15. Petrojam's net profit margin ratio was 0.02 for FY2017/18 indicating that Petrojam recorded 2 cents of profits for each dollar of income received. Petrojam experienced a 42 per cent decline in sales over the review period largely reflected the effects of falling world oil prices. This coupled with an observed reduction in demand from Petrojam, particularly for automotive diesel oil and heavy fuel oil from industrial customers and power generating companies, would have influenced the revenue/expense composition. The entity also continued to face growing competition in the sale of Liquid Petroleum Gas, arising from increased importation by the multinational corporations.
- 15. Against the background of declining sales, Petrojam's most liquid assets, cash and cash equivalents, covered only an average of 17 per cent of its current liabilities over the 5-year period.** Hence, in an effort to support working capital, Petrojam borrowed US\$35 million from the Petrocaribe



Development Fund in FY2014/15, augmented by a bank overdraft facility of J\$101.5 million. Further, in FY2015/16 Petrojam converted dividends previously declared to PCJ, its majority shareholder, to a loan as it did not have adequate cash to meet this obligation. In light of liquidity challenges, Petrojam sought to tighten its management of trade receivables. Accordingly, Petrojam's trade receivables turn over ratio fell to 10.17 in FY2017/18 from 10.99 in FY2013/14. Further we noted that the days receivable outstanding fell to 31 in FY2016/17 from 34 in FY2013/14, but increased to 44 days in FY2017/18 given an expansion in sales that year.

- 16. Petrojam experienced reduced efficiency in the utilization of its assets to generate sales.** Although fixed assets increased to US\$164.9 million in FY2017/18 from US\$117.2 million in FY2013/14, Petrojam's total asset turnover ratio fell based on declining sales over the five-year period. Total asset turnover ratio averaged 2.6 over the review period, given a reduction to 2.3 in FY2017/18 from 2.9 in FY2013/14. This fall in the ratio suggested reduced efficiency by Petrojam in the utilization of assets to generate sales despite an increase in fixed assets.



## What should be done

### Monitoring and Oversight Responsibilities

The governance arrangement for the public sector is provided for in the PBMA Act and the Cabinet approved Accountability and Corporate Governance Frameworks. The Accountability Frameworks does not allocate responsibility to the Permanent Secretary (PS) to take action against a public body that is not operating in compliance with Laws, Regulations and Ministry of Finance and the Public Service's (MoFPS) Circulars. Given that Boards of public bodies are appointed by, and accountable to, the portfolio Minister and not the Permanent Secretary, the PS responsibility is limited to advising the portfolio Minister of any significant issues pertaining to that Board. In that regard, the Permanent Secretary has no authority to take action against a Board.

Accordingly, the Permanent Secretary's responsibility under this arrangement is the establishment of relevant control mechanisms to effectively monitor and inform the portfolio Minister about significant matters in relation to the operations of public bodies. Failure by a Permanent Secretary to carry out his/her functions, in relation to the Accountability Framework, undermines the Minister's monitoring responsibilities.

The Accountability Framework cites Section 93 of the Constitution to reinforce the Minister's responsibility, which state viz: *where any minister has been charged with the responsibility for a subject or department of government, he shall exercise general direction and control over the work relating to that subject and over that department; and, subject as aforesaid and to such direction and control, the aforesaid work and the department shall be under the supervision of a Permanent Secretary.....* Therefore, it is the portfolio Minister's responsibility, upon being advised by the PS of adverse matters of significance to hold Boards accountable and take the appropriate action.

It is clear from the results of the audit, that the Permanent Secretary and Boards of PCJ and its subsidiary Petrojam, have not faithfully ensured compliance with the Accountability and Corporate Governance Frameworks. The result being, lack of timely interventions to mitigate the risk of improper/unauthorised actions and loss of financial resources.

1. In that regard, in keeping with the Accountability Framework, the Permanent Secretary should ensure that an appropriate arrangement is established to effectively monitor the respective public bodies. This arrangement should include a system that ensures that board minutes and other specified reports<sup>3</sup> are faithfully received by the Permanent Secretary. Permanent Secretaries should ensure that such board minutes are reviewed and the portfolio

<sup>3</sup> The Accountability Framework complements Section 23 and Part IV of the Second Schedule of the PBMA Act, which makes it a requirement for public bodies to prepare and submit other reports, as may be required, to the portfolio Ministry.

Minister is formally apprised of significant issues therein that may affect the performance of the entity; so as to allow the portfolio Minister to take appropriate actions regarding the performance of the Board.

Where the Permanent Secretary has designated a representative to the Board, the designate must make a formal written report to the Permanent Secretary after each meeting, who should then report these matters to the portfolio Minister. Further, in conformance with the Corporate Governance Framework, the Permanent Secretary should assign functional responsibility for the monitoring of public bodies<sup>4</sup>.

2. **The Boards of PCJ, Petrojam and all public bodies should develop a framework document<sup>5</sup> in keeping with the Corporate Governance Framework, to strengthen the governance and management arrangements in their respective entities, over which they have been charged with governance responsibilities.** The framework document should also capture the public bodies reporting responsibility to the portfolio Ministry and the parent company, where applicable. In keeping with the Corporate Governance Framework, the framework document should be agreed with the portfolio Ministry and the Ministry of Finance.
3. **The Ministry of Finance and the Public Service should make it a prerequisite that the Boards of all public bodies establish a Governance sub-Committee to monitor and review governance arrangements.** Among the responsibilities allocated to the governance committee should be the development and dissemination of core and ethical values to set the behaviour and expectations standards of employees. Specifically, for PCJ, the Board should review the delegated function granted to the Chairman in relation to sponsorship, to ensure compliance with the Corporate Governance Framework, which requires a clear separation of responsibilities between the Chairperson and the Chief Executive Officer.
4. **Government of Jamaica should commission an immediate review of key functional areas of PCJ and Petrojam.** The stewardship of those charged with governance should be assessed in the context of significant project cost overruns, as well as nugatory expenditure, which could be deemed a consequence of mismanagement. The Government must act intentionally to hold those responsible for failure in their fiduciary responsibility. Case in point, in relation to the contract for the Perimeter Fence, no public officer should financially expose any public body without the requisite consequences. All employees in the public sector should be sensitized on the rules-based nature of the public service, which is intended to safeguard public resources, whilst achieving transparency and enforcing accountability. Gaps in the PCJ's oversight responsibility and the absence of accountability mechanisms to ensure achievement of the delegated function, in respect of its subsidiaries were identified in my performance audit report

<sup>4</sup> Recommended Practice No. 3 – Corporate Governance Framework

<sup>5</sup> Principle 2 – Recommended Practice 2 – Corporate Governance Framework

tabled in Parliament in December 2017<sup>6</sup>. I expected that PCJ would have taken steps to address the deficiencies in the accountability framework; and this report showed that similar weaknesses exist over its monitoring arrangements for Petrojam.

5. **Petrojam needs to conduct a robust risk assessment in planning, execution and monitoring of high risk projects.** The reasons provided by Petrojam for the time and cost overruns suggest that management takes a reactive approach, versus a proactive management posture, which should envision the likely risk exposures that could disrupt the achievement of planned programmes and projects. It is not evident that Petrojam undertook the necessary risk assessment and implemented countermeasures. Effective risk assessment would have mitigated the need to execute so many contracts on the basis of *urgency, emergency and unforeseen developments*.
6. In order to promote good governance practices and the receipt of value for money, Petrojam's Board of Directors should initiate a review of its procurement practices, with a view to ensure that:
  - i. The appropriate method of procurement is utilised that meets the criteria stipulated in the Procurement Guidelines,
  - ii. Procurement opportunities are open to all eligible suppliers by the submission of the requisite competitive quotes or advertisement in keeping with the Procurement Guidelines,
  - iii. Its Project management system is strengthened to ensure that proper due diligence is conducted, prior to the execution of projects, along with stringent project design to minimise unplanned variations and resulting cost overruns, and ongoing monitoring to ensure that agreed upon deliverables are received;
  - iv. Requisite approval and reporting of the contract variations is done and future adherence is observed at all times.

<sup>6</sup> GOVERNMENT OF JAMAICA'S PROGRESS TOWARDS VISION 2030 NDP OUTCOME NO. 10: DIVERSIFICATION OF ENERGY SUPPLY & SUSTAINABLE DEVELOPMENT GOAL (SDG) NO. 7: AFFORDABLE AND CLEAN ENERGY

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# Part One

## Introduction

**1.1.** The Petroleum Corporation of Jamaica (PCJ) is the government entity mandated to manage the country's energy needs in a manner that supports the overall strategy for national development. The Corporation's mission is to undertake the development and promotion of Jamaica's energy resources in support of the National Energy Policy and Vision 2030, the National Development Plan. Petrojam, Jamaica's only petroleum refinery, is a limited liability company jointly owned by PDVCaribe – a subsidiary of Petr leos de Venezuela (PDVSA) and PCJ. PCJ is the statutory body created and is wholly owned by the Government of Jamaica (GoJ).

### **The role of Petrojam Limited in the Energy Sector**

**1.2.** Petrojam's primary function is to import and convert crude oil into various types of petroleum products for supply and use in the domestic market, the productive and transportation sectors. Hence, Petrojam plays an important role in Jamaica's energy sector, which makes it necessary to ensure operational efficiency and economical management of resources for a viable and sustainable operation. Petrojam supplies a range of petroleum products for use in the domestic market, the productive and transportation sectors, which include ships and aircrafts<sup>7</sup>. The supply of energy impacts every aspect of Jamaica's economy, which underscores the importance of having an uninterrupted supply of petroleum products to maintain stability and continuity in the production and supply of goods and services. Petrojam's importance in the petroleum sector is aligned to the achievement of the National Development Plan, Vision 2030, National Outcome #10: Energy Security and Efficiency<sup>8</sup>.

**1.3.** Petrojam, and by extension the GOJ, has long recognised that the upgrade of its aged-old oil refinery is vital to its viability and sustainability in supplying petroleum products to meet increasing demand and emerging need for the use of safer and more cost-effective petroleum products. In a bid to secure the necessary funding to support the upgrading of the oil refinery, in August 2006, GOJ, through the Petroleum Corporation of Jamaica (PCJ) entered into a share sale and purchase agreement with Petr leos de Venezuela (PDVSA), in which PDVSA purchased 49 per cent of the shares in Petrojam. The GOJ owns 51 per cent of the shareholding. A six-member Board of Directors, three appointed by GOJ and three by PDVSA, manages Petrojam's operations.

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<sup>7</sup> Petrojam's main business is refining crude oil into finished products such as, heavy fuel oil (HFO) diesel, gasoline and kerosene among others.

<sup>8</sup> This outcome is also aligned with the United Nations Sustainable Development Goal #7: Affordable and Clean Energy.

**1.4.** As part of the agreement, PCJ and PDVSA agreed to advance in cash, pro rata according to their respective shareholding, loans in the principal amount to finance the upgrading of the oil refinery as required by the Approved Refinery Upgrade Financing Plan<sup>9</sup>. Petrojam estimated that it will cost US\$1 billion to upgrade and expand the plant into a full-conversion, 50,000 barrels (Bbls) a day refinery from its current capacity of 36,000 Bbls. Petrojam proposed to complete the upgrading works by July 2022, but financing for the project continues to pose a serious challenge. The financing arrangement between PCJ and PDVSA has not materialised and Petrojam was unable to secure other loan financing for the project owing to issues surrounding its financial viability.

#### Why are good governance and business practices necessary for Petrojam?

Recognising that Petrojam plays an important role in Jamaica's energy sector, operational efficiency and economical management of resources is essential to stability in the supply of petroleum products. Therefore, it is necessary for Petrojam's Board of Directors and Management to embrace good governance and business practices such as establishing effective internal control mechanisms, risk management, and adherence to established laws, regulations and ethical standards. The absence of good governance and business practices would make Petrojam vulnerable to financial, operational and other related risks, which could further threaten its viability and sustainability. Petrojam's Board of Directors and Management should therefore embrace good practices in ensuring that resources are managed in the interest of all stakeholders.

#### Rationale for the Audit

**1.5.** In light of public concerns about Petrojam's management practices, the Auditor General initiated a comprehensive audit to assess key areas of Petrojam's operations, in the context where the resources managed by Petrojam are material in value and importance to the Jamaican economy. In scoping the study, we also considered how the audit could contribute to the achievement of the AuGD wider strategic aim to focus on selected audit themes, such as Governance, Resource Management and Procurement. This will aid the AuGD in achieving its vision, *"a better country through effective audit scrutiny"*; and providing assurance to Parliament and the public on the efficiency, effectiveness and economy of the operations of Government Ministries, Departments and Agencies (MDAs) and public companies ([Appendix 1](#)).

<sup>9</sup> **"Refinery Upgrade Project"** means a project that will be carried out to expand the Kingston Refinery Processing capacity from 36 kilo barrels per day to 50 kilo barrels per day. In a first phase, the Refinery Upgrade Project will include a revamp to the Atmospheric Distillation Unit, and the installation of the new units including a Vacuum Distillation Unit, Naphtha Reformer a Diesel Hydrotreating Unit, a Visbreaker Unit and associated ancillary units. At a later date, a phase II will be evaluated aiming at incorporating a deep Conversion Unit in the Refinery. **Source:** Section 1.1 Joint Venture Agreement between PCJ and PDVSA.

.... each of the Shareholders undertakes that it will provide further funding...to assist in the funding of the Refinery Upgrade Project in accordance with the Approved Refinery Upgrade Financing Plan and in that regard if and to the extent required by the Approved Refinery Upgrade Financing Plan: (b) each of PCJ and PDV CARIBE shall advance in cash to JVC (pro rata according to their shareholding in JVC) loans in the principal amount required by the Approved Refinery Upgrade Financing Plan...

**Source:** Section 7.4 Joint Venture Agreement between PCJ and PDVSA.

## The audit scope and objectives

### 1.6. The audit focussed on two areas:



#### Operational Management

- To determine if operational activities accord with GOJ Guidelines and good practices, to attain value for money.



#### Monitoring and Oversight

- To assess the effective governance framework, including internal controls.

1.7. The audit sought to assess whether the operational activities, governance and monitoring framework at both PCJ and Petrojam are consistent with the principles of good financial management and whether the procurement and contracts management practices accorded with GOJ Guidelines and good practices, to attain value for money.

## The audit methodology

1.8. The comprehensive audit was undertaken using the methodologies relating to the performance audit, compliance audit and financial statement assessment. We planned and conducted our audit in accordance with the Government Auditing Standards, which are applicable to Performance Audit, as well as standards issued by the International Organization of Supreme Audit Institutions (INTOSAI). In this regard, we gained knowledge of the operations of Petrojam and its parent company, PCJ, through a review of internal and external information, interviews with management, staff and other stakeholders, observations, walkthroughs and analytical reviews. We conducted risk assessment and developed issue analyses with the questions, which the audit sought to answer in order to form our opinions and conclusions. We conducted fieldwork, between June 2018 and September 2018, to gather sufficient and appropriate audit evidence on which we based our conclusions.

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





## Part Two

### Monitoring and Oversight

**2.1.** Oversight and governance functions are roles that involve overseeing and managing the operations and performance of an entity to facilitate effective management of resources. To enhance the level of governance and oversight of Public Bodies, Cabinet approved the GOJ Corporate Governance Framework for Public Bodies, the Public Bodies Management and Accountability (PBMA) Act and the Accountability Framework for Senior Officers, which established the arrangements for effective oversight and governance of Public Bodies by their Board of Directors and Parent Ministries.

#### Petrojam's Board of Directors was not effective in carrying out its oversight responsibility

 At A Glance			
Systems and practices	Criteria	Key Findings	Assessment Against Criteria
Board of Directors' and Sub-Committee Meetings	Board Meetings held at least once every other month.	Board and sub-committee meetings were infrequently held.	
Board Oversight and Strategic Direction	Board carries out its oversight role.	Little deliberation on the strategic direction of Petrojam. Board of Directors role is limited to making administrative decisions and approvals.	
Reporting responsibilities	We expected the Board to periodically report to PCJ and Parent Ministry (MSET).	No formal reporting framework to PCJ. Petrojam did not always submit the required minutes and reports to MSET.	
Monitoring and Strategic Direction	PCJ is required to monitor Petrojam's operation and provide strategic direction.	PCJ was not active in performing its oversight responsibilities in monitoring Petrojam's operation and providing strategic guidance.	
Oversight from Parent Ministry	Parent Ministry carried out its oversight role over Petrojam's operations.	MSET was not active in performing its oversight responsibilities in monitoring Petrojam's operations.	
 MET the criteria  Met the Criteria, but improvements needed  Did not meet the criteria			

#### Breakdown in Board's Oversight Role

**2.2.** Principle 1 of the Revised Corporate Governance Framework requires that "every Public Body should be headed by an effective Board which is collectively responsible for strategic management and oversight, serves as the focal point for Corporate Governance and is accountable to the Responsible Minister and shareholder representatives as determined by law". However, we found that Petrojam's Board of Directors, and its sub-committees, failed to convene regular meetings, which impaired its ability to execute its strategic management and oversight responsibilities. Petrojam's shareholding joint venture

**2.3.** Petrojam's agreement specified that the Board should meet at least once every other month<sup>10</sup>. Therefore, we expected the Board to hold at least six meetings each year, 30 in the last five years that fall within our review, 2013-14 to 2017-18. However, the Board of Directors held only 11 meetings in that period, which represents a serious deficiency in the established oversight mechanism and may have contributed to the operational and financial issues facing Petrojam.

**2.4.** We reviewed the minutes of the 11 meetings and observed that the Board paid little attention to long-term strategic priorities in relation to Petrojam operations. Instead, dialogue among Board members was limited to circulating emails to make administrative decisions and approvals. In addition, we found no evidence that critical sub-committees such as the Finance and Audit Committee consistently met to recommend strategies to improve the operational and financial performance of Petrojam. In that regard, the role of the sub-committees to pay detailed attention to specific issues and report to the Board was absent. For example, as shown in **Table 1**, the Finance, Audit and Human Resource Management committees met only seven, nine and two times, respectively within the five years. Consequently, these committees could not adequately report on the effectiveness of Petrojam's financial management, internal controls and human resource practices despite its fiduciary duty to do so.

**Table 1** Analysis of meetings held between 2013-14 and 2017-18

Years	Board of Directors	Finance Committee	Audit Committee	HR Committee
2013-14	2	2	1	1
2014-15	2	1	2	-
2015-16	2	-	-	-
2016-17	3	1	-	-
2017-18	2	3	6	1
<b>Total</b>	<b>11</b>	<b>7</b>	<b>9</b>	<b>2</b>

Note: Over the period June 2014 to December 2017, PCJ made attempts to organise six meetings of the Finance Committee, however the meetings were cancelled due to the absence of a quorum. The Audit Committee cancelled three meetings over the period March 2016 to May 2018 due to the absence of a quorum. During the period December 2014 to September 2018, six proposed meeting of the Board of Directors were cancelled owing to the unavailability of PDVSA Board Members.

**Source:** AuGD Analysis of Petrojam data

<sup>10</sup> Joint Venture Agreement between PCJ and PDV CARIBE S.A. and Petrojam Section 8.5

## Breakdown in Board's Reporting Responsibility

**2.5.** Cabinet Decision No. 17, dated January 2010, approved the GOJ Accountability Framework for Senior Officers, which requires that Permanent Secretaries, as accounting officers, receive copies of Board Minutes and corporate plans for all public bodies, under their portfolio<sup>11</sup>. The Accountability Framework complements Section 23 of the PBMA Act and Principle 15, Recommended Practice 2 of the GOJ Corporate Governance Framework, which make it a requirement for public bodies to prepare and submit other specified reports, as may be required, to the portfolio Ministry<sup>12</sup>. However, we found that Petrojam's Board did not faithfully comply with these reporting requirements, established in law. We requested Petrojam to provide evidence of the submission of the minutes, annual reports, corporate plans, half-yearly and quarterly reports to MSET. We also requested MSET to provide evidence of receipt of the minutes and reports. However, as shown in **Table 2**, we found Petrojam was tardy in submitting the required minutes and reports to MSET. In that, the minutes and reports were either not submitted or submitted late [Appendix 2](#).

**Table 2** Submission of Minutes and Reports to MSET by Petrojam, 2013-14 to 2017-18

Reporting Requirements	Expected each year	2013-14	2014-15	2015-16	2016-17	2017-18
Board Minutes	6	-	-	-	-	-
Annual Reports	1	1	1	-	-	-
Corporate Plans	1	-	-	-	1	-
Half-Yearly Reports	2	-	-	-	1	-
Quarterly Reports	4	3	3	4	3	2

Source: AuGD Analysis of Petrojam's data

## Inadequate monitoring and oversight of Petrojam's operation by PCJ and MSET

**2.6.** In the context where Petrojam is a subsidiary company of the Petroleum Corporation of Jamaica (PCJ), we expected PCJ to play an active role in monitoring the operations and performance of Petrojam, given that Petrojam's function is directly linked to the strategic priorities of PCJ. However, we found no evidence that PCJ was actively monitoring Petrojam's operation and providing strategic guidance. The Ministry of Science, Energy and Technology (MSET) did not establish the required enabling reporting

<sup>11</sup> **GOJ Accountability Framework for Senior Officers (January 2010) Decision 17** - GOJ Accountability Framework for Senior Officers (January 2010) "The following are decisions of Cabinet that have been made to close some of the gaps identified and thereby strengthening the accountability framework. In this regard, Ministers, Senior Executive Officers and relevant entities of the Public Sector are mandated/ obligated to achieve the following commitments... The Permanent Secretary, as Accounting Officer, shall receive Board minutes, and corporate plans for Public Bodies shall be submitted for approval to the Portfolio minister through the responsible Permanent Secretary. This is to complement the powers conferred to the responsible Minister under the PBMA Act, to allow for more effective policy oversight."

<sup>12</sup> **Section 23 of the PBMA Act:** Every public body shall prepare in the prescribed form and submit to the responsible Minister and the Minister, the half-yearly, quarterly and other reports in accordance with Parts II, III and IV of the Second Schedule. **Principle 15, Recommended Practice 2 GOJ Revised Corporate Governance Framework 2012:** Quarterly reports should be submitted to the portfolio Ministry of a Public Body. The reports should detail the financial status and other specified areas such as scale of investment and spending, budget variance report, debt ratio, as well as performance information such as customer satisfaction and internal operations.

framework as part of its oversight role, which is a Decision of the Accountability Framework for Senior Officers<sup>13</sup>. We noted that Petrojam submitted some reports directly to MSET. Whereas PCJ is represented on Petrojam's Board, we found no evidence that the representatives provided formal reports to PCJ's Board, as a means of monitoring Petrojam's performance. We also reviewed PCJ's Board Minutes for the last three years, 2015-16 to 2017-18, and found no evidence where PCJ deliberated on important issues pertaining to Petrojam's strategic and operational performance.

**2.7.** On the other hand, the Ministry of Science, Energy and Technology (MSET) has oversight responsibility for both PCJ and Petrojam. It is the responsibility of the Permanent Secretary in the Ministry (MSET), as required by the GOJ Corporate Governance Framework, to monitor the performance of both PCJ and Petrojam against expected results, manage risks and advise/inform the Minister accordingly on Public Bodies, which operate within the portfolio responsibility of the Ministry<sup>14</sup>. However, we found that MSET was not active in monitoring and overseeing Petrojam's operations. The lack of oversight was underscored by the fact that the only instance where Board Minutes were made available to MSET was based on a request from its internal auditors in November 2015 for minutes of meetings held for audit purposes (**Appendix 2**). In the context of Petrojam's failure to consistently submit the required Board Minutes and reports within the prescribed timeframes, MSET's oversight functions would have been significantly curtailed.

**2.8.** The Accountability Framework for Senior Officers, requires that Permanent Secretaries, as accounting officers, receive copies of Board Minutes from all public bodies under their portfolio, in order to inform the Portfolio Minister on significant matters. However, we found no evidence that MSET took steps to ensure that it obtained these Minutes and reports. Consequently, we were not certain how the Permanent Secretary kept informed of matters of significant interest, in order to be effective in overseeing the operations of Petrojam and fulfil the requirement under the Revised Corporate Governance Framework to provide periodic reports to the portfolio Minister<sup>15</sup>. In addition, Parliament's oversight responsibilities to assess the performance of Petrojam was also curtailed because of Petrojam's failure to submit to the Minister, for tabling in the House of Representatives, annual reports for the last three years, 2015-16 to 2017-18, as required under Part II Section 3(2) of the PBMA Act<sup>16</sup>.

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<sup>13</sup> GOJ Accountability Framework for Senior Officers (January 2010) Decision 16: An appropriate and enabling framework shall be established within portfolio Ministries to monitor Public Bodies, as a technical aid to Ministerial responsibility. The mechanics are to be further defined under the existing Governance Framework for Public Bodies that is being developed.

<sup>14</sup> **GOJ Revised Corporate Governance Framework (October 2012) – Principle 15:** The Permanent Secretaries as chief advisors to the Ministers are required to monitor performance against expected results, manage risks and advise/inform the Minister accordingly on Public Bodies which operate within the portfolio responsibility of the Ministry. They also ensure coordination among Public Bodies within the Ministry's portfolio which enhances policy coherence. They should know what is happening in the Public Bodies in order to assess whether the strategic objectives of the Ministry are being met through the Public Bodies.

<sup>15</sup> Corporate Governance Framework Principle 15, Recommended Practice 6

<sup>16</sup> **PBMA Act Part II Section 3(2)** "As soon as possible after the end of each financial year, but not more than four months thereafter, the board of a public body, shall submit the annual report including audited financial statements of the public body to the responsible Minister, who shall cause the report and statements to be laid on the Table of the House of Representatives and of the Senate.

The Cabinet Secretary advised all Permanent Secretaries by way of letter dated February 2010 of the existence of the approved framework and instructed that they “ensure that the recommendations which concern your organisation are duly noted for implementation by your Ministry and the Executive Agencies and Public Bodies falling within the purview of your Ministry’s portfolio.”

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## Part Three

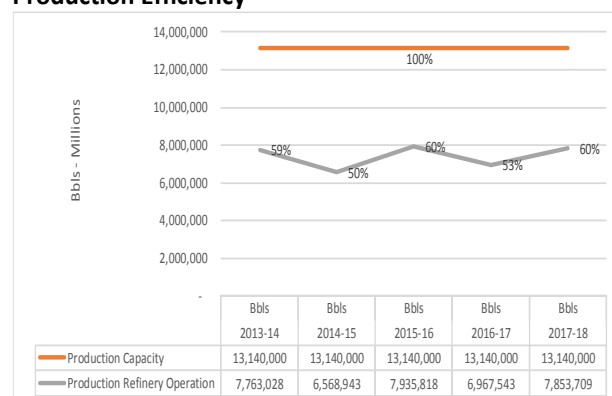
### Operational Management

#### Petrojam relies on imported finished products as refinery production falls below customers' demand

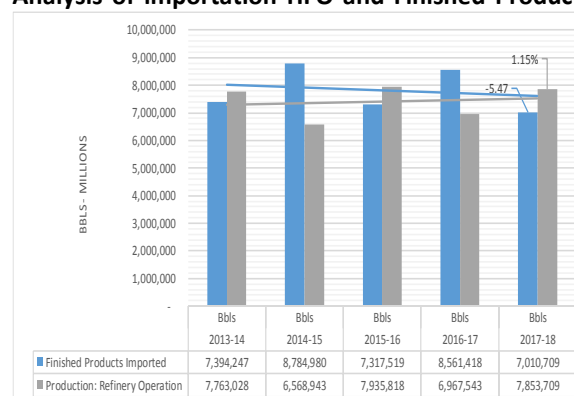
**3.1.** Petrojam's core business involves importing crude oil and converting it to finished products such as, heavy fuel oil (HFO), diesel, gasoline and kerosene, among others. However, aging refinery infrastructure, production downtime and limited storage capacity are among the factors contributing to Petrojam's inability to maximise its refinery operations, to meet customer demand. Although Petrojam reported that the yield (throughput) from imported crude oil averaged 94 per cent, refinery production (output) over the last five years, 2013-14 to 2017-18 averaged 7.4 million Bbls each year, representing 56 per cent of the annual total production capacity of 13.1 million Bbls<sup>17</sup>. This could only satisfy 49 per cent of its customers' demand for 15.2 million Bbls. To ensure the availability of petroleum supplies, Petrojam relied on imported finished products to meet the shortfall, which averaged 7.8 million Bbls each year (**Figure 1**).

**Figure 1** Analyses of production efficiency, finished products importation and refinery production

#### Production Efficiency



#### Analysis of importation HFO and Finished Products



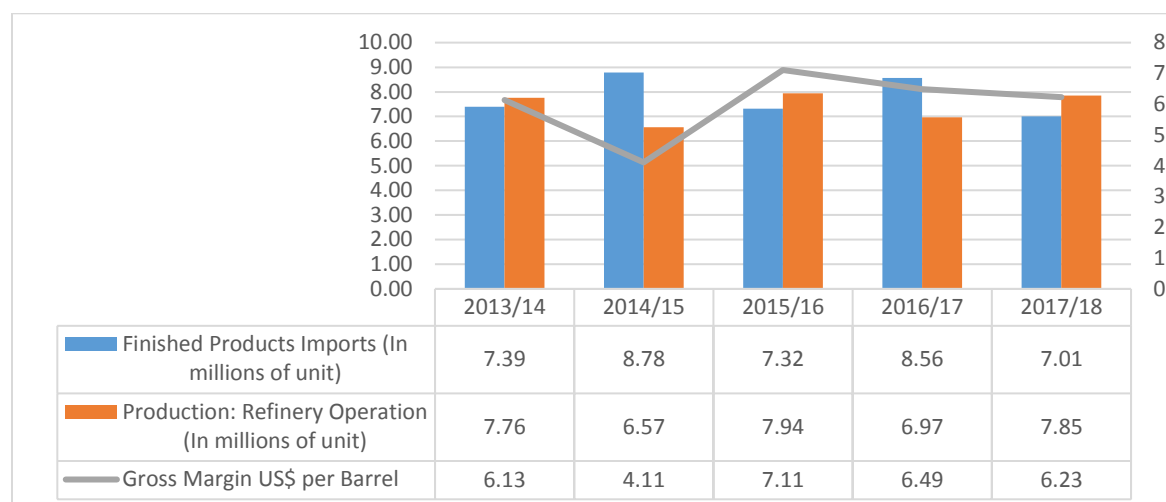
**Source:** AuGD's analysis of data provided by Petrojam

**3.2.** However, we noted a correlation in the movements of gross profit margin and the importation of finished products as well as with refinery production. We observed an inverse relationship between gross profit margin and imports, which was demonstrated in FY2014/15 when gross profit margin fell in response to a sharp increase in imported finished products. Conversely, there was a direct relationship between gross profit margin and refinery production, where in FY2015/16 gross profit increased significantly in response to an increase in production from crude oil (**Figure 2**). This indicated that

<sup>17</sup> Calculated at 36,000 Bbls per day \*365 days per year

Petrojam would have gained greater financial benefits from its core refinery operations even with its current plant infrastructure.

**Figure 2** Impact of importation of Finished Products on Gross Profit Margin



**Source:** AuGD's analysis of data provided by Petrojam

**3.3.** We noted a marginal five per cent reduction in importation of finished products in FY2017/18, relative to FY2013/14. Petrojam indicated that this decline was partly related to a reduction in customer demand for automotive diesel oil and Heavy Fuel Oil from industrial customers and power generating companies. On the other hand, Petrojam's refinery production only increased by one percent over the same period. Despite declining sales, Petrojam generated marginal net profits in the last three years, albeit declining, partly resulting from efforts to reduce operating expenses and improve the management of receivables ([Financial Statement Analysis](#)).

### Ex-refinery prices

**3.4.** Petrojam's pricing committee reviews the change in the US Gulf Coast (USGC) reference price and the other pricing elements in order to determine the ex-refinery price. In deriving the final published weekly ex-refinery price, the committee applies a market adjustment in its pricing formula. We note that the market adjustment is a discretionary value that Petrojam's pricing committee determines. However, owing to absence of minutes for meetings we could not determine whether the market adjustment was always determined in a transparent manner.

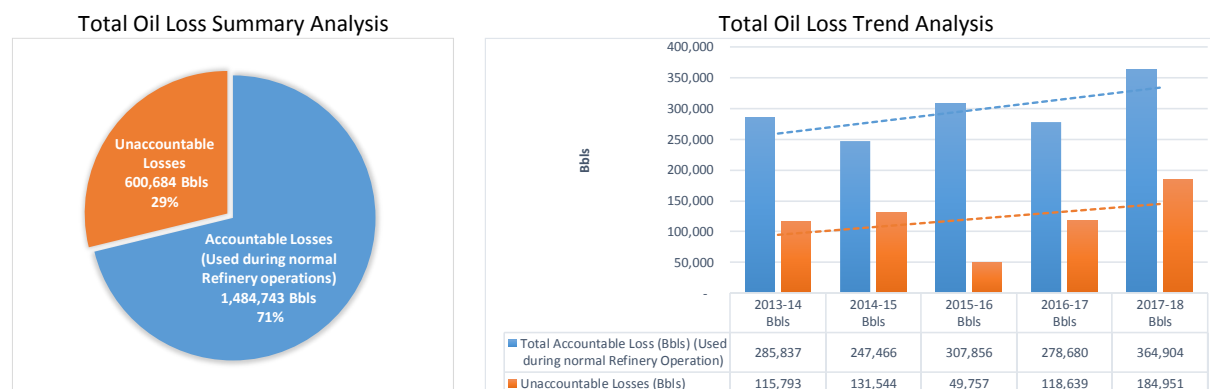
### Reported unaccountable oil loss estimated at 600,684 Bbls valuing \$5.2 billion in five years

**3.5.** While Petrojam struggles to implement its refinery upgrade project to create greater efficiency, high levels of oil losses became a major risk to its operations. Over the last five years, Petrojam reported that it used 1.5 million Bbls of oil, valuing approximately \$12.8 billion, during normal refinery production, but could not account for 600,684 Bbls valuing \$5.2 billion (**Figure 3**). The reported unaccountable losses



increased over the period by 60 per cent to 184,951 Bbls in 2017-18 from 115,793 Bbls in 2013-14. Petrojam's average annual unaccountable oil loss of 0.75 per cent was almost two times its own Key Performance Indicator (KPI) of 0.4 per cent<sup>18</sup>.

**Figure 3** Analyses of total oil losses, 2013-14 to 2017-18



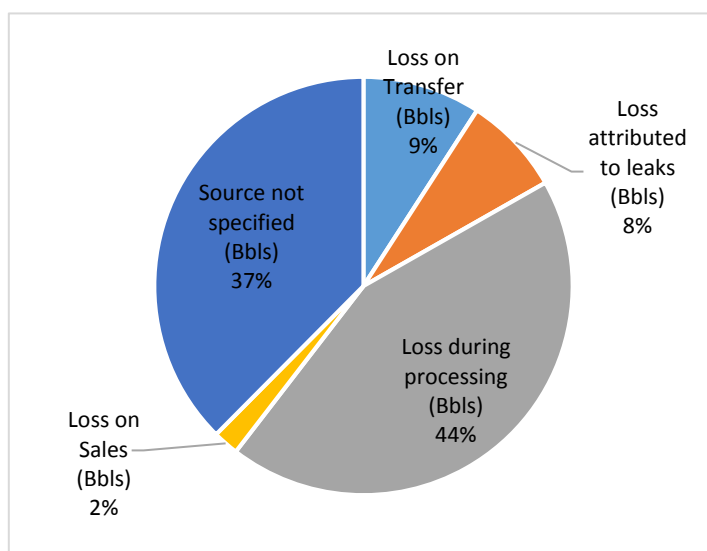
**Source:** AuGD's analysis of Petrojam refinery oil loss data

**3.6.** Whereas Petrojam put in place security measures to reduce the levels of unaccountable oil losses, more decisive actions needed to be taken to address the problem<sup>19</sup>. Petrojam indicated that inventory inaccuracies, under estimated flaring and fuel consumption, vapour losses from slopping, un-reported/un-captured shutdown, leaks and losses between product transfers were some of the factors contributing to oil losses. Petrojam further identified oil loss sources to include product transfers from ships at the docks and Kingston Storage tanks, transfers between the Kingston Refinery and Kingston Loading Rack, and loss on sales from the Montego-Bay, New Port West, Asphalt Loading Rack (tank-meter).

<sup>18</sup> Unaccounted oil loss as a percentage finished products imported and produced in refinery operations

<sup>19</sup> Security measures implemented by Petrojam include rotation of Security Guards, pipelines surveillance, product reconciliations, security screening

**3.7.** Petrojam did not provide evidence that it analysed these factors and sources of the unaccountable oil loss with a view to better assess and address the problem. Our analysis of the data revealed that of the total unaccountable loss, Petrojam was unaware of the source for 226,470 Bbls (37 per cent). The data also showed that losses, which occurred during processing accounted for 261,701 Bbls (44 per cent), while 45,794 Bbls (8 per cent) were attributable to leaks. The remaining losses of 66,719 Bbls (11 per cent) occurred during product sales and transfers.



**3.8.** In August 2017, Petrojam appointed an internal oil loss task force mandated to spearhead the implementation of the oil loss reduction measures. As shown in **Table 3**, the task force was to complete eight deliverables between October 2017 and February 2018; however, it achieved only one. Consequently, despite spending a total of US\$990,811 on four of the loss reduction measures, Petrojam was not able to curtail the problem of oil loss.

**Table 3** Analysis of Oil Loss Task Force Deliverables

No.	Oil loss reduction measures	Cost as at August 2018 US\$	Benefits	Timeline for Completion/ Installation	Status
1	Tank Master	430,000	Monitor custody transfer	Dec. 2017	Not achieved
2	Crude Charge – Mass Flow Meter	-	Accurately measure the unit's crude oil consumption, which is a pivotal number for oil loss calculations	Dec. 2017	Not achieved
3	Water draw off interface detector	-	Reduce the possibility of spills or losses through drainage process.	Dec. 2017	Not achieved
4	Dock Lines Metering	-	Record all transfers between dock and land	Dec. 2017	Not achieved
5	Flare Meters	28,000	Accurately measure flare's steam and pilot gas consumptions	Dec. 2017	Not achieved
6	Audit and Calibration of slop and Rundown Meter	26,100	To ensure meters are performing optimally	Sep. 2017	Achieved
7	LPG Meter Prover	506,711	Accurately measure LPG received during custody transfer from marine vessels	Feb. 2018	Not achieved
8	PSV Audit and Flare Sizing	-	To determine the need to resize current flaring system	Oct. 2017	Not achieved
	<b>Total Cost</b>	<b>990,811</b>			

**Source:** AuGD's analysis of Petrojam's Task Force Report by Petrojam

**3.9.** Petrojam also faces the risk of not being able to diversify product offerings in a context of the switch by its main customer from HFO to Liquid Natural Gas (LNG). This underscores the need for capital investment to increase Petrojam's production and storage capacities as well as refinery efficiency, which form part of the long-delayed plan to upgrade the oil refinery.

#### **Petrojam could not validate the volume of products received vis-à-vis volumes ordered**

**3.10.** Petrojam does not have an efficient system to reconcile the volume of products received against the volume ordered, upon the transfer of products from ships to its storage tanks. Consequently, Petrojam made payments for the volumes billed on the suppliers' invoices without validating the actual volumes received. In keeping with industry practice, Petrojam used independent cargo surveyors to gauge the actual volume of product off-loaded by observing the pre and post-product volume readings of the ship. However, this method of reading does not accurately compensate for temperature adjustment, which normally results in a disparity between the observed volume off-loaded and the volume actually received. These factors would have accounted for its inventory inaccuracies.

**3.11.** In an attempt to minimise the reported losses during custody transfers for one of its products, Liquefied Petroleum Gas (LPG), Petrojam acquired a meter and prover system in 2010, at a cost of US\$495,611, to validate the volume of LPG received<sup>20</sup>. However, since purchasing the system eight years ago, Petrojam has not commissioned it into use. Petrojam did not provide a reason for its non-use, but

<sup>20</sup> LPG meter and prover system enables the precise volume measurement of LPG can be easily established by pumping a volume of fluid at a constant pressure and filling up the prover <http://www.efreyre.com/en/products/volumetric-provers-for-lpg>

reported that an assessment conducted in February 2018 at a cost of US\$11,100 revealed that a major component is now obsolete, rendering the system unusable.

### Petrojam's poor handling of four capital investment projects contributed to high cost overruns

**3.12.** We reviewed four major capital investment projects undertaken by Petrojam. These projects comprised the construction of a [New Petroleum Testing Laboratory](#), [North Perimeter Fence replacement](#), rehabilitation of its [Main Docking Facility](#) and the [F-2 Furnace replacement](#). Petrojam's poor planning and imprudent management decisions, contributed to significant delays in the commencement and execution of these projects with costs significantly exceeding the initial contract sums. The contracts sums for the four projects amounted to \$1.5 billion with cost over-runs on three of the projects totaling \$615.7 million (**Table 4**). For the other project, Petrojam made a bad decision costing \$67 million in excess of the original estimate, which brings the total loss in value on the four contracts to \$682.7 million. We also observed instances in which the management of Petrojam disregarded the procurement laws in the selection and award of contracts, depriving itself from obtaining goods and services at the best price. The details relating to these projects are outlined in [Case Study 3\(a\)-\(d\)](#).

### 3.13.

**Table 4** Analysis of Cost Overrun on Four Projects

		A	B	C	D	E	E-A	E-B
		Initial Estimates \$'000	Original Contract Cost \$'000	Total Approved Variations \$'000	Total Variations Paid \$'000	Total Spent to date \$'000	Total in excess of Initial Estimates \$'000	Total paid in excess of Original Contract Sum \$'000
New Petroleum Testing Laboratory		402,310	409,149	132,148	131,009	536,902	134,592	127,753
North Perimeter Fence Replacement		29,771	96,761	-	-	96,761	66,990	-
Main Docking Facility		N/P	783,636	580,588	449,967	1,233,603	N/D	449,967
F-2 Furnace Replacement		138,450	245,495	37,963	37,963	283,458	145,008	37,963
<b>Total</b>		-	<b>1,535,041</b>	<b>750,699</b>	<b>618,939</b>	<b>2,150,724</b>	-	<b>615,683</b>

Note: N/P – Not provided; N/D – Not determined

Source: AuGD's analysis of Petrojam's Project data

### Frequent use of DC and DC-E procurement methodologies undermined good practice and VFM

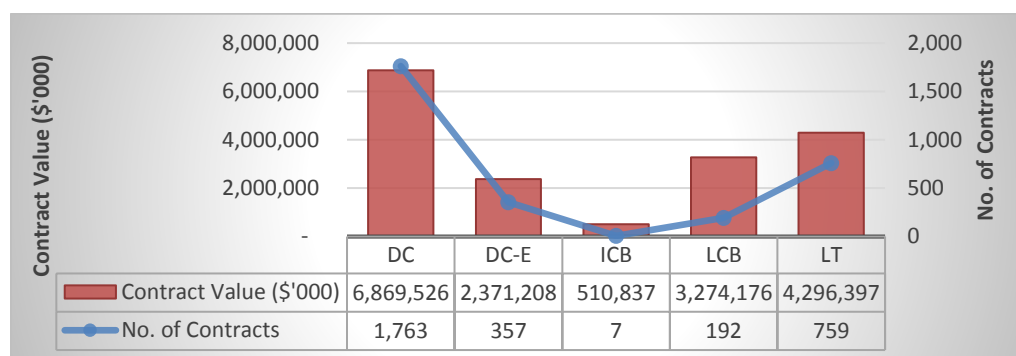
**3.14.** Based on our analysis of 16 contracts awarded under the four projects, Petrojam awarded eight valuing \$224.4 million using the Direct Contracting (DC) and Direct Contracting Emergency (DC-E) methodologies, which offer the least assurance that value for money was obtained (**Table 5**).

**Table 5** Analysis procurement methodologies used to award contracts for four projects

Projects	No. of Contracts	Total Contract Value \$'000	Direct Contracting (DC)		Direct Contracting Emergency (DC-E)		International Competitive Bidding (ICB)		Local Competitive Bidding (LCB)		Limited Tender (LT)	
			No.	\$'000	No.	\$'000	No.	\$'000	No.	\$'000	No.	\$'000
New Petroleum Testing Laboratory	10	409,149	5	23,402	-	-	-	-	2	363,452	3	22,295
North Perimeter Fence Replacement (Refinery)	1	96,761	-	-	1	96,761	-	-	-	-	-	0
Main Dock	4	757,690	2	104,206	-	-	-	-	-	-	2	653,484
F-2 Furnace Replacement	1	245,495	-	-	-	-	-	-	-	-	1	245,495
<b>Total</b>	<b>16</b>	<b>1,509,095</b>	<b>7</b>	<b>127,608</b>	<b>1</b>	<b>96,761</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>363,452</b>	<b>6</b>	<b>921,274</b>
Percentage	100%		44%		6%		%		12%		38%	

**Source:** AuGD's sample analysis of Petrojam's Project contract awards

**3.15.** In order to determine the extent of the use of these methodologies, we further analysed Petrojam's procurement activities reported to the Office of the Contractor General (OCG), for contracts for goods and services valued above \$275,000<sup>21</sup>. The analysis showed that between April 1, 2013 and Dec 14, 2017, Petrojam awarded 3,078 contracts valuing \$17.3 billion. Petrojam utilized the DC and DC-E methodologies to award 2,120 contracts (69 per cent) valuing \$9.2 billion (**Figure 4**).

**Figure 4** Analysis of the use of Procurement Methodology

**Source:** AuGD's analysis of Petrojam's procurement data submitted to OCG

**3.16.** The Guidelines allow for the use of the DC and DC-E methodologies above a threshold<sup>22</sup> and specify the allowable circumstances in which procuring entities can use these methodologies in the procurement of goods and services. However, in most instances, Petrojam did not demonstrate that the bases for using these methodologies met the allowable circumstances outlined in Section 1.1.4 of the procurement

<sup>21</sup> Does not include procurement for petroleum products

<sup>22</sup> The Procurement Guidelines authorise the use of the direct contracting methodology for contracts valued up to \$500,000. This threshold was increased to \$1.5 million via MOFP circular No. 27 dated September 28, 2016.

guidelines<sup>23</sup>. For the contracts we reviewed, Petrojam either did not provide the rationale or provided insufficient justification for its use of the DC and DC-E procurement methodologies consistent with the conditions specified by the Procurement Guidelines. The use of these methodologies does not create an environment that enables and assures transparency, competition and fairness in the procurement process. Consequently, Petrojam not only breached the procurement guidelines, but also would have deprived itself of the opportunity to ensure that it selected the most suitable contractors, at the best price, to maximise the potential to obtain value for money. The competitive bidding procurement methodology is widely encouraged as it seeks to promote transparency and is believed to provide the opportunity to achieve value for money.

### **Petrojam did not obtain any value from \$17.4 million (US\$133,582) paid to Consultant**

**3.17.** Petrojam included the implementation of the refinery upgrade as a strategic priority in its 2017-2022 Corporate Plan and appointed a task force to review the financing and economic consideration for Phase 1 of the project. So far, Petrojam has only initiated due-diligence to inform the Refinery Upgrade Project (RUP). However, in procuring the services of 10 consultants to provide consultancy services relating to the RUP and Vacuum Distillation Unit (VDU) at a total cost of \$172 million, we found that Petrojam did not adhere to the procurement guidelines in order to maximise its opportunity to obtain value for money. This included payments amounting to \$17.4 million made to a consultant to undertake Financial and Market Assessment and Financial and Future Sustainability Assessment of Petrojam from which there was no evidence that Petrojam received any value. Details of our review of the procurement process and performance deliverables under these consultancy contracts are outlined in [Case Study 1](#) and [Case Study 2](#).

### **Payment of discomfiture allowances**

**3.18.** The delays in implementing corrective works to improve working conditions at the Refinery also resulted in Petrojam having to pay monthly discomfiture allowances to staff, totaling \$57 million between April 2015 and July 2018. The payment of the allowance, which arose from safety concerns<sup>24</sup>, ranged from \$60,000 to \$150,000 per annum for each employee. In November 2015, MoFPS approved the payment for three years, with effect from April 2015 to March 2018, while Petrojam implement corrective works to address the issues identified. Owing to its failure to address the safety concerns, Petrojam requested and obtained MoFPS' approval to extend the payment of the allowance for another three years ending March 2021.

<sup>23</sup> Section 1.1.4 of the GOJ Revised Handbook of Public Sector Procurement Procedures - Vol 2 March 2014 (a) where the procurement is of a confidential nature; (b) if a particular contractor has exclusive/proprietary rights in respect of goods, services or works. (c) where standardizing equipment is available only from a specific source, and the Procuring Entity has purchased goods, equipment or technology from a contractor, and additional supply is required for reasons of uniformity; (d) for the purposes of research, experiment, study or development; (e) follow-on procurement, where a contractor has already provided goods, services or work and additional goods, services or works of a similar nature are required to complete the procurement requirements; or (f) for reasons of extreme urgency brought about by events unforeseen by the Procuring Entity, the products or services could not be obtained in time by means of International Competitive Bidding, Local Competitive Bidding or Limited Tender procedures.

<sup>24</sup> Raised by the staff union.

### RUP Phase 1 - Vacuum Distillation Unit (VDU)

**3.19.** Phase 1 of the RUP includes the installation of a new VDU, along with associated utilities and tankage, to convert HFO to asphalt and vacuum gas oil (VGO) for export. Petrojam indicated that the VDU is necessary to increase the production capacity and efficiency.

Petrojam projected that the cost for the VDU project will range between US\$102 million to US\$170 million. Considering this capital outlay, the task force reported a forecasted Net Present Value (NPV) in excess of US\$134 million on the Project and an Internal Rate of Return (IRR) in excess of 100%<sup>25</sup>. NPV ranging between US\$47 million to US\$124 million on the 17-year review horizon and US\$19 million to US\$70 million on the 10-year horizon.

**3.20.** Petrojam initially proposed to commission the VDU in December 2019, but has since revised the commissioning date to October 2020 as it is yet to award the engineering procurement and construction (EPC) contract to manage the engineering, designing and execution of the VDU project.

### Unsubstantiated payments for counselling, consultancy services and entertainment events

**3.21.** The Manager, HRDA unilaterally utilized the direct contracting methodology to engage the service of a Counsellor to provide onsite counselling services to employees and their family members, at a cost of \$1.3 million<sup>26</sup>, without a formal contract. As at May 2018, Petrojam made payments totaling \$3.2 million and had an outstanding balance of \$626,000 as at September 2018. However, the payments were made without adequate supporting documents. Consequently, we could not verify that the employees received counselling.

**3.22.** Petrojam also utilized the direct contracting methodology, to engage a Consultant to provide consultancy services under two contracts pertaining to its 35<sup>th</sup> Anniversary planning activities. The General Manager exceeded his authority and breached the procurement guidelines in approving the two contracts valued at \$14 million and \$27 million. Under the first contract, Petrojam paid the Consultant \$11.7 million; however, we could not determine the basis on which the payments were made.

**3.23.** Further, on November 17, 2017 and January 5, 2018, Petrojam's General Manager approved payments for invoices totaling \$2.6 million (US\$21,767), in relation to two parties, which were of a personal and private nature, having nothing to do with the operations of Petrojam. The parties were held on September 19, 2017 and January 9, 2018 at two hotels in Montego Bay for Petrojam's Board Chairman and then Portfolio Minister, respectively. We obtained copies of the hotels' invoices dated September 19, 2017 and January 4, 2018 along with email correspondences, which referred to both events as 'surprise birthday party' and 'surprise party', respectively. Our detailed review of the engagement of the

<sup>25</sup> Net Present Value (NPV) is the value of all future cash flows.

<sup>26</sup> Twelve hours per week, 36 weeks at \$3,000 per hour

contracts for counselling and consultancy services and the hosting of the two parties is highlighted in [Case Study 6](#).

#### **Petrojam's HR recruitment practices not always consistent with internal policies**

**3.24.** It is essential for Petrojam to have a good recruitment process to attract the right skillsets for its business needs. In employing good practices in the recruitment and selection process, especially for sensitive positions, we would expect Petrojam to first advertise the vacancy in order to obtain a pool of potential candidates with the desired knowledge, skills and experience. This would allow for the selection of the most suitable persons to fill vacant positions against defined job descriptions and specifications. In addition, Petrojam should screen potential candidates and shortlist those most suitable for interview, assessment and selection.








**3.25.** Petrojam has policies that guide its employment and recruitment processes. We found that Petrojam's HR recruitment and management practices were not always consistent with its policies and good practices and lacked transparency in the selection process ([Appendix 3](#)). [Case Study 5](#) highlights the weaknesses in Petrojam's HR recruitment and management practices.

#### **Petrojam does not have an approved list of established posts**

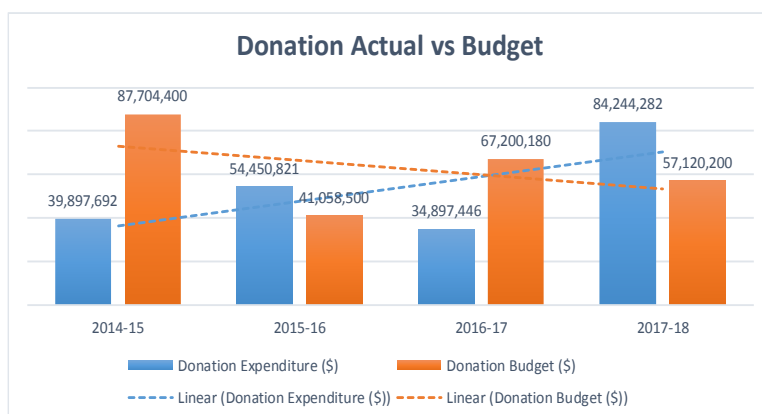
**3.26.** Whereas Petrojam had an approved salary scale the related number of posts were yet to be finalised and approved by the Ministry of Finance and the Public Service (MoFPS). This is necessary as a first step in maintaining recruitment and promotion control, to ensure that the right number of staff is hired with the right mix of skills at the correct grades that best fit Petrojam's business model. An approved staff list also allows for matching staff grades to personnel emoluments and serves as a basis to guide recruitment, promotion and budget planning.



### The administration of Petrojam's donation Policy lacks transparency and value added assessment

 At A Glance			
Systems and practices	Criteria	Key Findings	Assessment Against Criteria
Donation Policy	Donation Policy approved by the board	Petrojam implemented a donation policy approved by the Board in September 2013.	
Adherence with policy	Adherence with the policy: due-diligence, approval.	Petrojam did not always ensure compliance with the donation policy to ensure transparency and accountability.	
Value added Assessment	Value added assessments conducted post-donations disbursement	Petrojam did not make it a requirement to conduct value added assessments post-disbursement donations to measure the actual benefits derived from its donations.	
 MET the criteria  Met the Criteria, but improvements needed  Did not meet the criteria			

**3.27.** Petrojam implemented a donation policy in September 2013, as part of its commitment “to assist in the development of the community in which the refinery is located, as well as assisting in activities in the wider community, and supporting education and national events”. Over the last five years, 2013-14 to 2017-18, Petrojam awarded donations amounting to \$255 million to various organisations and individuals in the form of sponsorships, scholarships and contributions. As shown in **Table 6**, we



observed that the amount of donations doubled between 2013-14 and 2017-18 with the largest year-on-year increase of 141 per cent occurring in 2017-18, when donations totalled \$84.2 million relative to \$34.9 million in 2016-17. Petrojam did not provide the rationale for the level of increase in donations for this period. Further, we noted that the amount of donations exceeded the budgeted amounts in 2016 by \$13 million (33 per cent) and in 2018 by \$27 million (47 per cent), despite the Policy requirement that donations should be accepted or rejected based on the availability of funds in accordance with the budget allocations. We found no evidence of approval from the Board for the budget to be exceeded.

**Table 6** Analysis of donations awarded between 2013-14 and 2017-18

Details	2013-14	2014-15	2015-16	2016-17	2017-18
Scholarship	1,287,043	819,957	888,000	1,108,000	2,202,325
Community Outreach	2,716,711	6,821,125	3,638,546	2,560,402	6,343,916
Schools, Education & Sport	5,292,724	11,604,812	9,036,549	13,240,940	38,295,785
Other Organisation & Institutions	31,778,160	20,651,799	40,887,726	17,988,104	37,402,257
<b>Total Donation Expenditure</b>	<b>41,074,638</b>	<b>39,897,692</b>	<b>54,450,821</b>	<b>34,897,446</b>	<b>84,244,282</b>
Percentage (decrease)/increase	-	(3%)	36%	(36%)	141%
Donation Budget <sup>27</sup>	Not Provided	87,704,400	41,058,500	67,200,180	57,120,200
<b>Donation (under)/over budget</b>	-	<b>(47,806,708)</b>	<b>13,392,321</b>	<b>(32,302,734)</b>	<b>27,124,082</b>
<b>Percentage (under)/over budget</b>	-	<b>55%</b>	<b>33%</b>	<b>(48%)</b>	<b>47%</b>

Source: AuGD's analysis of Petrojam's data

### Deficiencies in Petrojam's Donation Policy

Petrojam's Donation Policy requires organisations, employees and external individuals to submit a written request to the Human Resource Development and Administration (HRDA) Department<sup>28</sup>. Although Petrojam indicated in the Policy that the administration of the Policy will in no way be influenced by personal, political, religious or ethnic considerations, it did not put in place enough safeguards to ensure transparency and openness in administration of the Policy. In that, the Policy allows for the Manager HRDA the sole discretion to *"review, accept or reject requests and determine the amount of the contribution"*. The Manager, HRDA would then make a recommendation to the Managing Director<sup>29</sup> for approval, following which the disbursement voucher prepared. Further, we noted that the Policy did not prescribe donation levels and approval limits or require the documentation necessary for assessment of donation request, such as Proforma Invoice, Estimates and Bill of Quantities for goods and services. In addition, Petrojam did not make it a requirement to conduct value added assessments post-disbursement donations to measure the actual benefits derived from its donations. Consequently, we were not certain how Petrojam satisfied itself of the extent to which the amounts donated contributed to the development of the community and individuals. The deficiencies in the administration of Petrojam's donation policy is evident in the scenarios outlined in [Case Study 4](#).

<sup>27</sup> Budget amounts were denominated in US\$ in Petrojam's Annual Corporate Plans. AuGD's conversion was based on BOJ's annual average rate.

<sup>28</sup> Subset of its HRD Policy and Procedure Manual

<sup>29</sup> Equivalent to the current General Manager's position



# Case Studies Petrojam

**CASE STUDY 1: Consultants for RUP and VDU – Due-diligence**

**1.1.1.** While Petrojam took the right approach in pursuing due-diligence research and analysis to inform the VDU, it did not adhere to the procurement guidelines in engaging the consultants. We observed that between January 2016 and April 2018, Petrojam contracted 10 consultants under 12 contracts, totaling \$172 million (US\$1.3 million) to provide consultancy services relating to the RUP and VDU (**Table 7**). However, for 10 of the contracts valuing \$139.5 million, Petrojam utilized the wrong procurement methodology in selecting the consultants for the contracts, depriving itself from obtaining value for money from the use of a competitive process. We noted that Petrojam based the use of the direct contracting methodology in nine instances on the allowable exemptions in Section 1.1.4 (a-f) of the Procurement Guidelines. However, Petrojam did not provide details to justify the use of the exemption clauses ([Appendix 4](#)).

**Table 7** Analysis of Procurement Methodology in engaging consultants for RUP

No	Contractors	Contract Date	Nature of Service	Contract Value \$'000	Methodology Assessment		
					Utilized	Required	v/X
1	Consultant #1	Jan. 29, 2016	Refinery Engineering Project Management Services <sup>30</sup>	13,790	DC	LCB	X
2	Consultant #2	Apr 23, 2018	Lab testing (asphalt characterization)	15,691	DC	LCB	X
3	Consultant #3	May 15, 2017	Financial and Market Assessment	6,875	DC	LT	X
4	Consultant #4	Jun. 5, 2017	Regional Market Outlook – Heavy Oil Products	17,550	DC	LCB	X
5	Consultant #5	Aug. 7, 2017	Cash Flow Modelling – RUP	7,280	DC	LT	X
6	Consultant #6	Sep. 6, 2017	Technical Advisory Services re RUP	16,250	DC	LCB	X
7	Consultant #3	Sep. 8, 2017	Financial and Future Sustainability Assessment	10,542	DC	LT	X
8	Consultant #7	Sep. 28, 2017	Environmental Impact Assessment (EIA) Update	20,210	DC	LCB	X
9	Consultant #8	Oct. 23, 2017	Comparison of Engineering and Technical Standards	24,671	LT	LCB	X
10	Consultant #9	Nov. 28, 2017	Geotechnical Studies (Soil Testing) – RUP	4,035	LT	LT	√
11	Consultant #10	Dec. 12, 2017	Software License with ongoing software maintenance and support	28,951	DC	DC*	√
12	Consultant #5	Jan. 17, 2018	Fair Market Valuation	6,144	DC	LT	X
<b>Total</b>				<b>171,989</b>			

Notes: \*LCB is required, however DC applicable based on exclusive rights

**Source:** AuGD's analysis of Petrojam's procurement records

<sup>30</sup> Hourly contract – estimated value of work

**1.1.2.** For example, Petrojam awarded two contracts to overseas consultants for Regional Market Outlook and Fair Market Valuation for US\$135,000 (Consultant #4) and US\$48,000 (Consultant #5) respectively, without competitive bidding. Based on the value of the contracts, the procurement guidelines required the use of the Local Competitive Bidding and Limited Tendering processes respectively. However, Petrojam utilized the direct contracting methodology for the two contracts based on “confidential nature and extreme urgency brought about by unforeseen events”. However, Petrojam did not detail the confidential nature and extreme urgency that allowed for the applicable use of this methodology. We also noted that the scope of the work under the contracts involved market overview (market outlook) of petroleum products<sup>31</sup> in the Caribbean and fair market valuation of the oil refinery. These are consultancies for valuation and financial services, which are available locally.

**1.1.3.** Petrojam utilized the direct contracting methodology to award two other contracts to Consultant #3 for Financial and Market Assessment for US\$52,882 and Financial and Future Sustainability Assessment for US\$80,700. Petrojam did not indicate the reason for utilizing the direct contracting methodology for one of the contracts; while it also failed to provide details, specific to the nature of the contract, to justify the use of the exemption clauses. We reviewed the Consultancy arrangement for the two contracts and found that Petrojam did not obtain any value from the US\$133,582 it paid for both contracts. Details of our review is shown in [Case Study 2](#).





**1.1.4.** In the absence of reasonable justification, we viewed the use of the direct contracting methodology as an obvious breach of the procurement guidelines. While we noted that only six of the 10 consultants provided reports in relation to their consultancy service; we found no evidence from the Board Minutes that the contents of the reports were discussed in order to aid in strategic decisions. Consequently, we were not certain how these consultancy services added value in informing planning of the VDU project.

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<sup>31</sup> Asphalt, vacuum gas oil, fuel oil and global heavy product.

## CASE STUDY 2: Petrojam did not obtain any value from \$17.4 million (US\$133,582) paid to Consultant for service contracts

### Consultancy contracts for the Financial and Market and Financial and Future Sustainability Assessment

 At a Glance			
Systems and practices	Criteria	Key Findings	Assessment Against Criteria
Board of Directors input and approval	The Board deliberated and approved the Consultant engagement.	The Board of Directors/and or Finance sub-committee had no input in the approval of the consultant engagement.	—
Competitive procurement process	Selection of the Consultant by competitive process.	Petrojam did not use the process of competitive bidding to engage the consultant for two contracts.	—
Consultant capability to deliver	Verification of the Consultant capability in delivering the service.	No evidence that Petrojam verified the Consultant's professional competence nor review the history and experience of the consulting firm in providing the services.	—
TOR, scope of work, clear and measurable deliverables	Clear and Measurable deliverable in the Contract and or TOR.	While we saw evidence of the TOR and scope of work, there were no clear and measurable deliverables.	⚠
Achievement of deliverables	Deliverables informed strategic direction	No evidence of deliverables based on scope of work to influence policy and strategic direction of Petrojam	—
 MET the criteria  Met the Criteria, but improvement(s) needed  Did not meet the criteria			

**2.1.1.** We found no evidence that Petrojam received any value from US\$133,582 it spent to undertake two assessments of Petrojam's operations. The first three-month contract, dated May 15, 2017, related to a Financial and Market Assessment Report of Petrojam Limited costing US\$47,200<sup>32</sup>. Additional variation costs of US\$5,682 for expenses and professional fees associated with additional meetings brought total cost to US\$52,882 (**Table 8**).

**Table 8 Price Schedule: Financial and Market Assessment**

ITEM	DESCRIPTION	AMOUNT (USD)
1	Professional Financial Services as per Terms of Reference for three (3) months. Note: Price should include travel, accommodation, transportation and meals for up to 2 weeks out of each month working in Jamaica.	\$43,000
2	Provisional Sum for additional expenses (Travel and Subsistence)	\$4,200
3	Variation payments for expenses and professional fees associated with additional meetings	\$5,682
GRAND TOTAL		\$52,882

**Source:** Extracted from Consultant Letter dated May 5, 2017

<sup>32</sup> Included an amount of US\$4,200.00 as provisional sum for additional expenses (Travel and Subsistence)

**2.1.2.** Less than four months later, the General Manager signed another three-month contract, with the same Consultant on September 8, 2017 for a Financial and Future Sustainability of Petrojam Limited at a cost of US\$55,200. Additional variation costs of US\$25,500 to perform financial analysis of JET A1 pricing to customers brought total cost to US\$80,700 (**Table 9**).

**Table 9** Price Schedule: Financial and Future Sustainability Assessment

ITEM	DESCRIPTION	AMOUNT (USD)
1	Professional Financial Services as per Terms of Reference for three (3) months. Note: Price should include travel, accommodation, transportation and meals for up to 2 weeks out of each month working in Jamaica.	\$51,000
2	Provisional Sum for additional expenses (Travel and Subsistence)	\$4,200
3	Variation payment to perform financial analysis of JET A1 pricing to customers	\$25,500
<b>GRAND TOTAL</b>		<b>\$80,700</b>

**Source:** Extracted from Consultant Letter dated August 16, 2017

### **No input from Board of Directors charged with strategic direction**

**2.1.3.** The circumstances related to the engagement of the Consultant reflect a deficiency in Petrojam's strategic planning process, as the Board of Directors and/or Finance sub-committee had no input in the approval of the consultancy engagement. Given the responsibility of the Board to determine the strategic direction of Petrojam, we expected Board level input in a proposed Terms of Reference for the consultancies, detailing the expected outcomes and expectations, including the need for a work plan. By way of correspondence dated May 7, 2017, the General Manager took the decision to engage the Consultant to conduct the assessments, apparently without Petrojam's Board of Directors knowledge and approval.

**2.1.4.** From our review of the Minutes of the Board Meetings, Board Retreats and round robin emails covering the period April 2013 to March 2018, we found no evidence that the Board of Directors authorised the engagement of the Consultants or reviewed the reports from the assessments conducted by the Consultants to inform the strategic direction of Petrojam. Further, the correspondences provided, which formed the basis for the payment of US\$102,400 could not conclusively confirm whether the information was utilised at the Board and Executive level or aided in Petrojam's planning processes to inform its strategic direction and objectives and reflected in the Corporate Plan and Operational Plans. Consequently, we were not able to determine the extent to which Petrojam received value for the consultancy arrangements.

## Absence of Requisite Competitive Quotations

**2.1.5.** The two contracts, to a consultant [name deleted], were endorsed and approved by the General Manager on May 10, 2017 and further endorsed by the Procurement Committee on May 11, 2017, without competitive tender<sup>33</sup>. Petrojam, on both occasions, used the direct contracting process to engage the Consultant on the basis of the Consultant's *"experience and track record of performance"* and for the purpose of research, experiment, study and development<sup>34</sup>. However, the reason advanced by Petrojam for utilizing this method of procurement did not meet the criteria stipulated in the Procurement Guidelines. The applicable Procurement Guidelines for Consulting Services<sup>35</sup> only allows for the use of the direct contracting methodology for contracts valued up to \$1.5 million. However, Petrojam relied on Section 1.1.4 (d) of the Procurement Guidelines<sup>36</sup> applicable to purchase of goods, general services and works, which allow for direct contracting *"for the purposes of research, experiment, study or development"*.

**2.1.6.** The failure to invite quotations from other eligible consultants may have prevented Petrojam from receiving the best possible market value. In order to ensure use of the applicable guidelines, Petrojam Board should ensure that the Procurement Committee members and Executive undergo continuous training in order to be kept abreast of the latest developments as they relate to the GOJ's Procurement Guidelines<sup>37</sup>. Further, review of the bid evaluation approval control sheet<sup>38</sup> indicated the comparable estimates of US\$63,051 and US\$51,330 for the Financial and Future Sustainability and Financial and Market Assessments respectively. However, Petrojam did not provide us with the estimates, which would enable us to review and assess the reasonableness of the consultant's rates or whether the best possible market prices were obtained.

## No evidence of Consultants capability to deliver

**2.1.7.** Petrojam was unable to provide evidence that it assessed the technical capabilities and experience of the Consultant to execute the assessments. Further, while Petrojam obtained the curriculum vitae of the Consultant, we saw no evidence that Petrojam verified the Consultant's skill, qualification and expertise in providing the services or reviewed the professional history and experience of the consulting firm. The need for such assessment is crucial to allow Petrojam the opportunity to fully explore the Consultant's ability to deliver the agreed project deliverables to the required standard. Clause 10

<sup>33</sup> Endorsed in his capacity as Department Manager and Approved in his capacity as General Manager on May 10, 2017

<sup>34</sup> Procurement Request – Service (General and Consulting) document

<sup>35</sup> Government of Jamaica Handbook of Public Sector Procurement Procedures (Volume 3 of 4) Procedures for the Procurement of Consulting Services (Revised March 2014)

<sup>36</sup> Government of Jamaica Handbook of Public Sector Procurement Procedures (Volume 2 of 4) Procedures for the Procurement of Goods, General Services & Works (revised March 2014)

<sup>37</sup> Recommended Practice no 12 of Principle 13. Role & Independence of Audit & Internal Control Functions of the Corporate Governance Framework for Public Bodies in Jamaica (Revised October 2012)

<sup>38</sup> Signed by the Procurement Committee Members and approved by General Manager



(Insurance) of the Contract requires the Consultant to have professional indemnity insurance in the sum of US\$100,000. The requisite insurance document was not presented as part of the bidding documents.

### Evidence of TOR and scope of work but no deliverables

**2.1.8.** We noted that Petrojam entered into a three-month contract with the Consultant on May 15, 2017, in the first instance<sup>39</sup>, regarding the Financial and Market Assessment of Petrojam. While we obtained correspondence, which outlined the Terms of Reference (TOR) and the scope of work under the agreement, the document did not specify the expected deliverables (**Table 10**). We found no evidence of the Consultant's deliverables based on the scope of work at the end of the consultancy period, which we estimated would end by August 15, 2017. We only obtained a four-page progress report on the Financial and Market Assessment to the General Manager dated May 31, 2018 and a 10-page document titled "2017 Six-Month Review of Performance dated November 23, 2017".

**Table 10** Scope of Work: Financial and Market Assessment

No.	Scope of Work	Deliverables
1	Liaise and work with MUSE as they conduct a current valuation of the Refinery assets for the purpose of considering investment options for the pending refinery expansion project;	Not Seen
2	Review MUSE valuation report;	Not Seen
3	Determine opportunities within the current operations of Petrojam to increase revenues from all sources, to capitalize on and reduce costs and improve operating efficiencies;	Not Seen
4	Determine any company risks that could be detrimental to the country's energy supply and/or the financial viability of Petrojam;	Not Seen
5	Determine Petrojam strategy alignment with Jamaica's National Energy Policy/2030 Vision.	Not Seen
6	Variation: Expenses and professional fees associated with additional meetings	Not Seen

**Source:** Consultancy Letter dated May 5, 2017 – Included Terms of Reference (TOR)

**2.1.9.** We noted that, on August 25, 2017, the General Manager altered the original scope of the Financial and Market Assessment of Petrojam Limited. Petrojam noted that it altered the original scope "to include additional works and deferral of portion of the original scope to subsequent procurement". Petrojam further indicated that the reason for the change was to include review of the reporting format to GM by respective department managers, fuel oil price analysis, loyalty program analysis, Asphalt market sounding trip to Puerto Rico and Miami, and to attend Financial and Technical Committee Meetings, etc.<sup>40</sup>.

**2.1.10.** We observed from the minutes of the Procurement Committee meeting dated August 24, 2017 that the Committee declined the award of the contract for the Financial and Future Sustainability

<sup>39</sup> The contract agreement was signed by Petrojam's General Manager and the Consultant, However, the signature for the Consultant was not witnessed and the Company Stamp was not affixed. Clause 10 (Insurance) of the Contract requires the Consultant to have professional indemnity insurance in the sum of US\$100,000. The requisite insurance form was not presented.

<sup>40</sup> Petrojam's Procurement Change Request

Assessment of Petrojam on the basis that “*similar procurement was submitted May 11, 2017 – Scope is similar as previous procurement that was approved on May 11, 2017*”. Subsequently, on August 31, 2017, the Committee for the second time declined the award of the contract and noted that “*scope change and not a value change.*” However, we noted that the Committee members endorsed the procurement between August 25, 2017 and September 4, 2017, without any rationale<sup>41</sup>. The General Manager approved the procurement on September 5, 2017 and re-engaged the Consultant under the second contract on September 8, 2017 for a Financial and Future Sustainability Assessment of Petrojam. We found no evidence that the Consultant achieved any of the deliverables under the revised scope, as we only obtained a four-page unsigned memorandum dated October 5, 2017, on the assessment of the loyalty programme.

**2.1.11.** The terms of references for both the Financial and Future Sustainability and the previous Financial and Market Assessment contracts outlined the same terms under four main areas (**Table 11**).

**Table 11** Terms of Reference

Financial and Market Assessment and Financial and Future Sustainability Assessment

No.	Terms of Reference	Deliverables
1	Review existing organisational structure and understand roles of respective senior management team members.	Not Seen
2	Review the present financial, management and regulatory reporting within the organisation.	Not Seen
3	Examine historical and future resource allocations.	Not Seen
4	Capital investment needed to meet new/imminent customer changes or environmental constraints.	Not Seen

Source: Consultancy Letters dated May 5, 2017 and August 16, 2017

**2.1.12.** Also items three to five of the scope of works for both consultancy arrangements were identical, indicating a transfer of the deliverables to the contract related to the Financial and Future Sustainability Assessment. However, we found no evidence that the Consultant delivered on any of the deliverables in the scope of work under the Financial and Future Sustainability Assessment of Petrojam (**Table 12**). [Appendix 5](#) outlined the events Chronology.

<sup>41</sup> Future Sustainability Assessment - Bid Evaluation Approval Control Sheet.

**Table 12** Scope of Work: Financial and Future Sustainability Assessment

No.	Scope of Work	Deliverables
1	Work directly with the Petrojam General Manager and Management Team to review existing organization structure and understand roles of respective senior management team members to advise and submit recommendations regarding same;	Not Seen
2	Review all existing financial, management and regulatory reports to advise and submit recommendations regarding same;	Not Seen
3	Determine opportunities within the current operations of Petrojam to increase revenues from all sources, to capitalize on and reduce costs and improve operating efficiencies;	Not Seen
4	Determine any company risks that could be detrimental to the country's energy supply and/or the financial viability of Petrojam;	Not Seen
5	Determine Petrojam strategy alignment with Jamaica's National Energy Policy/2030 Vision.	Not Seen
6	Variation: Perform financial analysis of JET A1 pricing to customers	Not Seen

**Source:** Consultancy Letter dated August 16, 2017 - Included Terms of Reference (TOR)

**CASE STUDY 3(a-d): Review of four Capital Investment Projects****3(a): New Petroleum Testing Laboratory**

**3.1.1.** We found that Petrojam did not employ good principles in managing the procurement process and construction of the new Petroleum Testing Laboratory, which resulted in an increase in the original contract value of the project by 56 per cent, moving to \$541.3 million from \$347.8 million. The increased costs resulted from Petrojam's poor management of the contract, which led to the engagement of eight other consultants/contractors, at a total cost of \$61.3 million, to provide services that were included in the original contracts (**Table 13**). For five of the contracts, Petrojam approved \$132.1 million in variation costs, of which it paid a total of \$131 million as at September 2018.

**Table 13** Analysis procurement contract and variation cost - New Petroleum Testing Laboratory

Consultants/Contractor	Original Contract Value \$'000	Additional Contracts \$'000	Approved Variations \$'000	Revised Contract Value \$'000	Total Variations Paid \$'000
Architectural Consultant	10,500	-	28,744	39,244	27,853
Main Contractor	337,341	-	101,624	438,965	101,375
Mechanical & Electrical Engineering Consultant	-	2,200	677	2,877	677
Quantity Surveying Consultant #1	-	2,453	755	3,208	755
Quantity Surveying Consultant #2	-	3,845	349	4,194	349
Fire Detection System Supplier	-	2,581	-	2,581	-
Lab Assessor	-	1,941	-	1,941	-
Car Park Contractor	-	26,111	-	26,111	-
Flame Arc Detector Supplier	-	14,227	-	14,227	-
Storage Tank Rehabilitator	-	7,950	-	7,950	-
	<b>347,841</b>	<b>61,308</b>	<b>132,149</b>	<b>541,298</b>	<b>131,009</b>

**Source:** AuGD analysis of Petrojam's contract documents and financial records

**3.1.2.** In developing a business case for the construction of a new Petroleum Testing Laboratory, Petrojam indicated that the current Laboratory's infrastructure and working conditions do not satisfy international industrial hygiene, environmental and employee wellbeing standards<sup>42</sup>. Petrojam also noted that its Laboratory is the only petroleum testing facility in Jamaica and easy access to a reliable testing facility is important in ensuring product quality is met, as established by the governing laws and regulations, which require the inspection and certification of all petroleum products sold<sup>43</sup>.

**3.1.3.** During the period June 2010 and June 2018, Petrojam engaged the services of the 10 consultants/contractors to conduct general consultancy services, provide goods and construction works on the new Laboratory, at a total cost of \$409 million. Whereas Petrojam adhered to the procurement guidelines in awarding six of the contracts valuing \$392.1 million, in the other four instances, Petrojam

<sup>42</sup> **Petrojam Replacement Laboratory Business Case:** The design of the existing laboratory does not meet design guidelines to achieve International Standards Organization (ISO) 17025 accreditation.

<sup>43</sup> Petroleum (Quality Control) Act, 1990

breached the procurement guidelines by utilizing the wrong procurement methodology for contracts valuing \$17.1 million. In these instances, Petrojam utilized the direct contracting methodology to select the contractors, instead of the competitive process by way of limited tendering and local competitive bidding as required based on the value of the contracts (**Table 14**).

**Table 14** Analysis procurement methodologies - New Petroleum Testing Laboratory Projects

Contractor	Contract Date	Nature of Work	Value of Contract \$'000	Methodology Assessment		
				Utilized	Required	✓ / ✗
Architectural Consultant	June 8, 2010	Architectural and Civil/Structural Engineering Services	10,500	LT	LCB	✗
Main Contractor	April 29, 2015	Construction of new lab	337,341	LCB	ICB/LCB	✓
Mechanical & Electrical Engineering Consultant <sup>44</sup>	Apr 19, 2017	Mechanical and Electrical engineering consultancy	2,200	DC	LT	✗
Quantity Surveying Consultant #1	May 2, 2017	Quantity Surveying services – Assessment of works done; prepare payment certificates for the Main Contractor and prepare final account	2,453	DC	LT	✗
Quantity Surveying Consultant #2	Oct 27, 2017	Quantity Surveying services - Assessment of works done to date; prepare payment certificates for the Main Contractor and prepare final account.	3,845	LT	LT	✓
Fire Detection System Supplier	Nov. 13, 2017	Installation of Fire detection system	2,581	DC	LT	✓ (one source)
Lab Assessor	Feb. 9, 2018	Assess the work done on the new lab, assist in the commissioning of the electrical systems and prepare payment certificates for the next two months to cover the remainder of the remainder of the construction plus the preparation of the final account.	1,941	DC	LT	✗
Car Park Contractor	June 4, 2018	Construction of parking area	26,111	LCB	LCB	✓
Flame Arc Detector Supplier	June 09, 2017	Supply of Flame arc detectors	14,227	DC	LCB	✓ (one source)
Storage Tank Rehabilitator	July 19, 2017	Repairs to Tank 14 bund area and base	7,950	LT	LT	✓
<b>Total</b>			<b>409,149</b>			

**Source:** AuGD's sample analysis Petrojam's Project contracts

**3.1.4.** In March 2009, Petrojam utilized the LCB procurement methodology to solicit bids for the provision of architectural and associated consulting services to design and manage the construction of the new Laboratory. The Architectural Consultant and another company submitted bids. However, in a status report dated January 2012, owing to an infraction in the bid opening process, Petrojam re-tendered the

<sup>44</sup> By way of correspondence dated December 03, 2018, Petrojam indicated that direct contracting was justified on the basis that the contractors were former members of consultancy firm and employing another contractor would have been more expensive. However, Petrojam did not provide a cost benefit analysis to justify this claim.

job on a Limited Tender basis inviting only the two companies that submitted bids. Notwithstanding, the procurement guidelines<sup>45</sup> required the invitation of a minimum of three consultants under the Limited Tender methodology.

**3.1.5.** In June 2010, Petrojam awarded the contract to the Architectural Consultant to provide consultancy services for two years at a cost of \$10.5 million. The contract cost included \$6.3 million for pre-contract (architectural design) and \$4.2 million for post-contract monitoring. The pre-contract sum also included the cost to provide mechanical and electrical engineering and quantity surveying services. However, deficiencies in the planning and execution of the contract resulted in variation costs totaling \$28.7 million increasing the contract cost to \$39.2 million (**Table 15**).

**Table 15** New Petroleum Testing Laboratory Project – Architectural Consultancy Variations Approved

Description	Original Contract Sum	Var. No. 1	Var. No. 2	Var. No. 3	Var. No. 4	Var. No. 5	Current Contract Sum
Pre-contract	6,300,000	-	-	-	-	-	6,300,000
Re-Design	-	8,260,000	2,992,885	-	-	-	11,252,885
Value Engineering	-	1,720,000	-	-	-	-	1,720,000
Reimbursable	-	900,000	375,000	-	-	-	1,275,000
Re-tendering	-	-	-	1,980,000	-	-	1,980,000
Post-Contract monitoring	4,200,000	-	5,508,528	-	3,114,378	3,892,972	16,715,878
<b>Total</b>	<b>10,500,000</b>	<b>10,880,000</b>	<b>8,876,413</b>	<b>1,980,000</b>	<b>3,114,378</b>	<b>3,892,972</b>	<b>39,243,763</b>
Variation %	-	104%	85%	19%	30%	37%	
<b>Cumulative Total</b>	<b>10,500,000</b>	<b>21,380,000</b>	<b>30,256,413</b>	<b>32,236,413</b>	<b>35,350,791</b>	<b>39,243,763</b>	
Cumulative Var %	-	104%	189%	208%	238%	275%	

Source: Petrojam data

**3.1.6.** Petrojam's failure to plan and conduct due diligence to properly determine the scope of the new Laboratory led to extensive redesigns of the initial approved drawings. For example, on two occasions, in October 2013 and April 2014, Petrojam requested the Architectural Consultant to make changes to the initial drawings, resulting in variation costs totaling \$19.8 million.

**3.1.7.** On the first occasion, Petrojam approved variation cost of \$9.1 million to make changes to the design drawings to include some basic requirements that Petrojam ought to have considered in conceptualizing the design of the Laboratory<sup>46</sup>. Of this amount, \$900,000 represented reimbursable expenses. In addition, in 2012, subsequent to the tender, evaluation of bids, and selection of the Main Contractor for the construction of the Laboratory, at a cost of \$337.3 million, Petrojam requested the Architectural Consultant to conduct a value engineering study aimed at identifying areas to reduce the construction cost, resulting in additional variation costs of \$1.7 million. We would have expected Petrojam

<sup>45</sup> Volume 3 - GOJ Handbook of Public Sector Procurement Procedures for the Procurement of Consulting Services (May 2012)

<sup>46</sup> Changes included an additional 2,000 square feet of floor area to accommodate a utility room; sulphur laboratory; fire engine shed; new parking area; and redesigns for modification to bathroom facilities; relocation and reallocation of spaces; modification to heating ventilation and air conditioning; and redesign of electrical system

to conduct the study earlier to inform the preparation of its comparable estimate for the construction of the Laboratory prior to tender.

**3.1.8.** By way of correspondence dated December 3, 2018 Petrojam indicated that:

We disagree with this conclusion as the main contributor to the cost escalation of the MSR contract is due to the following;

- The request to delay the project and repeat value engineering and the resultant redesign as well as retendering of the subcontracts. (as instructed by the BOD)
- Adjustments in professional rates.
- Delays caused by the contractor performance and therefore extension in construction period.

**3.1.9.** However, Petrojam's response underscores the need for proper scoping of the contract requirements to avoid costly and time consuming redesign. Further, whilst Petrojam indicated that delays were also caused by the contractor's performance, there was no evidence that any liquidated damages were enforced to mitigate the time and cost overrun.

**3.1.10.** The study identified structural changes that would result in net savings of \$89 million, which led to the second change to the drawings<sup>47</sup>. Owing to this change, Petrojam approved variation costs totalling \$3.4 million comprising \$2.9 million for re-design of the drawing, \$375,000 for reimbursable expenses. With the expectation that the design changes would result in an extension to the duration of the construction works, the Architectural Consultant's post-contract monitoring cost increased from \$4.2 million to \$9.7 million – a variation of \$5.5 million. Subsequently in May 2014 Petrojam decided not to implement the changes, but still paid the Architectural Consultant \$5.5 million. Consequently, Petrojam did not receive any value from the monies spent in relation to the costs associated with the value engineering study and the second re-design, totaling \$10.6 million.

**3.1.11.** In March 2012, Petrojam utilized the LCB procurement methodology in selecting the Main Contractor for the construction of the Laboratory at a cost of \$337.3 million, which included estimated prime cost sums of \$44.7 million and \$61.8 million for mechanical and electrical works respectively. However, due to budget constraints, Petrojam did not award the contract until approximately three years later, in April 2015. Given the passage of time and the impact inflation and exchange rate movements would have had on the initial contract cost, it would be prudent for Petrojam to reassess the construction costs to ascertain an accurate comparable estimate, with a view to retender the contract. Instead, Petrojam retendered only the mechanical and electrical work components by way of Limited Tender, in accordance with the recommendation from the NCC. The retendering of the contracts resulted in an additional variation cost of \$1.98 million to the Architectural Consultant.

<sup>47</sup> Savings include \$15 million for alternate finishes, reduction in building height and reducing overall building footprints and \$74 million for using a structural steel building for the lab superstructure as opposed to a reinforced concrete structure as originally planned, as well as eliminating the fire engine shed from the initial build.

Petrojam awarded the contract for the mechanical works at a cost of \$78 million and electrical works at a cost of \$99.9 million to two separate bidders as sub-contractors to Main Contractor. Consequently, the overall construction contract sum of \$337.3 million increased to \$421.9 million owing to variation costs of \$45.6 million and \$39.1 million for the electrical and mechanical works respectively, which included \$13.3 million in profit and attendance fees for the Main Contractor (**Table 16**).

**Table 16** New Petroleum Testing Laboratory – Main Contractor’s Variation #1

Details	Mechanical Works	Electrical Works	Total
Proposed sub contract	77,962,353	99,949,165	177,911,518
Profit to Main Contractor (5%)	3,898,118	4,997,458	8,895,576
Attendance by Main Contractor 2.5%)	1,949,059	2,498,729	4,447,788
<b>Total</b>	<b>83,809,529</b>	<b>107,445,352</b>	<b>191,254,881</b>
Less Contract Prime Cost Sum	(44,720,000)	(61,838,750)	(106,558,750)
<b>Total Variation</b>	<b>39,089,529</b>	<b>45,606,602</b>	<b>84,696,131</b>

Source: NCC Variation Form dated February 1, 2016

**3.1.12.** In addition, considering the time lapse between the bid evaluation in 2012 and the award of the contract for the construction works in 2015, we would have expected Petrojam to assess whether the Main Contractor still had the financial and technical capabilities to execute the construction. Our review of the bid evaluation did not indicate that the bidders’ financial standing were carefully examined. We noted that all bidders scored 5/5 on the basis that “*Audited accounts showing positive growth for the last three years*”. Therefore, Petrojam would have relied on financial records, 3-6 years old, to proceed with the Main Contractor. The construction works commenced June 1, 2015 and slated for completion in one year to May 31, 2016.

**3.1.13.** However, our review of Petrojam’s records revealed that six months after the construction works began, the Main Contractor had difficulties proceeding with works owing to financial constraints. Consequently, the Architectural Consultant issued four default notices and a warning letter to the Main Contractor, between December 2015 and December 2016, for ‘failure to consistently and diligently proceed with the works’. Whereas the Architectural Consultant in August 2016 recommended the termination of the Main Contractor in an effort to prevent further delays, Petrojam procured the building materials valuing \$23 million for the Main Contractor use, which it later recovered. The Main Contractor did not complete the construction works until November 12, 2017<sup>48</sup>. Consequently, Petrojam approved additional variations amounting to \$7 million to the Architectural Consultant for post-contract monitoring, resulting from delays in construction of the Laboratory.

**3.1.14.** Petrojam ended the post-contract monitoring consultancy arrangement in February 2017 prior to the completion of the construction works and directly engaged the Mechanical/Electrical Engineering Consultant and Quantity Surveying Consultant #1 who were sub-contractors of the Architectural

<sup>48</sup> Certificate of Practical Completion issued January 11, 2018



Consultant. The engagement was at an additional cost of \$2.2 million for the mechanical and electrical engineering and \$2.5 million for quantity surveying services for four months<sup>49</sup>, in the context where the cost for these services were already included in the pre-contract sum under the initial consultancy arrangement.

**3.1.15.** We observed that the Mechanical/Electrical Engineering Consultant and Quantity Surveying Consultant #1 were responsible for assessing the construction works done to date, prepare payment certificates for the Main Contractor and prepare final account. The duration of the engagements extended for six additional weeks resulting in variation payments of \$1.1 million, following which, Petrojam ended the engagements. Subsequently, Petrojam took the decision to engage Quantity Surveying Consultant #2 and the Lab Assessor, in October 2017 and February 2018 respectively, for three months each, and incurred costs of \$6.1 million inclusive of variation of \$349,500.

**3.1.16.** Further, Petrojam engaged the services of three other contractors to the project for the construction of the car park for \$26.1 million, purchase of flame arc detectors for \$14.2 million and to conduct rehabilitative works on a tank to store water for the Laboratory for \$7.95 million.

**3.1.17.** The Main Contractor achieved practical completion of the construction works on November 12, 2017, 530 days after the slated completion date of May 31, 2016. This resulted in liquidated damages amounting to \$2.4 million per the rates specified in the contract<sup>50</sup>. However, we saw no evidence that Petrojam exercised its right to collect these sums.

<sup>49</sup> Mechanical and Electrical Engineer (April 19, 2017 to August 18, 2017); Quantity Surveyor (May 2, 2017 to September 1, 2017)

<sup>50</sup> Clause 22 of the Contract indicated half a per cent of contract sum per calendar day (0.5% x 337.3 million x 530/365)

### 3(b): North Perimeter Fence Replacement

#### Bad business decision costed Petrojam in excess of \$67 million on fence construction

**3.1.18.** Petrojam highlighted that the rehabilitation works along Marcus Garvey Drive had created a need for a new perimeter fence. The elevation and widening of the roadway resulted in a lowering of the height of sections of its existing perimeter fence and narrowing of the boundary line between the fence and the roadway creating security and safety vulnerabilities<sup>51</sup>. A new perimeter fence was necessary to prevent unauthorised access to tanks/pipelines; reduce the risk of financial loss due to theft; and protect the pipelines near to the perimeter fence.

**3.1.19.** Petrojam initially utilized the direct contracting methodology to engage National Works Agency (NWA) for the construction of the perimeter fence. Petrojam was permitted, under the Procurement Guidelines, to directly engage NWA, considering it was a procurement between two government entities<sup>52</sup>. In June 2016, NWA provided Petrojam with preliminary drawings for the perimeter fence, which Petrojam agreed to. NWA further submitted an estimate of \$29.8 million for the construction of the perimeter fence on November 8, 2016<sup>53</sup>, which Petrojam formally accepted on November 15, 2016. NWA engaged a company, to construct the perimeter fence, as a variation to its ongoing contract with the Company for the rehabilitation of the Marcus Garvey Drive. Up to November 28 2016, Petrojam and NWA were negotiating the terms of the Memorandum of Understanding for finalization.

**3.1.20.** On December 13, 2016, 21 days after being employed to Petrojam, the General Manager wrote to NWA informing that "*Petrojam has subsequently decided not to pursue this project through the NWA/[name deleted]*". Further, in a memorandum dated July 5, 2017, the General Manager advised the Permanent Secretary that *up to December 2016 Petrojam and NWA were unable to come to a final agreement and that despite multiple requests to the NWA, we were not provided with any elevation drawings detailing the final height of the road.*"

**3.1.21.** However, Petrojam records indicated that from as far back as June 2014, it was aware of the impending Marcus Garvey Drive Improvement Project, as NWA, in considering the final road design, conducted joint site visits and had ongoing discussions with Petrojam regarding the potential business impact of the MIDP on Petrojam's business operations. Review of minutes dated June 19, 2014 indicated

<sup>51</sup> Sections of the existing boundary fence reduced from 8ft above grade to 4'6ft above grade as a result of the roadway elevation.

<sup>52</sup> Section 1.2.3 GOJ Procurement Guidelines - Procurement Between Two Government Entities: Government entities are permitted to enter into contractual agreements with each other for the provision of goods and services by means of Direct Contracting. For such procurement, the Procuring Entity must ensure that the rates being charged are competitive and offer value for money. Where it is clear that value for money will not be obtained, the Procuring Entity should revert to a competitive tender process as stipulated in the procedures.

<sup>53</sup> \$48 million (include NWA's management fees of \$4.2 million)

that “The chain link boundary fence would need to be replaced with reinforced concrete wall in order to provide greater protection for the exposed pipelines that run parallel to and not far within the property from the fence.” Moreover, NWA publicly accessible documents (dated March 21, 2016) indicated that the road would be lifted by as much as three feet in sections.

**3.1.22.** We found no evidence that the Permanent Secretary responded to the General Manager’s letter. However, in contrast, Petrojam did not present any evidence that it had requested the drawings from NWA, detailing the final height of the road. Our review of correspondences among Petrojam, NWA and the Company during the period June 2014 and December 2016, did not highlight any discussions regarding the height of the road or identify it as a critical factor for executing works. We observed that in an email dated December 6, 2016, the Manager for Strategic Planning and Business advised the General Manager of the likely implications of aborting the agreement with NWA as the cost would likely be higher than that proposed by NWA/[name deleted].

**3.1.23.** On December 15, 2016, the General Manager signed an emergency pre-approval citing “*preserving public property*” as the basis for evoking emergency, which is an allowable circumstance in the Procurement Guidelines. On January 25, 2017, Petrojam utilized the direct contracting emergency methodology in engaging a contractor at the cost of \$96.8 million to execute the work on the perimeter fence, bypassing the input of the Procurement Committee and Board of Directors. The procurement guidelines require that emergency procurement must be of a sudden, unexpected and a pressing necessity or exigency. Petrojam did not provide any justification that these elements were met.

**3.1.24.** Further, the decision by the General Manager to discontinue the arrangement with NWA was not valid as a comparison of the drawings provided by NWA and the final height of the fence constructed by the Contractor for the height of the fence showed no variation. Consequently, the General Manager was not acting in the spirit of the Procurement Guidelines in ensuring that the value for money objective was met before awarding emergency contract<sup>54</sup>. Notwithstanding the varying of the scope of work to include an additional 200 meters of fence and other modifications that costed \$9.7 million, the General Manager made a bad business decision costing Petrojam \$67 million in excess of the NWA’s estimate. In addition, the contract was slated for completion by April 25, 2017; however, practical completion was achieved 78 days after, on July 12, 2017. Petrojam did not exercise the liquidated damages clause in collecting \$207,000, due to time overrun of 78 days on the contract<sup>55</sup>.

**3.1.25.** We noted that the previous General Manager who was in negotiation with NWA for the construction of the fence assumed the role as Group General Manager of Petroleum Corporation of Jamaica (PCJ), the Parent Company of Petrojam. However, we found no evidence of any input from PCJ

<sup>54</sup> **Procurement Guidelines Section 1.1.5 CONTRACTING UNDER EMERGENCY CIRCUMSTANCES:** The need for such procurement must be **sudden, unexpected and a pressing necessity or exigency**. Where an emergency situation exists as defined above, the Procuring Entity may engage a contractor by means of Direct Contracting...The Head of the Procuring Entity shall give approval for the issuing of emergency contracts up to a maximum value of J\$100 million...Procuring entities shall ensure that the value for money objective is met before awarding emergency contracts.

<sup>55</sup> Clause 45 of the Contract indicated a daily rate of 0.01 per cent per calendar day (0.01% x 96.8 million x 78/365)

in the decision to abort the arrangement with NWA. This, coupled with the apparent non-response by the Permanent Secretary to the General Manager's decision, showed a system of weak oversight from PCJ, the Parent Company, and MSET, the Parent Ministry.

**3(c): Main Docking Facility**

**3.1.26.** From our review of Petrojam's records, we observed that during the period December 2009 to April 2018, Petrojam made payments totaling \$2.9 billion (US\$27.6 million) for goods, services and works associated with the restoration of its Main Dock facility. Our review of four contracts, valuing \$783.6 million, identified deficiencies in the planning and execution of the contracts, which resulted in time overruns of almost five years, with costly variations amounting to \$450 million (**Table 17**).

**Table 17 Analysis of four contracts awarded for the rehabilitation of Petrojam's main dock**

No	Contract Description	Contractors	Initial Contract Cost \$'000	Total Approved Variations \$'000	Adjusted Contract Cost \$'000	Variation Increase	Total Spent to date \$'000	Total Variation Paid/(Saved) \$'000
1	Civil Engineering Works for Main Dock	Contractor #1	124,946	235,737	360,683	189%	349,631	224,685
2	Restoration of Mechanical and Electrical Facilities	Contractor #2	245,394	13,497	258,891	6%	201,215 <sup>56</sup>	(44,179)
3	Restoration of Mechanical and Electrical Facilities	Contractor #3	408,090	328,973	737,063	81%	675,170	267,080
4	Installation of Marine Loading Arms at Main Dock	Contractor #4	5,206	2,381	7,587	46%	7,587	2,381
<b>Total</b>			<b>783,636</b>	<b>580,588</b>	<b>1,364,224</b>	<b>80.5%</b>	<b>1,233,603</b>	<b>449,967</b>

Source: AuGD's analysis of Petrojam's Project data

**3.1.27.** On June 1, 2009, a marine oil tanker collided with Petrojam's main docking facility causing significant structural, piping, mechanical and electrical damages. Petrojam estimated the cost of repairs to be US\$15 million. Petrojam received US\$12.6 million in compensation from the insurance of the owners of the Marine Oil Tanker. Petrojam indicated that it received an additional US\$4.1 million, however we have not verified this.

**3.1.28.** Following the collision, Petrojam engaged a Contractor (Contractor #1), at a cost of US\$1.2 million to conduct emergency dock recovery works during the period June 3-29, 2009. Three months later in September 2009, Cabinet by way of Decision Number 40/09, approved the award of a contract to the same contractor to complete the emergency works. However, Petrojam did not provide the procurement records and the related contract for scrutiny. In the absence of these documents, we were unable to assess fully the scope of works, timeline and deliverables under this contract. Notwithstanding, we

<sup>56</sup> Includes settlement claim of \$77 million

gleaned from a cabinet submission dated June 8, 2010 that Petrojam utilized the DC-E procurement methodology to re-engage Contractor #1 at a cost of \$124.9 million to conduct civil engineering works to the Main Dock for six months, from April 1, 2010 to September 30, 2010. The duration of the works was further extended for six months to April 30, 2011, with the cost of the contract increasing to \$360.7 million – a variation of \$235.7 million resulting from *‘several unforeseen circumstances that have caused an upward revision in the scope and the volume of work to repair the dock’*<sup>57</sup>. However, at practical completion on May 21, 2012, the total actual variation paid was \$224.7 million.

### Excessive rental costs of \$114.5 million (US\$1.1 million) owing to delays in completing the project

**3.1.29.** In addition, the damage to the dock created an urgent need for use of temporary anchors to stabilize the vessels during offloading. Petrojam conducted an assessment to determine whether to rent or buy the anchors. The assessment indicated that it would cost Petrojam US\$424,000 to rent three anchors for nine months or US\$427,798 to purchase the anchors (**Table 18**). Petrojam indicated that the cost to purchase the anchors did not consider costs associated with regular inspections and repairs and the cost to remove the anchors at the end of the project, which would likely be more than the installation cost. In addition, the anchors had no salvage value. Considering these factors, Petrojam decided to rent the anchors. Whereas Petrojam may have made a good decision to rent the anchors, its failure to plan and execute the project within the agreed timelines resulted in Petrojam paying a total of US\$1.1 million in rental costs. In a memorandum dated August 10, 2015, we noted that Petrojam rented the anchors up to December 2015.

**Table 18 Cost options to buy or rent anchors**

Option 1: Rent		Option 2: Buy	
Description	Cost (US\$)	Description	Cost (US\$)
Rental of three anchors at \$10,000 each for nine months	270,000	Purchase cost	302,798
Installation of support system	154,000	Installation	125,000
<b>Total</b>	<b>424,000</b>		<b>427,798</b>

Source: AuGD's analysis of Petrojam's Project data

### Electrical and Mechanical Repairs to Main Dock

**3.1.30.** In March 2011, Petrojam breached the procurement guidelines by utilizing the limited tender procurement methodology instead of LCB bidding in selecting Contractor #2 to carry out electrical and mechanical repairs to the Main Dock, at a cost of \$245.3 million. However, it was not until July 18, 2012, 16 months later, that Petrojam awarded the contract, at which time the price increased to \$258.8 million arising from a variation cost of \$13.5 million for labour rate escalations.

**3.1.31.** Work on the project was scheduled for five months between July 23, 2012 to December 29, 2012. Petrojam terminated the contract on September 3, 2013, eight months after the scheduled deadline, citing Contractor #2 poor workmanship and failure to meet key milestone dates. At that time, Contractor

<sup>57</sup> Cabinet Submission dated June 14, 2011

#2 completed only 45 per cent of the work and received payments totaling \$124.2 million, which is commensurate with the value of work done.

### **Petrojam paid \$77 million as settlement for improper contract termination**

**3.1.32.** In January 2014, Contractor #2 submitted a claim for \$375 million and threatened to proceed to arbitration to recover the amount<sup>58</sup>. Contractor #2 contended that Petrojam improperly terminated the contract, as Petrojam did not issue prior notices of default, in keeping with clause 34.6 of the contract<sup>59</sup>. Petrojam indicated that it held frequent project meetings with Contractor #2 wherein project delays and continued poor contract performance were discussed climaxing with a July 5, 2013 meeting at which Petrojam noted its intentions to terminate the contract. On April 23, 2014, Petrojam sought legal advice on whether the emails and meeting notes could form sufficient notices of default to Contractor #2. By way of letter dated April 29, 2014, Petrojam's lawyers indicated that *'the meeting notes and emails are not in compliance with clause 34.6 and do not, in any event, refer to the provisions of the contract in such a manner as to indicate that they were notices of default'*. Given the Contractor #2's non performance, Petrojam exercised its legal right to call the Performance Bond of \$24.5 million. However, this was rescinded to allow for negotiations which concluded with a settlement agreement between both parties. On July 29, 2014, Petrojam paid \$77 million as settlement to the Contractor.

### **New Contract signed two years later**

**3.1.33.** Approximately two years after, on August 24 2015, Petrojam engaged Contractor #3 to restore the mechanical and electrical facilities at Main Dock and the Esso Kingston Terminal (EKT) Dock, at a cost of \$408.1 million (US\$3.4 million). The new restoration work commenced on October 8, 2015 and was scheduled for 118 calendar days to end February 2, 2016. Under the contract, Petrojam agreed to provide Contractor #3 with an available window of 15 days each month for four months to execute 'Hot Works'<sup>60</sup>.

**3.1.34.** However, Petrojam's failure to provide Contractor #3 with access to the facility for the agreed 15 days each month resulted in the contract being delayed by 256 days with a total variation cost of \$329 million (US\$2.5 million), in the context of the practical completion date being October 17, 2016 (**Table 19**). At the practical completion date, Petrojam paid a total of \$675.2 million to Contractor #3, \$267.1 million in excess of the original contract value. Petrojam indicated that the shipping traffic prevented it from providing access to the facility as agreed, as well as the tight operating schedule at the facility due to the very nature of its operations. Consequently, Contractor #3 submitted additional claims for equipment standby.

<sup>58</sup> Termination of Contract – Settlement Negotiations Summary dated June 30, 2014

<sup>59</sup> Clause 34.6 -

<sup>60</sup> Working with ignition sources near flammable material is referred to as "hot work." Welding, Soldering and cutting are examples of hot work

**Table 19 Analysis of variations for rehabilitation of Petrojam's Main Dock**

No.	Description	Procurement Change Request Approval Date	Variation Amount US\$	% Variation	Cumulative Contract Sum	Cumulative Contract Variation	Approval Required	Approval Obtained
0	Original Contract	-	-	-	3,405,728	-	-	-
1	Additional pipeline work (Variation 1)	Jan 22, 2016	294,881	8.66%	3,700,610	8.66%	GM	GM
2	Removal of various BOQ items from contract and additional pipeline works (Variation 2)	Mar 18, 2016	(116,358)	-3.42%	3,584,252	5.24%	GM	GM
3	a) Delays and extension of time b) Cost to replace entire submarine section of the 20" crude oil pipeline c) Additional unforeseen works d) Removal of BOQ line items	Jan 18, 2017	2,045,435 309,755 55,236 (46,140)	69.43%	5,948,538	74.67%	Cabinet	None
	<b>Total</b>		<b>2,542,809</b>					

Source: AuGD's analysis of Petrojam's contract records

**3.1.35.** Similarly, in July 2015, Petrojam awarded a \$5.2 million (US\$40,502) contract to Contractor #4 for the installation of Marine Loading Arms at the Main Dock, over a period of 20 days commencing on July 4 2015. However, owing to Petrojam's failure to make available to Contractor #4 the number of agreed days to execute the works, the General Manager on November 24, 2016 approved a variation of \$2.3 million (US\$18,505).

**3.1.36.** In both instances, the variation costs exceeded the allowable cumulative threshold of 10 per cent, which required NCC's endorsement and Cabinet's approval prior to proceeding with the works. A letter from the Permanent Secretary should support requests for NCC's endorsement in accordance with the procurement guidelines<sup>61</sup>. In the first instance, the variation cost of US\$2.5 million resulted in a cumulative variation of 65 per cent; however, Petrojam did not inform the Permanent Secretary of the variation, with a view to obtain the required endorsement and approval, prior to proceeding with the works. We observed that the General Manager approved the procurement change request on January 18, 2017, which was 93 days after the practical completion date. It was five months after the practical completion date that Petrojam by way of letter dated February 2, 2017, sought the endorsement of the Permanent Secretary for the variations. In response to Petrojam's endorsement request, the Permanent Secretary stated that:

<sup>61</sup> Volume 2, Section 1.5.3 of the Hand Book of Public Sector Procurement which states that "the Head of the Procuring entity may approve variations for related works up to a cumulative value of 10%. Variations in excess of 10% will require NCC endorsement; and Cabinet Approval. Once the cumulative value of variations exceed 10% of the original contract sum, all previously approved variations shall be reported to the NCC, with a supporting letter from the Permanent Secretary".



*'Petrojam should have sought the support of the Permanent Secretary and the approval of the NCC and Cabinet prior to undertaking the works. The Ministry views such an error as egregious and as such request that Petrojam provides a full report to the Ministry on the issues which led to Petrojam not following the GOJ Procurement Procedures with respect to this contract.'*<sup>62</sup>

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<sup>62</sup> Permanent Secretary's letter dated February 15, 2017

**3(d): F-2 Furnace Replacement****Table 20 Analysis of variations for F-2 Furnace Replacement Project**

Contract Description	Initial Contract Cost \$'000	Variation (Scope & Shipping) \$'000	Variation (Materials Purchased) \$'000	Total Variation Paid \$'000	Adjusted Contract Cost \$'000	Total Spent to date \$'000
F-2 Furnace Replacement	245,495	22,646	15,317	37,963	283,458	283,458

Source: Petrojam's procurement and financial records

**3.1.37.** Petrojam operates a Powerformer F-2 Furnace at its refinery, which it uses to convert crude oil into finished products. As part of its routine reliability assessment, Petrojam utilised the services of two external engineering firms to conduct independent assessments of the furnace. The assessments concluded that the furnace was experiencing high tube metal temperatures in excess of the maximum allowable temperature by design<sup>63</sup>. This was a recurrent issue observed in 12 assessment reports dated between June 2014 and January 2017. To address the overheating, Petrojam's internal engineers recommended adjustments of the necessary parameters to reduce the tube temperatures and continued monitoring of the furnace tubes. Of note, the General Manager engaged the service of another engineering firm to carry out an "emergency" inspection on January 9, 2017. We could not ascertain the basis on which the General Manager made this decision in the context where a routine inspection was conducted the day before on January 8, 2017. We observed that both assessments concluded similar results.

**3.1.38.** On January 24, 2017, the General Manager approved the use of the DC methodology, in breach of the procurement guidelines by engaging an overseas consultant at a cost of \$3.3 million (US\$25,680), *to perform a mechanical integrity and operational assessment of the F-2 Furnace for continued service*. Despite being long aware of the issues with the furnace, Petrojam indicated on the procurement request that it utilized the DC methodology because of '*extreme urgency brought about by unforeseen events and the product/service could not be obtained in time through a competitive bidding process*'. The Consultant conducted the assessment between January 28 and 31, 2017. The Consultant's report dated February 6, 2017 indicated that the furnace's preheat temperature was below requirement, resulting in an additional heat load on the furnace. The report outlined several solutions, which included the need for the redesign and replacement of the furnace in the long term.

**3.1.39.** Subsequently, a 7-member team consisting of Petrojam's engineers and safety personnel conducted a Root Cause Failure Analysis (RCFA) and concluded in its report dated June 2, 2017, that the

<sup>63</sup> The F-2 Furnace tube wall temperatures were firing in excess of the design wall temperature of 1116°F, ranging from a low of 1123.7°F to a high of 1610.4°F.

causal factors of the F-2 Furnace's low preheat temperature were external to the furnace and recommended that the furnace not be replaced<sup>64</sup>. By way of email dated June 6, 2017, the General Manager refuted the conclusion of the RCFA team on the basis that *"the RCFA deposition is STILL based on too many unacceptable hypothesis, assumptions and unsubstantiated/unverified calculations. I am hereby making a FINAL decision to proceed with the purchase of F-2 Furnace replacement and this decision is based on the following..."*

**3.1.40.** Petrojam utilized the limited tendering methodology to invite three prospective bidders, including the Consultant, for the design and supply of a new powerformer furnace, which Petrojam estimated to cost \$138.5 million (US\$1.065 million). This was in breach of the procurement guidelines, which required the use of International Competitive Bidding (ICB) or Local Competitive Bidding (LCB)<sup>65</sup> for contracts valued above \$60 million. The use of the limited tender methodology could have restricted Petrojam from obtaining quality and the best price.

**3.1.41.** Our review of the bid evaluation documents revealed flaws in the bid selection process. In the first instance, Petrojam deemed one of the bidders (Bidder #2) non-responsive due to non-submission of a declaration. However, the Invitation to Bidders did not make it a mandatory requirement to submit a declaration.

**3.1.42.** We found inconsistencies in the invitation to bid; in that, Item 1.2 indicated a completion and delivery time of 90 calendar days, while Section 6 of the Schedule of Requirements indicated *"one hundred and ninety (90) calendar days after award of contract"* [sic]. Petrojam indicated that it communicated the correction of 90 days delivery time to all bidders, however, Petrojam did not provide evidence that the communication was received by all bidders. Petrojam rejected Bidder #3 who indicated a schedule of 190 days on the basis that the bidder failed to meet the 90 day delivery timeline; despite the bidder's costing being 19 per cent below the comparable estimate. Petrojam selected Bidder #1 on the basis that the Consultant could design and supply the furnace within 68 days at a cost of US\$1.9 million, which was 80 per cent in excess of Petrojam's comparable estimate and more than 100 per cent above the lower bidder (Table 21).

<sup>64</sup> Root Cause Failure Analysis (RCFA) Report on the Underperformance of F-2 Furnace. RCFA team members included two reliability and mechanical engineers, two senior process engineers, two process operators and one safety officer.

<sup>65</sup> Ministry of Finance and the Public Service Circular dated September 28, 2016 based on Cabinet Decision No. 30/16 dated September 12, 2016; limits and threshold will be increased effective October 1, 2016

**Table 21 Extract from Bid Evaluation**

Documents Requested/ Information Requirement	Bidder #1 (Consultant)	Bidder #2	Bidder #3
Form of Bid	✓	✓	✓
Bill of Quantities/Price Schedule	✓	✓	✓
Declaration	✓	-	✓
Disclaimer	✓	✓	✓
Decision: Responsive (YES/No)	YES	NO	YES
➤ Bid Quotation (US\$)	1,919,200	1,879,000	863,717
➤ Delivery time proposed	68 days	336 days	190 days

Source: Petrojam's bidding documents

**3.1.43.** Our review of the Consultant's bid revealed that it included additional items that were not part of the bid specifications, thereby increasing the bid amount. On three occasions<sup>66</sup>, the Procurement Committee rejected the Bid Evaluation Committee's recommendation to award the contract to the Consultant and requested further verification of the Consultant's ability to undertake the contract. However, we observed that the Procurement Committee subsequently endorsed the procurement which was approved by the General Manager. We saw no evidence that the requested verification was conducted to inform approval by the Procurement Committee. Also, Petrojam did not provide evidence that the procurement was approved by the Board of Directors. By way of correspondence dated June 9, 2017, addressed to the Permanent Secretary MSET, the NCC endorsed the award of the contract to the Consultant for US\$1.9 million.

By way of correspondence dated June 26, 2017, the Permanent Secretary, MSET indicated that the Infrastructure Committee of Cabinet recommended the approval of the contract to Consultant (*name deleted*) for US\$1.9 million, in keeping with the endorsement of the NCC. The Cabinet approved the recommendation of the Infrastructure Committee.

**3.1.44.** On July 10, 2017, Petrojam and the Consultant signed an agreement for the fabrication of the new Powerformer furnace (F-2) for \$245.5 million (US\$1.919 million). The works were scheduled to last 68 days after Petrojam's final approval of all drawings, including final engineering information. However, inadequate planning, poor project execution and monitoring resulted in variations of \$38 million (US\$301,446) or 16 per cent of the contract sum. We requested evidence of the contractor's submission of the engineering drawing and Petrojam's approval in order to confirm Petrojam's acceptance, timeline for the remaining 68 days of fabrication and the basis for the first payment. We found no evidence that Petrojam approved all the drawings and engineering information submitted by the Consultant, before fabrication commenced.

**3.1.45.** In September 2017, Petrojam requested a change in the construction material proposed by the Consultant to reflect what was stipulated in its bidding document. However, the Consultant indicated that the tubes were already fabricated with the material it proposed. Consequently, Petrojam purchased the required material at a cost of \$15.3 million (US\$121,630) for the Consultant's use. Petrojam did not

<sup>66</sup> April 13, 19 & May 4, 2017.

hold the Consultant responsible for not obtaining its approval of the drawing prior to proceeding with fabrications, in that it did not recover the amount from the Consultant. Further, Petrojam had to pay transport delay charges of \$13.3 million (US\$105,659) for cancellation of the shipping to allow for the re-works and varied the scope of works resulting in an additional variation of \$9.3 million (US\$74,157).

**3.1.46.** We observed that in May 2018, the Consultant delivered all the components of the furnace to Petrojam; however, Petrojam is yet to assemble the components and commission the furnace into use. As such, Petrojam is yet to demonstrate whether the furnace has met the stipulated specifications to reduce the tubes experiencing high metal temperatures in the radiant tubes and frequent heavy fouling on the convection section. Petrojam is exposed to financial risks as the contract stipulates a warranty period of 18 months from the date of shipment<sup>67</sup>. Petrojam is unable to indicate a timeline for the assembly and installation of the furnace.

**3.1.47.** Petrojam subsequently on May 3, 2018, utilised the direct contracting methodology to re-engage the Consultant at a cost of US\$187,395 (24 million) to provide technical assessment of the powerformer Preheat Train. Petrojam's initial comparable estimates amounted to US\$49,000; however, upon the submission of the Consultant's bid, Petrojam revised its estimate to US\$181,970 indicating that it was understated as *"certain aspects of the services were not factored in when the estimate was put together"*. We noted that this engagement was to address issues contributing to the overheating of the furnace.

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<sup>67</sup> Clause 12.2 and Schedule (Item 10) of the contract agreement

**CASE STUDY 4: Donations of \$25 million lacks transparency and accountability**

**4.1.1.** By way of letter dated March 21, 2017, a citizens' association (Citizens' Association #1), requested donation of \$9,000,381.50 for the construction of an additional section of its community centre – for classrooms and computer laboratory. The request was supported by a bill of estimate from the St. Catherine Municipal Corporation. The request was in conformity with Section 2.1(a) of the Board approved Donation Policy<sup>68</sup>, which allows for the community development and activities.

**4.1.2.** In a memorandum dated April 5, 2017, the General Manager requested the Board to approve the donation for the Community Centre. The memorandum was supported by a board submission, which was signed on April 4, 2017 by the General Manager and the Corporate Social Responsibility Officer (CSR), who signed on behalf of the Manager, HRDA. The Submission was circulated on April 6, 2017 to Board Members for their consideration, via round-robin resolution. The round-robin resolution was approved by the Board on April 6, 2017.

**4.1.3.** By way of letter dated April 24, 2017, Citizens' Association #1 advised Petrojam that it had engaged a contractor to execute the construction works and requested Petrojam to make all payments to the Contractor. On May 1, 2017, Petrojam prepared a cheque for \$9,000,381.50 payable to the Contractor. However, Petrojam subsequently cancelled the payment on May 10, 2017. Petrojam presented for our review, a letter dated July 5, 2017, purportedly from the Citizens' Association #1 indicating that it was no longer interested in the sponsorship.

**4.1.4.** Petrojam provided correspondence dated June 24, 2017 from another Citizens' Association (Citizens' Association #2) requesting donation for the renovation of its community centre. Of note, we observed that, by way of email dated July 5, 2017, a Board Member of PCJ submitted to Petrojam's General Manager the letter from Citizens' Association #1 cancelling its request and the new request from Citizens' Association #2.

**4.1.5.** The General Manager subsequently instructed the CSR Officer, via email dated July 5, 2017, to *"prepare Board Submission documents to use the already approved sums for this new request."* We obtained evidence in a memorandum dated July 5, 2017, from the General Manager, along with the Submission, seeking the Board's permission to repurpose the \$9,000,381.50 that was previously approved for Citizens' Association #1 to Citizens' Association #2. The Board Submission prepared and signed on July 6, 2017 by the Manager, HRDA was endorsed by the General Manager and a representative of the Human Resource Sub-Committee and approved by the Chairman of Board, without the input of the other Board members. Petrojam did not provide evidence that Citizens' Association #2 submitted a bill of estimate; however, we noted that a cheque with the sum of \$9,000,381.50 was made payable directly to Citizens' Association #2 on July 13, 2017.

<sup>68</sup> Last updated and reformatted in May 2006

Section 3.0(b) of the policy stipulates that *“established community organisations whose operations can be verified”* are eligible for funding. However, our review of the Department of Co-operatives and Friendly Societies (DCFS) records updated to October 2018 showed no evidence that both citizens’ associations were registered.

### Donations to two schools

**4.1.6.** On April 6, 2017, Petrojam’s Board also approved donations of \$10,024,531 to a Primary School for the construction of two classrooms and \$6 million to a High School for the construction of a mini-stadium on a leased property<sup>69</sup>. The request from the Primary School was supported by a bill of estimate under the signature of the Superintendent of Roads and Works, St. Catherine Municipal Corporation. However, we noted that the request for the Primary School was made by a benevolent society in letter dated March 12, 2017. On May 1, 2017, Petrojam prepared a cheque for the sum of \$10,024,531 to the same Contractor engaged in the case of the Citizens’ Association #1 and subsequently cancelled the cheque on May 10, 2017. Petrojam did not provide a reason for the cancellation. A new cheque dated June 30, 2017 was paid to the Primary School.

**4.1.7.** Petrojam did not provide evidence of the donation request from the High School and a bill of estimates for the construction of the mini-stadium. However, the General Manager in a memorandum dated March 29, 2017, which accompanied the Board Submission, indicated that *“Petrojam was approached to allocate funds totaling six million (\$6,000,000) for the Kingston East and Port Royal constituency to the [name deleted] High School Sporting Programme.”* Of note, we observed that in a letter dated April 3, 2017, a Member of Parliament wrote to the Minister of Science, Energy and Technology conveying *“deep-felt appreciation as it relates to the allocation at caption<sup>70</sup> which we are to receive...”*. We noted that this was before the Board approved the donation on April 6, 2017. Petrojam prepared a cheque dated July 4, 2017 made payable to the High School. Section 1.3 of Petrojam’s Donation Policy states *“the company involvement and administration of this policy will in no way be influenced by personal, political, religious or ethnic considerations.”*

### No due-diligence in granting donations

**4.1.8.** We noted a lack of due diligence in approving donations. Section 4.1 (b)(ii) of the policy states that donation requests will be accepted or rejected based on *“verification that the recipient organisation is an established and functioning community.”* For example, there was no indication that Petrojam evaluated whether the two citizens’ associations were legally established and operational. Notwithstanding two recipient organisations submitted bill of estimates, Petrojam did not verify that the organisations obtained the requisite building approval from the Municipal Corporation. Given that the Ministry of Education has overarching responsibility for infrastructural development in schools, we expected Petrojam to obtain from the Primary and High Schools an approval or endorsement from the Ministry of Education for the

<sup>69</sup> The primary and high schools are located in the parishes of St. Catherine and Kingston, respectively.

<sup>70</sup> Re: \$6,000,000 allocation from Petrojam Limited

construction works. Consequently, we found that the basis for approving donations lacked transparency and accountability, as necessary due diligence was not undertaken.

**4.1.9.** Owing to Petrojam's failure to undertake the necessary due diligence before committing funds for donations, we were unable to conclude whether the donation resulted in achieving the policy imperative<sup>71</sup> of *"assisting in the development of the community in which the refinery is located, as well as assisting in the activities of the wider community, and supporting education and national events"*. For example, to date, we found no evidence that Petrojam verified that the Community Centre for Citizens' Association #2 was renovated. Petrojam had no assurance that Citizens' Association #2, the Primary School and the High School possessed or engaged the required competence to satisfactorily complete the construction and renovation works. The absence of post-donation value added assessment prevented Petrojam from determining whether the community centre was renovated and the mini-stadium and classroom were constructed.

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<sup>71</sup> Section 1.1 of the Donation Policy



**CASE STUDY 5: Deficiencies in Petrojam's Human Resource Management Practices**

**5.1.1.** We found that Petrojam's recruitment and selection processes were not always consistent with good practices, its own employment and recruitment policies and related circulars issued by the Ministry of Finance and the Public Service. Petrojam's records indicated that it recruited 76 new employees between January 2015 and May 2018. We assessed the recruitment processes for a sample of 25 individuals recruited within that period, and found inconsistencies in the selection process. For example, we found no evidence that Petrojam advertised the vacancy for 13 positions, including sensitive positions such as the General Manager and Manager, Refinery and Optimization ([Appendix 3](#)). This was in breach of Sections 4 and 5 of the Recruitment Policy, which requires job vacancies to be advertised internally and externally.

**5.1.2.** Petrojam did not provide a job description for the position of General Manager, which should outline the requirements, including the levels of qualification, for the position. Notwithstanding, we expected Petrojam to require the incumbent to possess at least a post graduate degree or equivalent professional certification. In addition, the position of Manager, Human Resource Development and Administration (Manager, HRDA), based on the advertisement for the position, required a post graduate degree. However, the General Manager and Manager, Human Resource both had a first degree in their respective field. Petrojam's employment policy indicated that *"the Company will not employ any candidate who cannot meet the minimum educational requirements for the position for which he or she is considered"*.

**5.1.3.** We noted that the employment letter dated January 30, 2017 for the Manager, HRDA reflected annualized compensation package of \$10.58 million with a probationary period of four months, effective February 13, 2017. The General Manager and Manager, HRDA signed the letter on February 1, 2017 and February 2, 2017 respectively. We noted that the Manager, HRDA received two months' salary at the rate of \$10.58 million per annum, after which the General Manager amended the employment letter to reflect an increased salary of \$12.98 million and waiver of the probationary period. We noted that the amended letter reflected the same dates as the initial letter and the Manager, HRDA received two months' retroactive salary (**Table 22**).

**Table 22** Manager, HRDA Compensation Package

Details	Initial Employment Letter \$	Amended Employment Letter \$
<b>Basic or Pensionable Salary</b>	658,333	842,716
<b>Transportation and Subsistence (Non-Taxable)</b>	111,802	111,802
<b>Duty Allowance</b>	57,802	57,802
<b>Other taxable Salary (Non-Pensionable)</b>	53,983	-
<b>Company Contribution to Savings (Non-Pensionable)</b>	-	69,103
<b>Total Monthly Compensation</b>	<b>824,119*</b>	<b>1,081,423</b>
<b>Annualized</b>	<b>10,583,040</b>	<b>12,977,076</b>

\*Less duty allowance

**Source:** Extracted from Petrojam's Employment Offer Letter

**5.1.4.** While we noted that the increase in salary of the Manager, HRDA was within the range of the approved salary scale, the General Manager would have exceeded his authority as movements in the salary should be incremental each year based on performance. In addition, the decision to waive the probationary period was in breach of Section 11.1 of the Employment Policy, which requires Petrojam to “consider the first three months as the probationary period”. Following which, a written evaluation will be required of the employees’ performance to determine suitability. We found no evidence of the Board’s input in the recruitment decision, salary determination and the waiver of the probationary period.

**5.1.5.** We also found evidence in which two individuals were employed despite being rejected by the interviewing panel. In the first instance, an individual was initially interviewed on January 18, 2018 for the position of process engineer<sup>72</sup> on the VDU Project and was rejected by a four member interview panel<sup>73</sup> on the basis of lack of industry, engineering and project experience. Of note, three members of the panel were senior officers on the VDU Project. Twenty-six days later, on February 13, 2018, the individual was re-interviewed for the same position by the Manager, HRDA and Technical Service Manager, who were not part of the first interview panel. The individual was then recommended “for a more strategic role on the project given intellect, expertise and strategic competencies”. The individual was employed as the head of the Project in the capacity as Director, VDU Project<sup>74</sup> - a position which was not included on the staff structure for the VDU Project. The decision by Manager, HRDA and Technical Service Manager to overturn the decision of the interview panel without justification illustrates deficiencies in Petrojam’s recruitment process.

**5.1.6.** In the second instance, the Manager, HRDA, also employed her sibling in the position of Instrument and Electrical Technician, although the individual was rejected by the interview panel on May 10, 2017, on the basis of lack of experience and qualification. This engagement was an explicit act of nepotism. The Manager, HRDA, breached Petrojam’s Employment Policy, which prohibits the employment of siblings<sup>75</sup>. Further, the Manager, HRDA’s sibling was shortlisted although the position was only advertised internally. In both instances, the Manager, HRDA also breached Section 1 of the Employment Policy, which states that “the employment and promotion of an individual will be based upon that individual experience, qualifications, competency, and potential”.

<sup>72</sup> Process Engineer Annualized Compensation Package \$2.4 million.

<sup>73</sup> Manager, Strategic Planning and Business, Recruitment officer, Senior Supervisor Process Engineer and Mechanical Project Engineer Coordinator.

<sup>74</sup> Director, VDU Project Annualized Compensation Package \$8 million.

<sup>75</sup> Employment Policy Section 12.1 “The company may, in its absolute discretion, consider employment applications of employees’ relatives, excluding spouses (formal or informal), parents and siblings, on such terms as it deems fit. However, they will not be given any particular preference in employment, but will be considered along with other candidates on the basis of qualifications and company standard.”

Section 12.3 “It is the obligation of the prospective employee to declare his familial relationship with any other employee. In the event it is ascertained that an employee failed, for any reasons whatsoever, at the commencement of his or her employment anytime thereafter, to disclose or declare his or her familial relationship with any other employee, then his or her employment subject to the absolute discretion of the company shall be immediately determined.”

**Reassignment and dismissal of Staff without due process**

**5.1.7.** We found that the then General Manager adopted a unilateral practice of terminating and removing staff to lower positions without due-process, which resulted in staff initiating litigation proceedings against Petrojam for unfair dismissal and demotion. For example, the General Manager took the decision to reassign the Head, Procurement Unit and Manager, Reliability and Maintenance to lower positions at the same salary and dismissed the Chief Financial Officer on the basis of sub-par performance. The Chief Financial Officer disputed the dismissal and was subsequently reinstated.

**5.1.8.** In another case, an employee who was reassigned subsequently resigned and initiated legal proceedings citing constructive dismissal. Three other former employees commenced legal proceedings for unfair termination. We did not review the files for these individuals due to ongoing legal proceedings.

**CASE STUDY 6: Unsubstantiated payments under contracts for counselling and consultancy services****Contract for Counselling Services**

**6.1.1.** In March 2017, the Manager, HRDA unilaterally utilized the direct contracting methodology to engage the service of a Counsellor to provide onsite counselling services to employees and their family members at an agreed rate of \$3,000 per hour for 432 hours, costing \$1.3 million<sup>76</sup>. We found no evidence that a formal contract existed for the engagement. We noted that the Human Resource Manager, along with the Counselor, signed a job description in March 2017 prior to seeking the General Manager's approval by way of memorandum dated April 4, 2017. In the memorandum to the General Manager, the Human Resource Manager requested approval to utilize the direct contracting methodology to engage the Counsellor for a period of nine months. The Human Resource Manager indicated that *"the direct contracting method is selected on the basis that the Chaplin [name deleted] is affiliated with the Institute for Training, Research, Assessment, Consultancy and Care (ITRACC) and has the requisite years' experience to provide this invaluable service."*

**6.1.2.** Petrojam did not provide evidence that the Counsellor possessed the required qualification as outlined in the job description<sup>77</sup>. Further, we were not able to determine the basis for employing the service of the Counsellor, in the context where Petrojam was already utilizing the service of a non-profit organization to provide counselling to employees. We noted that Petrojam made payments concurrently to the Non-Profit Organization (NPO) and the Counsellor. Petrojam paid \$759,000 to the NPO over a period of seven years (between May 2011 and April 2018), at an hourly rate of \$4,000. Petrojam engaged the NPO to provide counselling services upon employees' request.

**6.1.3.** For the 9-month period, April 2017 to December 2017, Petrojam made payments totaling \$2.7 million to the Counsellor. Of note, we observed that as at September 2017, the rate increased to \$4,000 per hour; however, Petrojam did not provide the basis for the increase and evidence of approval. In addition, we observed that the Counsellor exceeded the agreed time by 297 hours for which payments were made totaling \$1.4 million. The Counsellor also claimed reimbursement for fuel totaling \$73,100, which was approved for payment by the General Manager. The Manager, HRDA further reengaged the service of the Counsellor for one year, between December 14, 2017 and December 13, 2018, without the knowledge or approval of the Procurement Committee, the General Manager or the Board. We noted that the contract letter was signed by the Manager, HRDA and the Counsellor on April 10, 2018, four months after the commencement of services for the new contract period. As at May 2018, Petrojam made payments totaling \$516,000 and had an outstanding balance of \$626,000 as at September 2018.

**6.1.4.** The Manager, HRDA approved all invoices for payment, which only indicated the number of hours counselling services was provided each day. There was no indication of the number of employees who

<sup>76</sup> Twelve hours per week, 36 weeks at \$3,000 per hour

<sup>77</sup> Masters of Divinity Degree, Master of Arts in Religion or Master of Pastoral Counselling from an accredited school of theology or ordination.

attended counselling sessions and the duration of each session. In addition, the Counsellor was not required to sign, for example, a register indicating the days and number of hours worked. Therefore, we were unable to reconcile the invoices paid to the actual hours worked. Consequently, we could not ascertain how Petrojam satisfied itself that payments made to the Counsellor were for actual counselling services rendered.

**Extracted from email dated July 13, 2018:**

**Acting CFO to Human Resource Manager, Management Committee and Legal Officer**

“The data provided is not sufficient to facilitate payment. There is no clear linkage to indicate that the services were rendered to PJ (*Petrojam*) employees. I am recommending that this contract be reviewed to assess the future value of the services; and to ensure that the arrangement is not a retainer type contract.”

**6.1.5.** We noted that the Human Resource Manager rationalized the need for the service on the basis that *“the staff morale at Petrojam Limited has been recorded at a low percentile as evidenced in the 2016 commissioned Engagement Survey, reporting a forty per cent (40%) engagement score.”* The job description for the service outlined the duties to include, counselling on issues relating to marriage, health, death and job related issues such as termination. However, the survey, which reflects employee’s perception of management and Petrojam’s work environment, did not make any reference to employees having these issues. At the time of the audit, in August 2018, the new General Manager dismissed the Counsellor on the basis that *Petrojam reviewed the need for the service and have made the decision to make other arrangements.*

### **Consultancy Contract**

**6.1.6.** Petrojam utilized the direct contracting methodology, to engage a Consultant in two separate contracts, valued at \$31 million, in breach of the procurement guidelines and without the approval of the Board. The first contract dated June 22, 2017 was at a cost of \$14 million, to provide Public Relations Consultancy Services for Petrojam’s 35<sup>th</sup> Anniversary planning activities. The second contract dated on November 3, 2017, valued at \$27 million, for procurement of event planning services. The use of the Direct Contracting methodology to engage the Consultant was in breach of the procurement guidelines, which required the employment of the LCB methodology for awarding consultancy contracts valued above \$8 million up to \$60 million.

**6.1.7.** The procurement request for the first contract indicated that the use of the DC methodology was based on *‘extreme urgency brought about by unforeseen events and the product/service could not be obtained in time through a competitive bidding process’*. However, Petrojam did not specify the unforeseen event that brought about the extreme urgency. In addition, we noted that Petrojam was fully aware of the upcoming anniversary events, given that the General Manager informed the Board at a meeting held on February 24, 2017, that the 35<sup>th</sup> Anniversary planning activities were underway with the main event scheduled for October 2017. Consequently, there was no need for the use of the DC

methodology. Petrojam indicated that direct contracting was used to re-engage the Consultant as a follow-on procurement to the first contract. In this regard, the Consultant was required under the first contract, to provide consultancy services for the anniversary activities the Consultant was required to execute under the second contract.

**6.1.8.** On May 29, 2017, the procurement committee endorsed the procurement request, which was approved by the General Manager. The General Manager exceeded his authority limit in the context where the value of the contract surpassed the \$1.5 million threshold and the justification provided for the use of the direct contracting methodology above the threshold was not in keeping with the allowable circumstances outlined in the procurement guidelines. Whereas the Board approved the anniversary activities plan and budget for the sum of \$33.4 million on July 8, 2017, we found no evidence that the Board approved the engagement of the Consultant.

**6.1.9.** We noted that Petrojam did not specify the scope of works under the first contract. However, the Request for Proposal (RFP) for the procurement outlined the scope of work shown in **Table 23**. The RFP required the selected consultant to deliver a work plan as well as to execute the event within budget, time and required specifications. However, Petrojam provided no evidence that the Consultant delivered the work plan, which would specify the nature and extent of the services to be rendered in relation to the Anniversary activities. We also observed that the RFP for the second procurement reflected the same scope of work as the first procurement.

**Table 23** Petrojam's 35<sup>th</sup> Anniversary Activities

1	Event Planning Services for the 35th Anniversary celebrations.
2	Production of 7-minute corporate documentary/feature on Petrojam;
3	Production of a 45-second television advertisement;
4	Coordination and execution of radio trivia in celebration of the 35th Anniversary and other media activities regarding the activity including arranging interviews;
5	Media buying and placement of advertising spots and other electronic productions on traditional and new media platforms, if or when required;
6	Production of Anniversary Newspaper Supplement;
7	Development and execution of communication campaign surrounding the Petrojam's Refinery Expansion Project ( <b>PREP</b> ), utilizing all relevant media.
8	Provision of equipment- stage, sound, lighting and other technical support required for company events
9	Provision of graphic design services;
10	Provide Social Media Services for the company;
11	Development and production of other advertising material, utilising radio, television, print, outdoor media, the internet and complementary approaches

**Source:** Petrojam data

**6.1.10.** As at May 2018, Petrojam paid the Consultant \$11.7 million (being \$1,165,485 per month for 10 months) under the first contract. However, we could not determine the basis on which these payments were made, given that the Consultant's invoices submitted for payment only referenced the work done as "Retainer fee for Public Relations Consultancy Services". Under the second contract, Petrojam paid the

Consultant a total of \$24 million as at March 2018 for services associated with anniversary church service, health fair, banquet, staff and family fun day.

### Hosting of Entertainment Events (Parties)

**6.1.11.** On November 17, 2017 and January 5, 2018, Petrojam's General Manager approved payments for invoices totaling US\$21,767 (J\$2.6 million), in relation to two parties, which were of a personal and private nature. The parties were held on September 19, 2017 and January 9, 2018 at two hotels in Montego Bay. We obtained copies of the Hotels' invoices dated September 19, 2017 and January 4, 2018 along with email correspondences, which referred to both events as 'surprise birthday party' and 'surprise party', respectively.

**6.1.12.** For the first party, we noted that in an email dated September 19, 2017 to the Head of Procurement, the Hotel stated, *'we are excited to work with you on this surprise birthday party'*. The email further indicated that the party was for Petrojam's Board Chairman. On September 27, 2017, the Hotel submitted to the Head of Procurement the invoice for US\$10,506.75, which detailed charges for 25 guests who attended the scheduled 8 p.m. to midnight party. The Head of Procurement subsequently on October 3, 2017, forwarded the invoice to the General Manager for approval. On the same day, the General Manager forwarded the Hotel's invoice to his Administrative Assistant. The email stated, *'please prepare PR and BEACS for me<sup>78</sup>. I will sign when I get back. It was for a pre-strategic meeting in MoBay last week.'* However, the particulars of the Hotel's invoice did not support this claim (**Table 24**).

**Table 24** Party expense particulars

Party 1	US\$	Party 2	US\$
Food and Beverage (Premium Bar 8pm – midnight, Hors d' oeuvres)	3,600	Food and Beverage (Premium Bar -2 hours, Vegetarian Hors d' oeuvres, Dinner Menu)	2,427
Site Fee	1,000	4 tiered 'Topsy Turvy Cake' Chocolate Cake	1,000
Décor (Bistro Tables, Tent, Lounge Seating)	1,250	Lounge Set, Table Runners, Tropical Cocktail Centerpiece	440
Lighting Package	1,200	Uplights	520
Music & Entertainment (DJ)	600	Event Set-up and Chef's Fee	800
Desert Station (chocolate, strawberry, cheese and fruit cakes)	750	Accommodation (1-6 bedroom Ocean View)	3,802
Generator	420	15% Service Charge	1,348
Tax on Entertainment	99	10% Government Tax	899
Tax on Food & Beverage	1,588	Add \$4 daily accommodation tax per room	24
<b>Total</b>	<b>10,507</b>	<b>Total</b>	<b>11,260</b>

**Source:** Extracted from Hotel invoices dated September 19, 2017 and January 4, 2018

**6.1.13.** The Head of Procurement and Manager, HRDA endorsed the BEACS on October 6, 2017 and October 11, 2017 respectively and the General Manager thereafter approved it on October 12, 2017. In addition, we observed a reimbursement of \$225,748 made to the General Manager, included \$20,970 for the cost of a cake purchased for the *surprise birthday party* (**Table 25**).

<sup>78</sup> PR - Procurement Request; BEACS - Bid Evaluation Approval Control Sheet



**Table 25** General Manager's expense reimbursement

Date	Description	JMD\$
September 26, 2017	Cake for Strategic Planning Retreat Function	20,970
November 7, 2017	Car Wash	1,000
-	Toll fee	2,340
November 13, 2017	Lunch Meeting PCJ Chairman/General Manager	7,543
November 14, 2017	Lunch Meeting with [name deleted]	8,476
November 16, 2017	Breakfast Petrojam Customer/General Manager	4,902
November 21, 2017	Lunch: Manager, HRDA/General Manager	4,832
November 21, 2017	Dinner: Insurance Representative and Petrojam Team	147,770
November 21, 2017	Cocktails with insurance personnel (Petrojam/[names deleted])	20,295
November 22, 2017	Lunch Meeting: Petcom/General Manager	7,620
<b>Total</b>		<b>225,748</b>

**Source:** Disbursement Voucher dated November 23, 2017

**6.1.14.** The Hotel's invoice for the other party dated January 4, 2018 was referenced "Petrojam Ltd Party". In addition, we noted a chain of email correspondences with the caption "*Petrojam's Surprise Party – Tuesday, January 9, 2018*". The emails, which were circulated among the General Manager, Manager, HRDA, Head of Procurement and two representatives from the hotel, highlighted an attendee list of 15 individuals. The list comprised the Minister for MSET, three members of Petrojam's management staff<sup>79</sup>, two Board members and nine other individuals not employed to Petrojam. Petrojam could not justify the basis for the expenditure.

<sup>79</sup> General Manager, Head of Procurement, Technical Services Manager





# **Review of Aspects of Petroleum Corporation of Jamaica (PCJ) Operations**



# Audit at a Glance

## Special Report on PCJ's Operations



### Key Data

- \$48.4 million in un-approved HR related expenditure
- \$11.6 million in sponsorship awards without Board ratification
- \$30.5 million in sponsorships without the requisite due diligence
- \$2.26 million in mobilization fee not recovered on architectural consultancy

### Main Findings

- Breach of corporate governance practices
- Inconsistent recruitment and employment practices



### Conclusion & Recommendation

PCJ needs to take the necessary steps to strengthen its governance practices particularly as it relates to the authority of the Chairman to approve sponsorship requests in excess of \$100,000.

### Corporate Governance Deficiencies








#### MSET and PCJ Oversight failures

**7.1.** We found that the level of oversight by the Ministry of Science, Energy and Technology (MSET) could be improved. It was not evident that the portfolio Ministry was active in monitoring and overseeing PCJ's operations. Although PCJ consistently submitted the required board minutes and other specified reports to MSET, the Ministry did not demonstrate that attention was given to these documents. Principle 15 of the Corporate Governance Framework states:

*The Permanent Secretaries as chief advisors to the Ministers are required to monitor performance against expected results, manage risks and advise/inform the Minister accordingly on Public Bodies which operate within the portfolio responsibility of the Ministry. They also ensure coordination among Public Bodies within the Ministry's portfolio which enhances policy coherence. They should know what is happening in the Public Bodies in order to assess whether the strategic objectives of the Ministry are being met through the Public Bodies.*

**7.2.** We recognise that Petrojam's Board functions are independent of PCJ's board, however we would expect PCJ, as a parent company, to have mechanisms in place to remain informed of the operations of Petrojam and to implement intervention measures where necessary. In support of this view, is the fact that Petrojam submitted its Minutes and other specified documents to PCJ. This submission is in keeping with good governance practices. We also reviewed PCJ's Board Minutes for the last three years, 2015-16 to 2017-18; whereas we saw discussions about aspects of Petrojam's activities among board members, there was no evidence of in-depth deliberations and resulting decisions arising from these discussion points. In addition, PCJ is represented on Petrojam's Board; however, we found no evidence that the representatives provided formal reports to PCJ's Board, as a means of monitoring Petrojam's performance.

## Review of Aspects of Petroleum Corporation of Jamaica (PCJ) Operations

 At A Glance			
Systems and practices	Criteria	Key Findings	Assessment Against Criteria
The Board is the primary decision making authority and constitutes the fundamental base for corporate governance for the organization.	The Board must ratify the strategic decisions and approve expenditures within the stipulated limits.	The Chairman initiated and unilaterally approved 10 sponsorship awards totalling \$11.6 million without the Board's input.	
Reporting Responsibilities (to Portfolio ministry)	The Corporate Governance Framework allocates responsibilities to the Board to monitor public bodies' performance against expected results, manage risks and advise/inform the Portfolio Minister.	Although PCJ's Board consistently submitted board minutes to MSET, the Portfolio Ministry was not active in monitoring and overseeing PCJ's operations.	
Monitoring and Oversight	PCJ is required to monitor Petrojam's operation and provide strategic direction.	PCJ was not active in performing its oversight responsibilities in monitoring Petrojam's operation and providing strategic guidance.	
<div>  MET the criteria            Met the Criteria, but improvements needed            Did not meet the criteria         </div>			

### Deficiencies in the award of Sponsorships

**7.3.** GoJ's Corporate Governance framework states that the Board is the primary authority collectively responsible for making decisions. Whereas, a Board may delegate responsibilities, such as oversight over financial, audit and other critical areas, to its chairman or subcommittees to approve decisions, the decision is subject to authorisation and/or ratification by the full Board. This approach is consistent with good governance; however, we identified inconsistencies in the application of the delegated function. For example, PCJ's Board approved the Sponsorship Policy, wherein the General Manager and Chairman were granted authority to approve sponsorship awards of up to \$100,000 and over \$100,000 respectively. Of a sample of 36 sponsorship awards valuing \$39.7 million, over the period 2015-16 to 2017-18, we observed that only 18 sponsorships valuing \$22.9 million were approved by the Board. As a result of the delegated function, the Chairman approved 12 sponsorships valuing \$15.2 million; however, 10 of these sponsorships valuing \$11.6 million were not subjected to ratification by the Board (**Appendix 6**). This approach was inconsistent with good governance, given the value of the sponsorships and the Board's accountability for the outcome of any delegated function and enabled an over extension of the authority of the Chairman.

**7.4.** This was compounded by PCJ's failure to evaluate potential sponsorship awardees, in breach of its Sponsorship Policy, which requires its Corporate Affairs and Communications (CAC) Department to evaluate

## Review of Aspects of Petroleum Corporation of Jamaica (PCJ) Operations

every sponsorship request against PCJ's sponsorship objectives, criteria and risk assessment<sup>80</sup>. Of the 36 sponsorships, 25 totalling \$30.5 million were not evaluated in keeping with the policy. Whereas we observed that the majority of the sponsorships were made to government entities, clubs and societies, for sponsorship approvals granted unilaterally and without the required due diligence, PCJ risked sponsoring activities not being supported by its policy.

### Weaknesses in Human Resource Practices

**7.5.** We also found that PCJ did not always conform to the directives of its Human Resource (HR) Policy and Procedures manual. We reviewed the files of 27 officers who were employed over the period 2015/16 to 2017/18 and found that 11 of the related posts were filled without being advertised. Eight of the 11 applicants were not subjected to an interview or any other assessment method, which was not in keeping with good HR practice. Of note, PCJ did not adhere to its Policy with the hiring of a Senior Human Resource Officer and the Business Intelligence Support Officer. Further we saw no evidence of approval for travelling allowance totaling \$38.5 million paid to 29 officers between 2015-2016 and 2017-18.

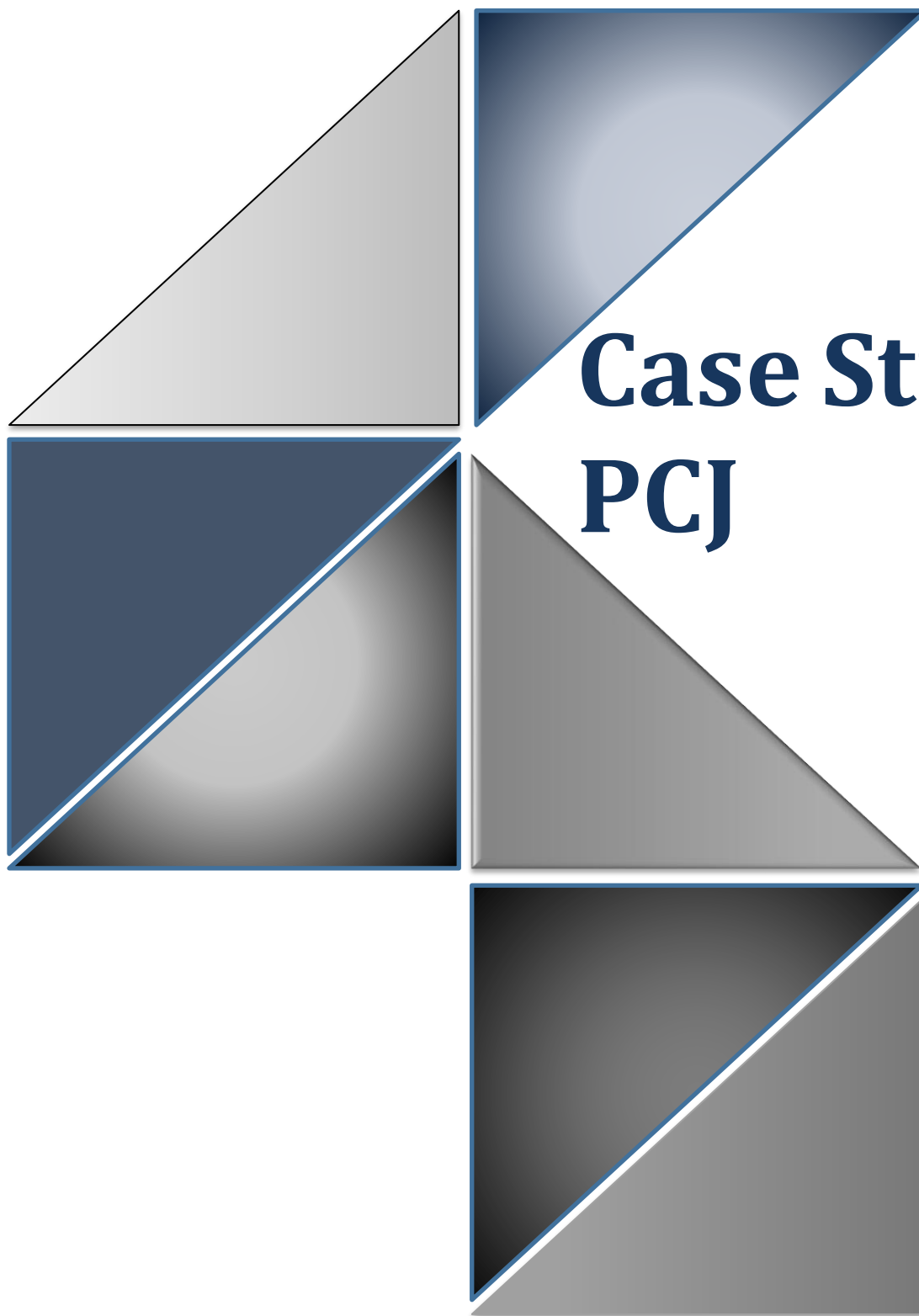
### Engagement of Architectural Firm

**7.6.** PCJ failed to undertake adequate due diligence prior to the engagement of an Architectural Firm to develop a design at a cost of \$22.6 million, for the [redevelopment of the resource centre](#). PCJ paid the the Firm \$10.76 million for the conceptualization phase and obtained the related documents and subsequently decided to undertake the project in manageable phases as it did not have the financial capability to pursue the revised scope. PCJ, however, did not recover the mobilization advance of \$2.26 million ([Case study 8](#)).

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<sup>80</sup> Meet one or more of the PCJ's sponsorship objectives, fulfil one or more of the PCJ's sponsorship criteria and successfully pass the risk assessment.

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# Case Studies

## PCJ

## CASE STUDY 7: Human Resource Management Malpractices

### Human Resource Practices

**7.1.1.** From a sample of 27 officers, we found that 11 of the related posts were filled without being advertised and there was no evidence that PCJ interviewed or conducted any competency assessment for eight of the officers (**Table 26**).

**Table 26** PCJ posts filled without advertisement or interview/assessment

	Title	Employment Date	Advertisement	Interview/ Assessment
1	Geologist	March 2015	None	Not seen
2	Procurement Specialist	May 2015	Seen	Not seen
3	Legal Officer	June 2015	None	Not seen
4	Compliance Officer	March 2016	Seen	Not seen
5	Senior Human Resource Officer	March 2017	None	Not seen
6	Business Intelligence Support	July 2017	None	Not seen
7	LNG Consultant	November 2017	None	Seen
8	Secretary – Legal & Procurement	December 2017	None	Seen
9	Executive Assistant to Chairman	January 2018	None	Seen
10	Business Development Consultant	March 2018	None	Seen
11	PCJ-IP Programme Support	April 2018	None	Seen
12	LNG Admin Assistant	May 2018	None	Not seen
13	ICA Digitization officer	May 2018	None	Not seen

**Source:** PCJ's employment records

**7.1.2.** Of note, PCJ did not adhere to its Policy with the hiring of a Human Resource Officer/HR Specialist and the Business Intelligence Support Officer. Prior to being employed by PCJ, the Human Resource Officer/HR Specialist who was a co-opted external member of the HR Sub-Committee of the Board applied for the position after the initial candidate declined the job offer. PCJ indicated that the then HR Manager had met with the Human Resource Officer/HR Specialist before being engaged, to provide details of the job and to ascertain suitability for the post based on qualification and competence, which were met.

**7.1.3.** On February 21, 2017, the Chairman of the HR Sub-Committee who was also a board member, recommended the appointment of an external candidate to the HR Sub-Committee. However, the tenure lasted for two weeks, February 21, 2017 to March 9, 2017, as the newly appointed member resigned from the HR Sub-Committee to take up a one-year employment contract with PCJ, effective March 27, 2017 as the Human Resource Officer/HR Specialist with emoluments of \$3.6 million. The decision to employ the sub-committee member in that capacity was approved by the Chairman of the HR Sub-Committee. The Human Resource Officer/HR Specialist was subsequently promoted to Senior Human Resource Officer on April 1, 2018 with emoluments of \$4.8 million, one year later without an interview. It was not until the



time of confirmation, four months later on August 22, 2018, that PCJ interviewed the officer. However, the interview was conducted solely by the HR Manager instead of a required panel of three members as outlined in the HR Policy.

Section 8(iii)(c) of revised (March 2017) HR policy states: *All job applicants will be interviewed by a panel of suitable internal resource personnel. Panel will comprise a minimum of three (3) persons to include: the Head of the Department in which the vacancy exists (or his/her designate); the Manager of the HRAD (or his/her designate); and any other resource person(s) elected by the Manager of the HRAD. The PCJ is at liberty to conduct such number of interviews as it deems necessary.*

**7.1.4.** In another instance, a Business Intelligence Support Officer was engaged on July 3, 2017 with emoluments of \$7 million without the approval of the MoFPS. PCJ indicated that the officer was hired based on a request from the Group Chief Financial Officer (GCFO) to provide assistance to the Organization's Strategic initiatives with specific responsibility to drive Strategic Planning, Performance Monitoring and Business Analysis. Our review of an email dated June 2, 2017, revealed that the Group General Manager (GGM) instructed the GCFO to meet with the HR Manager to devise a method to bring a named individual on board. This arose out of a meeting between the GGM, GCFO and the Chairman. The GGM also indicated that the HR Manager would require a justification and a job description to start the process. We also noted that the Business Intelligence Support Officer was employed without an interview, reference check and further the post was not advertised.

**7.1.5.** PCJ breached **Section 20** of the Public Bodies Management and Accountability (PBMA) Act, which states: *"In the exercise of any powers conferred on a board by a relevant enactment or any constituent documents in relation to (a) emoluments payable to the staff of a public body; (b) any other policies and guidelines applicable. The board shall act in accordance with such guidelines as are issued from time to time by the Minister responsible for the public service and the Minister, respectively."*

### Unapproved Allowances and benefits

**7.1.6.** As at September 2018, PCJ had 143 employees receiving an aggregate annual salary of approximately \$390 million. While we observed that MoFPS approved salaries and benefits for PCJ, there was no evidence that MoFPS approved the Performance Incentive and the Reimbursement of Gym fees to employees. In addition, PCJ paid travelling allowances to 29 officers without the approval of MoFPS. This resulted in unapproved payments totaling \$48.4 million over the 2015-16 to 2017-18 period (**Figure 6**).

**Figure 6** Unapproved Allowances and Benefits Paid

<b>Unapproved Emoluments &amp; Benefits</b>	<b>2015-16 \$'000</b>	<b>2016-17 \$'000</b>	<b>2017-18 \$'000</b>	<b>Total \$'000</b>
Performance Incentive	-	5,713	-	5,713
Reimbursement of Gym Fees	1,529	1,596	997	4,122
Travelling Allowance	6,981	13,998	17,562	38,541
<b>Total</b>	<b>8,510</b>	<b>21,307</b>	<b>18,559</b>	<b>48,376</b>

Source: AuGD's analysis of PCJ data

**7.1.7.** On August 21, 2009, PCJ requested approval for the continuation of payment of motor vehicle upkeep and transportation allowances, along with the payment of other allowances and benefits. PCJ's request indicated that motor vehicle allowance is paid to managerial staff and transportation allowance to those staff that are required to travel by virtue of their jobs. However, the MOFPS indicated in its response dated October 27, 2009 that it had no objection to the payment of the travelling allowances, provided that the payments will be made to bonafide travelling officers and the appropriate managerial staff and that the payments are in keeping with Government's guidelines. However, we observed where payments were made to officers that were not travelling officers that occupied the following positions: Administrative Assistant, Assistant Maintenance Technician, Senior Driver, Librarian, Senior Accounting Clerk etc. Consequently, the PCJ may have inappropriately paid travelling allowances totaling \$38.5 million over the 2015/2016 to 2017/2018 period ([Appendix 7](#)).

### Loss of value on PCJ's Internship Programme

**7.1.8.** PCJ embarked on a pre-university training course to include training in principles of engineering technology, renewable energy and energy efficiency, entrepreneurship and information technology geared towards exposing participants to tertiary institution studies. PCJ awarded a contract to a local university under an Internship Programme at a value of \$119.6 million, in which the University was required to develop and administer the academic component of the programme to participants over a three-month period commencing May 2018 to three groups of 250 participants each (750 participants in total) and house the participants at its halls of residence during the period. However, only 562 participants (75 per cent) were recruited which equates to a value of \$89.7 million under the contract. As at the date of this report, PCJ paid \$83.8 million and a final invoice of \$35.9 was submitted by the University to PCJ on November 12, 2018 for payment. PCJ committed to pay this balance following verification and final report from the University to ensure the full closeout of the Internship Programme. In the event that PCJ honors the claim without recruiting the remaining 188 participants to the Internship Programme, it will not realise full value for money (**Table 27**).

**Table 27** Participation in PCJ's Internship Programme

Financial Components	Contract (750 participants) \$	Completion (562 participants) \$	Difference \$
<b>Tuition</b>	28,646,400	21,465,702	7,180,698
<b>Housing</b>	18,375,000	13,769,000	4,606,000
<b>Support Activities</b>	9,744,000	7,301,504	2,442,496
<b>Administrative Costs (15%)</b>	8,514,810	6,380,431	2,134,379
<b>Other Costs</b>	26,748,079	20,043,227	6,704,852
<b>Mark up (30%)</b>	27,608,487	20,687,959	6,920,527
<b>Total</b>	<b>119,636,775</b>	<b>89,647,823</b>	<b>29,988,952</b>

Source: AuGD's analysis

**7.1.9.** PCJ indicated that members of parliament were contacted to submit names of persons to participate in the programme, however, evidence was not provided to aid our assessment of the recruitment and selection process and aid our determination of whether participants were selected under a transparent and equitable basis. PCJ also expended approximately another \$9.5 million out of the projected \$25 million to be paid in stipend for those who attended courses under the programme. Therefore, the expenditure under the programme to date totalled approximately \$93.3 million, exclusive of expenses related to the upcoming graduation ceremony and other related costs.

### CASE STUDY 8: Architectural Consultancy

**8.1.1.** In 2014, PCJ conceptualized the redevelopment of its Resource Centre Building to accord with its vision to return the building to its former iconic energy efficient status. On November 26, 2015, PCJ engaged a firm of architects for \$22.6 million, using the direct contracting methodology, to provide architectural and engineering consultancy services related to modifications of the Resource Centre Building. PCJ indicated that the rationale for selecting this firm was that it had originally designed the Resource Centre Building, was in the possession of all previous architectural design drawings and was fully knowledgeable of the energy efficiency considerations incorporated in the building's design. The scope of services were as follows.

Gym	Car Park	Energy Museum	Canteen
<ul style="list-style-type: none"> <li>•Provide design for staff gym on the roof.</li> </ul>	<ul style="list-style-type: none"> <li>•Provide design and architectural drawing to increase parking capacity for two or three floors and the roof left available for the installation of PV panels.</li> </ul>	<ul style="list-style-type: none"> <li>•Provide design and architectural drawings for an energy museum to be established on the ground floor adjacent to PCJ Auditorium.</li> </ul>	<ul style="list-style-type: none"> <li>•Provide design and architectural drawings for the existing canteen area at the PCJ Resource Centre to facilitate its expansion and improvement to create a more spacious and aesthetically friendly environment.</li> </ul>

**8.1.2.** The Firm's contract outlined deliverables under two segments: General Services and Upgrading of Existing services and New Works, and its fees were based on a percentage of the estimated construction cost of \$137 million.

**8.1.3.** Subsequent to the commencement of services, key persons in the Property Division and other Senior Managers of PCJ held informal discussions with the Contractor to vary the designs, which were still in the conceptualization phase. The Contractor then incorporated both the informal and formal modification requests in finalising the designs for approval.

**8.1.4.** It was upon the Firm's submission of the designs along with an invoice for \$23.9 million, representing 30 per cent of the unapproved revised scope of \$80 million, that PCJ realized the magnitude of the changes, which reflected the informal requests. The significant changes in the scope related to an energy efficient Car Park. Consequent on the revised design, the estimated cost for construction increased by 542 per cent to \$879.4 million, bringing the total value of the project to \$960 million, which includes the design and construction costs.

**8.1.5.** During the period of internal assessment and deliberations between PCJ's management and the Firm, the contract expired as an agreement could not be reached on all changes to the scope, in order to complete the architectural drawings, given the significant financial obligation that would arise. Stemming from the discussions, PCJ agreed to a minor variation of 2.6 per cent for additional upgrades to the

canteen designs, along with a net price increase of 17.3 per cent on the accepted changes. This led to an addendum dated January 30, 2017, which provided for a \$4.5 million increase in the contract value to \$27.1 million. PCJ paid the Firm \$10.76 million for the conceptualization phase and obtained the related documents and subsequently decided to undertake the project in manageable phases as it did not have the financial capability to pursue the revised scope. PCJ, however, did not recover the mobilization advance of \$2.26 million paid to the Firm (**Table 28**).

**Table 28** General Services and Upgrading of Existing Services and New Works

Particulars	Initial Contract (\$)	Revised Contract (\$)
General services and upgrading of existing facilities (30%)	3,403,500	3,403,500
New Works (30%)	-	3,165,000
Variation	-	1,331,775
Sub-Total	<b>3,403,500</b>	<b>7,900,275</b>
Reimbursables	-	592,010
Sub-Total	-	<b>8,492,285</b>
Total paid to Contractor	-	10,756,785
Overpayment	-	2,264,500
Mobilization Advance (10%)	-	2,264,500

Source: PCJ Data

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# Financial Statements Analysis of Petrojam

**Disclaimer:**

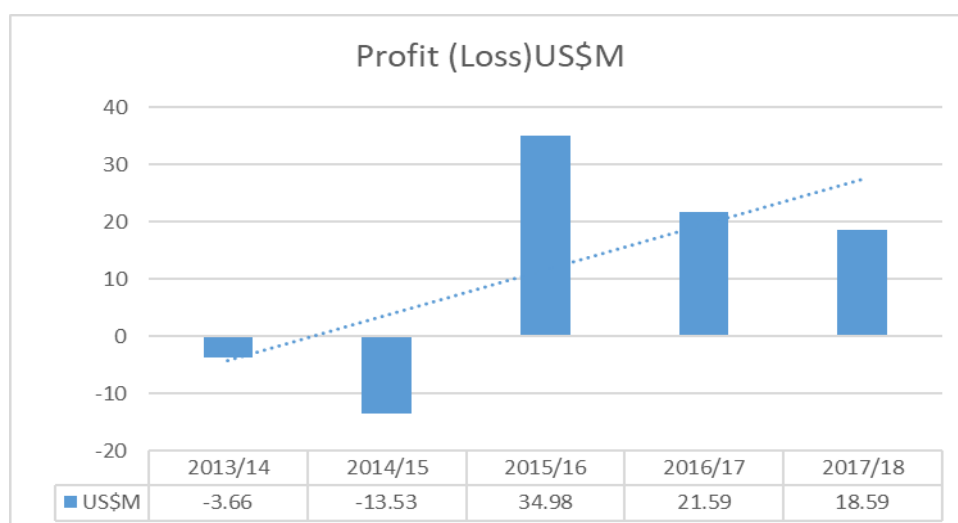
*This Financial Statements Assessment is solely an analytical review of the audited financial statements of Petrojam Limited. We did not conduct an audit of the financial statements of the entity; hence we did not test management's assertions regarding the figures in the financial statements and disclosures. The calculation of ratios was merely intended to provide trend analyses of key financial items in the balance sheets and income statements of the entity, along with the notes provided.*

**8.1.** This review was prepared using information from Petrojam's audited financial statements FY2013/14 to FY2017/18, annual reports and other supplementary information.

**Petrojam records declining profit trend for last three years of review period**

**8.2.** Petrojam over the review period recorded net profits on average, albeit with a declining trend for the last three years following two consecutive years of losses. Net profit declined to US\$18.59 million in FY2017/18 from US\$34.98 million in FY2015/16, following a net loss of US\$13.53 million in FY2014/15. Given this, Petrojam's net profit margin declined during the profit making years to 0.02 for FY2017/18 from 0.04 in FY2015/16, relative to a net loss margin of -0.01 in FY2014/15. The net profit margin ratio for FY2017/18 indicated that Petrojam recorded 2 cents of profits for each dollar of income received (**Figure 7**).

**Figure 7** Petrojam's Net Loss Position - FY2013-14 to FY2017-18



Source: Petrojam's Financial Statements

**8.3.** Petrojam states that the major influence on the loss making years of FY2013/14 to FY2014/15 were prevailing market conditions, primarily fuelled by the North American Shale oil boom<sup>81</sup>. This saw oil prices plummeting to record levels in major benchmark markets, against the backdrop of the oversupply in the

<sup>81</sup> Petrojam Annual Report FY2013/14-FY2014/15



wake of the increase in non-OPEC oil exports. Petrojam states that in this environment, the refining margins were weak and sometimes negative which led to the recording of net losses. Of note, prices are adjusted with a one-week time lag; and the movement of finished products from the point of receipt to the point at which they are sold in the market takes approximately two to three weeks. In a rapidly declining market, margins are negatively impacted, as the purchase price is always higher than the selling price.

#### Core revenues largely influenced by falling world oil prices

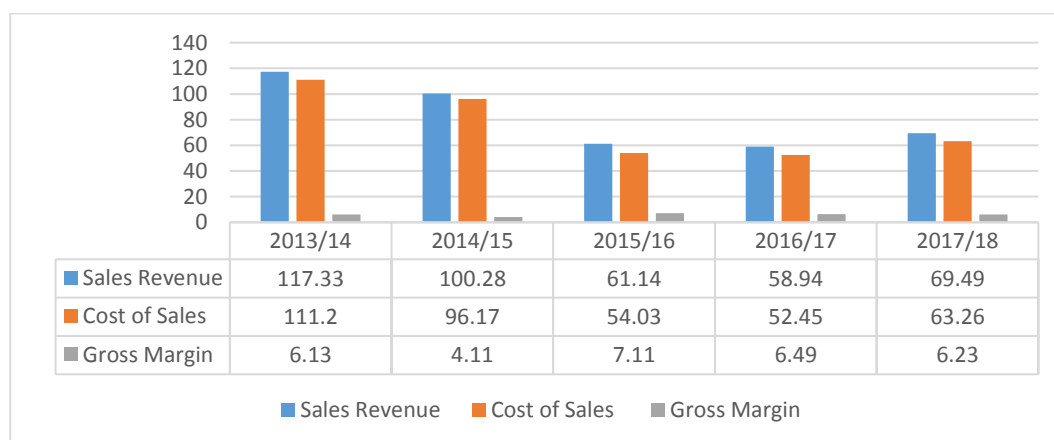
**8.4.** The decrease in Petrojam's core revenues mainly reflected a 42 per cent decline in sales over the review period, which moved to US\$1.05 billion in FY2017/18 from US\$1.8 billion in FY2013/14 (**Table 29**). Petrojam indicated that whereas sales revenue declined over the period; sales volume was sustained at a steady level of approximately 15 million Bbls per year. The decline in revenues was prompted by the effects of falling world oil prices. This coupled with an observed reduction in customer demand, particularly for automotive diesel oil and heavy fuel oil from industrial customers and power generating companies, would have influenced the revenue/expense composition. Petrojam also continued to face growing competition in the sale of Liquid Petroleum Gas, arising from increased importation by the multinational corporations.

**Table 29** Petrojam's Income Statement Extract - FY2013-14 to FY2017-18

Income (US\$M)	2017/18	2016/17	2015/16	2014/15	2013/14
Revenue (Sales)	1,048.4	927.5	952.7	1,557.8	1,805.4
Other Operating Income/(loss)	(2.9)	(10.0)	3.9	1.3	(1.61)
<b>Total Income</b>	<b>1,045.5</b>	<b>917.5</b>	<b>956.6</b>	<b>1,559.1</b>	<b>1,803.8</b>
Cost of Goods Sold	995.2	871.1	891.0	1,540.9	1,770.8
<b>Total Expenses</b>	<b>1,024.2</b>	<b>891.2</b>	<b>912.0</b>	<b>1,577.0</b>	<b>1,809.0</b>
<b>Net Profit (Loss)</b>	<b>18.6</b>	<b>21.6</b>	<b>35.0</b>	<b>(13.5)</b>	<b>(3.7)</b>

Source: Petrojam's Financial Statements

**8.5.** Expenses largely reflected a reduction in cost of goods sold over the review period of US\$775.6 million (44 per cent) over the period. The reduction in cost of sales was most notable over financial years FY2014/15 and FY2015/16, which saw a reduction of US\$649.9 million (42 per cent) year over year. Cost of sales largely related to the purchase of crude oil, which would have been subjected to the vagaries of the international crude oil market, which ultimately influenced the respective margins (**Figure 8**).

**Figure 8** Profit and Loss Extract/US\$ Per Barrel

Source: Petrojam's Internal Reports

### Petrojam cash resources covered an average 17 per cent of current obligations

**8.6.** Petrojam's most liquid assets, cash and cash equivalents, covered only an average of 17 per cent of its current liabilities over the 5-year period as cash generated from core operations was inadequate. Hence, in an effort to support working capital, Petrojam borrowed US\$35 million from the Petrocaribe Development Fund in FY2014/15, augmented by a bank overdraft facility of J\$101.5 million<sup>82</sup>. Further, Petrojam in FY2015/16, converted dividends previously declared to its majority shareholder, PCJ, to a loan, as it did not have adequate cash to meet this obligation.

### Reduced efficiency in utilizing assets to generate sales

**8.7.** Petrojam's total asset turnover averaged 2.6 over the review period, declining to 2.3 in FY2017/18 from 3.0 in FY2013/14<sup>83</sup>. Total asset turnover ratio measures the value of a company's revenues generated relative to the value of its assets. Although, Petrojam's fixed assets increased to US\$164.9 million in FY2017/18 from US\$117.2 million in FY2013/14, Petrojam's total asset turnover ratio fell in a context of declining sales over the period. This suggested a reduced efficiency by Petrojam in the utilization of assets to generate sales despite an increase in fixed assets. The completion of the planned refinery upgrade is intended to boost productive capacity and should assist in improving Petrojam's performance.

### Petrojam's trade receivables declined

**8.8.** Petrojam's trade receivables reflected a trend decline to US\$127.16 million in FY2017/18 from US\$170.6 million in FY2013/14, despite an upward movement between FY2016/17 and FY2017/18, based on a 13 per cent expansion in sales. This was reflected in a marginal decline in trade receivables turnover ratio to 10.17 from 10.99 over the review period. Petrojam's days receivable outstanding fell to 31 days

<sup>82</sup> Working capital refers to the cash available for day-to-day operations.

<sup>83</sup> Petrojam's assets consist mainly of property, plant and equipment, inventories, accounts receivables, cash and cash deposits.

in FY2016/17 from 34 days in FY2013/14 and in FY2017/18, the days outstanding increased to 44 days. Petrojam's credit policy requires its credit management system to automatically restrict deliveries to customers who would have utilized 100 per cent of their credit lines and any overdue receivable balance.

### Petrojam reduced overall outstanding obligations over review period

**8.9.** Petrojam lowered its total liabilities by 29 per cent to US\$316.24 million at end FY2017/18 relative to FY2013/14. The fall in obligations primarily reflected total repayment (US\$285.9 million) of amounts due to related entities in FY2013/14 for the purchase of crude oil and petroleum products, particularly Petroleos de Venezuela (PDVSA) and the PetroCaribe Development Fund (PCDF)<sup>84</sup>. Additionally, a 19 per cent reduction in Accounts Payables contributed to the decline in liabilities, underpinned by repayment of suppliers. The fall in liabilities facilitated an improvement in the entity's net worth over the period, which grew by 34 per cent to US\$173 million at end FY2017/18 relative to FY2013/14 (**Table 30**).

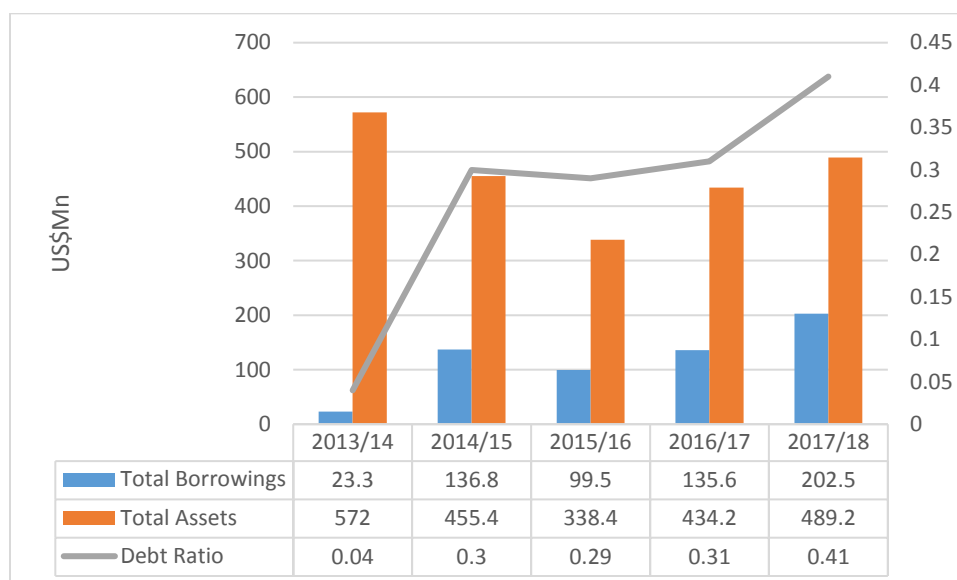
**Table 30** Petrojam's Total Liabilities and Assets - FY2013-14 to FY2017-18

Financial Year (\$JM)	2017/18	2016/17	2015/16	2014/15	2013/14
Accounts Payables	102.8	125.9	77.0	72.7	127.0
Total Borrowings	202.5	135.6	99.5	136.8	23.3
Due to Related Party	2.9	11.1	23.2	126.6	285.9
<b>Total Liabilities</b>	<b>316.2</b>	<b>281.7</b>	<b>207.3</b>	<b>339.5</b>	<b>442.4</b>
<b>Total Assets</b>	<b>489.2</b>	<b>434.2</b>	<b>338.4</b>	<b>455.4</b>	<b>572.0</b>
<b>Net Worth</b>	<b>173.0</b>	<b>152.5</b>	<b>131.1</b>	<b>115.8</b>	<b>129.5</b>

Source: Petrojam's Financial Statements

**8.10.** Despite the decline in total liabilities, Petrojam's outstanding debt grew by 769 per cent to US\$202.5 million at end FY2017/18 relative to FY2013/14. Consequently, Petrojam's debt ratio, which measures short and long-term debt as a percentage of total assets, rose sharply to 0.41 for FY2017/18 from only 0.04 for FY2013/14 (**Figure 9**). This indicated that it would require resources equivalent to 41 per cent of Petrojam's assets to meet outstanding debt obligations when compared to 4 per cent in the earlier period.

<sup>84</sup> PDVSA is the minority (49 per cent) shareholder in Petrojam Ltd.

**Figure 9** Petrojam's Debt ratio FY2013/14 to FY2017/18

Source: AuGD's analysis of Petrojam's Audited Financial Statements data

**8.11.** The increased debt acquisition was due in part to a shift in Petrojam's financing strategy, which ceased direct purchases of products from PCDF, in favour of acquiring trade loan facilities to make purchases from suppliers. As a result, there was increasing reliance on PCDF for short-term trade loans purposed for financing the purchase of crude oil and finished products and for other non-trade short-term loans and longer-term loans. Against this background, 50.9 per cent of Petrojam's outstanding debt each year (53.0 per cent at end FY2017/18) related to the PCDF.

**8.12.** Petrojam's debt-service coverage ratio (DSCR), which measures the ability of available internal cash flows to cover only debt-service obligations, remained significantly below one (1) over the period<sup>85</sup>. This indicated that at no point did Petrojam generate enough operating income to pay in full the interest and principal payments associated with its current debt obligations without drawing on outside sources. A DSCR for FY2017/18 of 0.14 indicates that estimated cash flows generated could only meet 14 per cent of Petrojam's current debt service payments. While improved relative to periods of negative cash flow in FY2013/14 and FY2014/15, the DSCR for FY2017/18 represented a downward movement since the peak of 0.48 for FY2015/16. In its current position, Petrojam remains dependent on constant access to financing to maintain the status quo of its operations given the insufficient cash flow generation.

<sup>85</sup> A DSCR of 1 indicates that the entity generates just enough cash flow to cover all its current debt-service obligations.

# Appendices

## Appendix 1 Building blocks of Value for Money (VFM)



## Appendix 2 Submission of Annual Reports to Parliament, 2013-14 to 2017-18

### Annual Reports to MSET

Years	Date submitted	Deadline for Submission	Lapsed Time
2013-14	December 17, 2015	July 31, 2014	1 year and 4 months late
2014-15	January 18, 2017	July 31, 2015	1 year and 5 months late
2015-16	Not Provided	July 31, 2016	Outstanding
2016-17	Not Provided	July 31, 2017	Outstanding
2017-18	Not Provided	July 31, 2018	Outstanding

### Board Minutes to PCJ and MSET

	Meetings Held	Date submitted to PCJ	Made available for MSET (internal auditors)*
1	June 19, 2013	-	November 19, 2015
2	November 29, 2013	April 22, 2014	November 19, 2015
3	April 2, 2014	-	November 19, 2015
4	July 8, 2014	September 30, 2015	November 19, 2015
5	September 4, 2015	May 16, 2016	November 19, 2015
6	January 28, 2016	-	-
7	July 12, 2016	-	-
8	December 16, 2016	-	-
9	February 24, 2017	-	-
10	July 8, 2017	-	-
11	September 22, 2017	-	-

\* Email correspondence dated November 19, 2015 between PCJ and MSET indicated availability of Minutes for review.

### Annual Reports submitted to Parliament

Years	Date submitted	Deadline for Submission	Lapsed Time
2013-14	May 6, 2016	Jul. 31, 2014	1 year and 9 months late
2014-15	Apr. 20, 2017	Jul. 31, 2015	1 year and 8 months late
2015-16	Not Provided	Jul. 31, 2016	Outstanding
2016-17	Not Provided	Jul. 31, 2017	Outstanding
2017-18	Not Provided	Jul. 31, 2018	Outstanding

### Corporate Plan

Years	Date submitted	Deadline for Submission	Lapsed Time
2013-14	Not Provided	Dec. 31, 2012	Outstanding
2014-15	Not Provided	Dec. 31, 2013	Outstanding
2015-16	Not Provided	Dec. 31, 2014	Outstanding

2016-17	Not Provided	Dec. 31, 2015	Outstanding
2017-18	Dec. 20, 2016	Dec. 31, 2016	11 days early

### Half-yearly Reports

Years	Date submitted	Deadline for Submission	Lapsed Time
2013-14	Not Provided	Nov. 30, 2013	Outstanding
	Not Provided	May 31, 2014	Outstanding
2014-15	Not Provided	Nov. 30, 2014	Outstanding
	Not Provided	May 31, 2015	Outstanding
2015-16	Not Provided	Nov. 30, 2015	Outstanding
	Not Provided	May 31, 2016	Outstanding
2016-17	Sep. 14, 2016	Nov. 30, 2016	2 months early
	Not Provided	May 31, 2017	Outstanding
2017-18	Not Provided	Nov. 30, 2017	Outstanding
	Not Provided	May 31, 2018	Outstanding

## Quarterly Reports

Years	Date submitted	Deadline for Submission	Lapsed Time
2013-14	Jul. 17, 2013	Jul. 31, 2013	15 days early
	Oct. 11, 2013	Oct. 31, 2013	21 days early
	Not Provided	Jan. 31, 2014	Outstanding
	May 21, 2014	Apr. 30, 2014	22 day late
2014-15	Jul. 21, 2014	Jul. 31, 2014	11 days early
	Nov. 5, 2014	Oct. 31, 2014	6 days late
	Feb. 5, 2015	Jan. 31, 2015	6 days late
	Not provided	Apr. 30, 2015	Outstanding
2015-16	Jul. 26, 2015	July 31, 2015	6 days late
	Sep. 22, 2015	Oct. 31, 2015	40 days early
	Jan. 27, 2016	Jan. 31, 2016	5 days early
	Jul. 26, 2016	Apr. 30, 2016	2 years 2 Months
2016-17	Jul. 14, 2016	Jul. 31, 2016	18 days early
	Not Provided	Oct. 31, 2016	Outstanding
	Jan. 17, 2017	Jan. 31, 2017	15 days early
	May 11, 2017	Apr. 30, 2017	12 days late
2017-18	Not Provided	Jul. 31, 2017	Outstanding
	Not Provided	Oct. 31, 2017	Outstanding
	Jan. 26, 2018	Jan. 31, 2018	6 days early
	Apr. 16, 2018	Apr. 30, 2018	15 days early
2018-19	Not Provided	Jul. 31, 2018	Outstanding

Notes: **Annual reports** shall be submitted as soon as possible after the end of each financial year, but not more than four months thereafter  
**Corporate Plan** shall be submitted not later than three months before the end of the financial year  
**Half-yearly** reports shall be submitted within two months of the end of each half of a financial year  
**Quarterly reports** shall be submitted within one month of the end of each quarter  
**Other reports** shall be submitted as may be required, from time to time by the Minister

**Source:** AuGD Analysis



### Appendix 3 Human resource management deficiencies

No.	Position	Vacancy Advertised	Evidence of Shortlisting	Evidence of interview and scoring	Meet Qualification Requirement	Evidence of Selection Decision
1	General Manager	Not Seen	Not Seen	Not seen	No	Not Seen
2	Maintenance Planner	Internal	Not Seen	Seen	Yes	Promotion Assessment
3	Procurement Specialist	External	Seen	Seen	Yes	Seen
4	Procurement Specialist	External	Seen	Not seen	Yes	Not Seen
5	Process Technician	Seen	Seen	Seen		Seen
6	Electrical Project Engineer	Not Seen	Not Seen	Seen	Yes	Seen
7	Contracts Administrator	External	Seen	Seen	Yes	Seen
8	Manager, Human Resource	Seen	Not Seen	Not seen	No	Not Seen
9	Technical Services Manager	External	Seen	Not Seen	Yes	Not Seen
10	I&E Technician	Internal	Not Seen	Seen		Seen
11	Director VDU Project	Not Seen	Not Seen	Not Seen	Yes	Not Seen
12	Economics & Planning Coord.	Internal and External	Seen	Seen	Yes	Seen
13	Process Engineer	Not Seen	Not Seen	Seen	Not seen	
14	Terminal Technician	Not Seen	Not Seen	Seen	Yes	Seen
15	Compliance Officer	Seen	Seen	Seen	Yes	Seen
16	Procurement Specialist	Seen	Seen	Seen		Seen
17	Manager, Refinery Optimization	Not Seen	Not Seen	Not Seen		Not Seen
18	Administrative Assistant	Not Seen	Not Seen	Not seen		Not Seen
19	HR Officer	Not Seen	Not Seen	Not seen		Not Seen
20	I&E Technician	Seen	Not Seen	Not seen		Not Seen

No.	Position	Vacancy Advertised	Evidence of Shortlisting	Evidence of interview and scoring	Meet Qualification Requirement	Evidence of Selection Decision
21	Safety Officer	Not Seen	Not Seen	Seen	Yes	She was selected in 2015 for internship
22	Administrative Assistant	Not Seen	Seen	Seen		Not Seen
23	Process Engineer	Not Seen	Seen	Seen		Seen
24	Mechanical Project Engineer	Not Seen	Not Seen	Not seen	Yes	Seen
25	Turnaround Project Manager	Not Seen	Not Seen	Not seen		Not Seen

## Appendix 4 Procurement Methodology Threshold

GOJ Circular No. 27, September 28, 2016

### General and Consulting Services:

Procurement Methodology		Thresholds
ICB/LCB	International Competitive Bidding/ Local Competitive Bidding	Above J\$60M
LCB	Local Competitive Bidding	Above J\$8M up to J\$60M
LT	Limited Tendering	Above J\$3M up to J\$8M (Min. 5 quotations) Above J\$1.5M up to J\$3M (Min. 3 quotations)
DC	Direct Contracting	Up to J\$1.5M

### Contract for Goods:

Procurement Methodology		Thresholds
ICB/LCB	International Competitive Bidding/ Local Competitive Bidding	Above J\$60M
LCB	Local Competitive Bidding	Above J\$10M up to J\$60M
LT	Limited Tendering	Above J\$5M up to J\$10M (Min. 5 quotations) Above J\$1.5M up to J\$5M (Min. 3 quotations)
DC	Direct Contracting	Up to J\$1.5M

### Contract for Works:

Procurement Methodology		Thresholds
ICB/LCB	International Competitive Bidding/ Local Competitive Bidding	Above J\$150M
LCB	Local Competitive Bidding	Above J\$20M up to J\$150M
LT	Limited Tendering	Above J\$10M up to J\$20M (Min. 5 quotations) Above J\$2M up to J\$10M (Min. 3 quotations)
DC	Direct Contracting	Up to J\$2M

## Appendix 5 Consultancy Contracts: Chronology of Events

Date	Document/Event	Audit Observations
<b>Financial and Market Assessment of Petrojam Limited</b>		
May 5, 2017	Letter from Consultant offering to provide consultancy services for Financial and Market Assessment of Petrojam Limited in accordance with request for proposal for the sum of US\$43,000, with Terms of Reference attached.	-
May 9, 2017	Letter from Petrojam thanking consultant for submitting bid of US\$43,000 and indicating that additional expenses of US\$4,200 was not included on the price quoted. The consultant asked to confirm the total contract price of US\$47,200 in writing.	-
May 10 – 11, 2017	Bid Evaluation Approval Control Sheet endorsed by General Manager, Contract Administrator, Requestor, Procurement Unit Head and procurement committee members between May 10 and 11, 2017.	Bid submission deadline was August 17, 2017
May 10, 2017	Letter from consultant confirming the quoted price inclusive of the additional expenses totaling US\$47,200.	-
May 12, 2017	Letter from Petrojam to consultant indicating that the bid submitted for US\$47,200 has been accepted and the related contract attached for feedback.	-
May 15, 2017	Internal Memorandum indicating that the contract for the Financial and Market Assessment of Petrojam Limited between Petrojam Limited and consultant went through the tender process and the direct contracting methodology was utilized to solicit the bid.	-
May 15, 2017	Three-month Contract signed between Petrojam General Manager and the consultant Financial and Market Assessment of Petrojam Limited.	-
May 31, 2017	Progress Report from Consultant to Petrojam's General Manager	-
Aug. 25, 2017	Procurement Change Request approved by the General Manager: Altering the original scope to include additional works and deferring portion of the original scope to subsequent contract. Items included but not limited to reporting format to GM by respective department managers, fuel oil price analysis, loyalty program analysis, Asphalt market sounding trip to Puerto Rico and Miami, attended Financial and Technical Committee Meetings, etc.	-
<b>Financial and Future Sustainability Assessment of Petrojam Limited</b>		
Aug. 14, 2017	Letter inviting the consultant to bid for Financial and Future Sustainability of Petrojam Limited.	-
Aug. 16, 2017	Letter from Consultant offering to provide consultancy services for the Financial and Future Sustainability of Petrojam Limited in accordance with request for proposal for the sum of US\$51,000, with Terms of Reference attached.	Terms of Reference for the Financial and Future Sustainability of Petrojam Limited was the same for the Financial and Market Assessment of Petrojam Limited previous contract.
Aug. 18, 2017	Letter from Petrojam thanking consultant for submitting bid of US\$51,000 and indicating that additional expenses of US\$4,200 was not included on the price quoted. The Consultant asked to confirm the total contract price of US\$55,200 in writing.	
Aug. 18 – Sep 5, 2017	Bid Evaluation Approval Control Sheet endorsed by General Manager, Contract Administrator, Requestor, Procurement Unit Head and procurement committee members between August 18 and September 5, 2017.	Bid submission deadline was August 17, 2017

Date	Document/Event	Audit Observations
Sep. 5, 2017	Letter from Petrojam to consultant indicating that the bid submitted for US\$55,200 has been accepted and the related contract attached for feedback.	
Sep. 6, 2018	Internal Memorandum indicating that the contract for the Financial and Future Sustainability of Petrojam Limited between Petrojam Limited and consultant went through the tender process and the direct contracting methodology was utilized to solicit the bid.	Undated letter
Undated	Petrojam's letter captioned Reason for Direct Contacting: The Consultant was elated because of his experience and track record of performance.	Evidence of Consultant's experience and track record of performance was not provided.
Sep. 8, 2017	Three-month Contract signed between Petrojam General Manager and the consultant for Financial and Future Sustainability of Petrojam Limited	
Oct. 5, 2017	Four-page Memo from Consultant on Petrojam's Loyalty Incentive Program	
Nov. 23, 2017	Consultant Presentation titled: Petrojam Financial and Technical Sub-Committee Meeting 2017 Six-Month Review of Petrojam Performance.	

## Appendix 6 Analysis of PCJ Sponsorship Awards

No	Sponsorship Beneficiaries	Amount \$	Approved by	Ratified by Board	Evaluated by the ICA Department
1	Jamaica International Invitational	5,000,000	Board	Yes	Yes
2	Jamaica Debates Commission	2,500,000	Board	Yes	No
3	Jamaica District Grand Lodge	500,000	Chairman	No	No
4	Jamaica Amateur Gymnastics Association	100,000	Chairman	No	No
5	Humble Lions Football Club	1,000,000	Chairman	Yes	No
6	Missionaries of the Poor	1,000,000	Board	Yes	No
7	Missionaries of the Poor	500,000	Board	Yes	Yes
8	Missionaries of the Poor	782,364	Board	Yes	Yes
9	Tivoli Gardens Football Club Association	800,000	Board	Yes	No
10	Tivoli Gardens Football Club Association	1,000,000	Chairman	No	No
11	Tivoli Gardens Football Club Association	2,000,000	Board	Yes	No
12	University Diabetes Outreach Programme	2,563,296	Chairman	No	No
13	The Missionaries of Charity	500,000	Board	Yes	No
14	The Woman's Club	100,000	Chairman	No	No
15	Young Entrepreneurs Association	1,000,000	Board	Yes	No
16	FC Reno	500,000	Chairman	No	No
17	Starlight Production	5,000,000	Board	Yes	No
18	Multi Care Foundation	500,000	Board	Yes	Yes
19	Shortwood Teachers' College	100,000	GGM	N/A	No
20	Shortwood Teachers' College	100,000	GGM	N/A	No
21	Sport Development Foundation	750,000	Chairman	No	No
22	Joint Board of Teachers Education	100,000	GGM	N/A	No
23	Vantage One Event Rentals	324,800	Board	Yes	Yes
24	Event and Entertainment Service	250,000	Board	Yes	Yes
25	Event and Entertainment Service	250,000	Board	Yes	Yes
26	Event and Entertainment Service	250,000	Board	Yes	Yes
27	Event and Entertainment Service	600,000	Board	Yes	Yes
28	Fyffes Pen Community Youth Club	400,000	Board	Yes	No
29	The Jamaica Chess Federation	200,000	GGM	No	Yes
30	Jamaica Public Service Company	642,975	GGM	No	No
31	Herbert Morrison Technical High School	500,000	N/A <sup>86</sup>	N/A	N/A
32	Ministry of Science Energy and Technology	5,000,000	Chairman	No	No
33	University Diabetes Outreach Programme	2,537,236	Chairman	Board	No
34	St. Simon Primary	600,000	Chairman	No	No
35	Homestead Society	500,000	Chairman	No	No
36	Waterhouse	1,200,000	Board	Yes	No
	<b>Grand Total</b>	<b>39,650,671</b>			

<sup>86</sup> Amount issued to the winner of PCJ's 2016 School Energy Programme

## Appendix 7 Unapproved travel allowance payments at PCJ

No.	Department	Position	2015-16 (\$)	2016-17 (\$)	2017-18 (\$)	Total (\$)
1	Chairman / GM	Administrative Assistant	643,128	707,448	707,448	2,058,024
2	Chairman / GM	Administrative Supervisor	643,128	707,448	707,448	2,058,024
3	Chairman / GM	Executive Assistant	-	-	294,770	294,770
4	Procurement	Purchasing Officer	429,060	707,448	707,448	1,843,956
5	Property	Technician Assistant	429,060	471,972	471,972	1,373,004
6	Property	Assistant Maintenance Tech.	-	-	707,448	707,448
7	HR & Admin	Administrative Supervisor	65,121	707,448	707,448	1,480,017
8	HR & Admin	Senior Driver	195,708	215,280	471,972	882,960
9	HR & Admin	Human Resource Officer	643,128	707,448	637,296	1,987,872
10	HR & Admin	Human Resource Officer - Employee Benefits	214,376	707,448	707,448	1,629,272
11	HR & Admin	Administrative Assistant		471,632	707,448	1,179,080
12	HR & Admin	Senior Human Resource Officer		-	981,379	981,379
13	Legal	Legal Officer	482,346	707,448	707,448	1,897,242
14	Legal	Administrative Assistant	643,128	707,448	707,448	2,058,024
15	CAC	Project Coordinator	643,128	707,448	707,448	2,058,024
16	CAC	Documentation Specialist	643,128	707,448	707,448	2,058,024
17	CAC	Administrative Assistant	643,128	707,448	707,448	2,058,024
18	CAC	Librarian	643,128	707,448	707,448	2,058,024
19	CAC	Audio-visual Technician	429,060	471,972	215,280	1,116,312
20	Accounts	Accounts Clerk - Payables	280,200	280,200	280,200	840,600
21	Accounts	Accounts Clerk - Receivable	429,060	471,972	471,972	1,373,004
22	Accounts	Administrative Assistant	643,128	707,448	707,448	2,058,024
23	Accounts	Senior Accounting Clerk	429,060	471,972	471,972	1,373,004
24	Accounts	Business Intelligence Support	-	-	707,448	707,448
25	Accounts	Secretary	429,060	471,972	471,972	1,373,004
26	Accounts	Payroll & Insurance Officer	-	-	58,954	58,954
27	IT	Systems Administrator	-	707,448	707,448	1,414,896
28	IT	Senior Systems Administrator	643,128	707,448	707,448	2,058,024
29	Oil & Gas	Administrative Assistant	-	58,954	707,448	766,402
-	-	<b>TOTAL</b>	<b>10,243,391</b>	<b>13,997,646</b>	<b>17,561,803</b>	<b>41,802,840</b>

## Appendix 8 Financial Statements Analysis Ratios

### Activity Ratios

**Working Capital Turnover ratio** – refers to the ratio of sales to working capital (current assets less current liabilities). This measures the company's efficiency in its use of working capital.

$$\text{Formula} = \frac{\text{Sales}}{\text{Working Capital}}$$

**Receivable Turnover ratio** - refers to the ratio that measures the rate at which a company collects its accounts receivables.

$$\text{Formula} = \frac{\text{Credit Sales}}{\text{Average Accounts Receivables}}$$

**Payables Turnover ratio** - refers to the ratio that measures the rate at which a company is able to pay off its suppliers for goods.

$$\text{Formula} = \frac{\text{Total Purchases}}{\text{Average Accounts Payables}}$$

**Inventory Turnover ratio** - refers to the ratio that measures the rate at which a company sells its inventory.

$$\text{Formula} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

### Liquidity Ratios

**Cash Ratio** – refers to the ratio of cash and cash equivalents to current liabilities and measures an entity's ability to pay off its current liabilities with only cash and cash equivalents.

$$\text{Formula} = \frac{\text{Cash} + \text{Cash equivalents}}{\text{Current Liabilities}}$$

**Current Ratio** - refers to the ratio of current assets to current liabilities and indicates an entity's ability to meet current liabilities with its current assets.

$$\text{Formula} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

### Debt and Solvency Ratios

**Debt-to-Assets (Debt Ratio)** – refers to the ratio of an entity's debt to total assets and measures the proportion of assets that are financed with debt.

$$\text{Formula} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

**Debt-to-Equity** – refers to the ratio of an entity's debt to total equity and indicates the relative use of debt and equity as sources of capital to finance the entity's assets.

$$\text{Formula} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

**Times Interest Earned/Interest Cover** – this ratio compares the earnings available to meet interest obligations with the interest obligation.

$$\begin{aligned} \text{Formula} &= \frac{\text{Earnings before Interest \& Taxes (EBIT)}}{\text{Interest Expense}} \\ &= \frac{\text{Net Income} + \text{Interest Expense} + \text{Taxes}}{\text{Interest Expense}} \end{aligned}$$



### **Profitability Ratios**

**Net Profit Margin** – refers to the ratio of an entity's net income to sales and measures how much of each dollar of sales is left over after all expenses.

$$\text{Formula} = \frac{\text{Net Income}}{\text{Sales}}$$

**Rate of Return on Assets** – refers to the ratio of net income to total assets. This indicates the amount earned on each dollar of assets.

$$\text{Formula} = \frac{\text{Net Income}}{\text{Total Assets}}$$

## Appendix 9 Criteria for Financial Standards - FAA Act (amended) 2015, Regulations

[illegible]