

Internal Audit Report

Created By:	Pat Mooney/NLHydro	Date Created:	04/29/2013 04:59 PM
Status:	Complete	Audit Number:	I4T3030

Audit Title: 2013 Contracts Award Process

Audit Type: Internal

Category: Internal Audit - Compliance Review

Risk: Medium Risk

Auditors: Pat Mooney/NLHydro

Person Responsible: Pat Hussey/NLHydro

LOB Responsible: Nalcor Energy - Lower Churchill Project **Division Responsible:** Project Management

Department Responsible: Business Services **Section Responsible:** Supply Chain Management

Project Number: 13-06

WO Number: **WO Description:**

Audit Consultant: **Audit Company:**

Cross Reference: **Percentage Complete:** 90%

Setting/Location: Lower Churchill Project Administrative offices at Hydro Place and Torbay Road.

Objectives:

This review encompassed an assessment of the policies and procedures governing the contract award process for the Muskrat Falls, Labrador Island Link and Labrador Transmission Assets components of the Lower Churchill Project.

Specifically the objectives of the review were:

- To assess the policies and procedures governing the contract award decision, with a view to ensuring an award process that can be viewed as fair and reasonable by all stakeholders.
- To examine compliance to date with those established policies and procedures.

Scope:

The scope of this review was the procurement process that starts with the initial expression of interest, and

ends with the final award decision. It included the review of the documented procedures and guidelines in place, and interviews with relevant procurement staff to confirm interpretation and application.

It also included the selection of a number of awarded contracts and the review of the evaluation and award documents to determine that the procedures were followed with a focus on the sequence and timing of control activities, and the documentation of required approvals. The purpose was to ensure that all interested parties were provided fair and reasonable opportunities to compete, and were subject to a consistent evaluation process.

The review did not attest to the accuracy of the information used in the evaluations and did not assess the final award decisions.

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Background:

The Contract Awards Process as a whole is considered to have an inherent risk rating of medium, utilizing the Corporate Enterprise Risk Management Toolset. Inherent risk is the risk present before management takes action to reduce the likelihood and impact of an adverse event, including the control activities in responding to a risk. To address this inherent risk, the Lower Churchill Project has implemented a comprehensive project management process to manage the design, construction, and completion of the development and to help meet schedule and budget targets. The process consists of a number of management plans that serve to guide and control the various interrelated activities of the project. The Procurement Management Plan, which is the focus of this review is linked to a number of associated plans, all of which encompass the procedures, responsibilities, and standards to be followed for the sourcing of goods and services to be used in the project. It includes guidance on bidding, contract evaluation, and award.

Conclusion:

The review indicated that the procurement processes and procedures for the evaluation and awarding of contracts provide reasonable opportunity for a fair and consistent assessment of potential applicants to participate in project opportunities. This conclusion was based on the following observed characteristics of the contract awards process:

- The forecasted procurement requirements are posted as work packages on the project internet website to provide public visibility, and to generate interest.
- There are directed inquiries made of potential suppliers to promote awareness of opportunities.
- There are specific guidelines to provide members of Innu Nation with first opportunities on selected aspects of the development. These guidelines incorporate an active monitoring and reporting process to assess compliance.
- There is a process whereby expressions of interest (EOI) are solicited from certain targeted bidders and, as well, unsolicited EOIs are invited. All EOIs received are evaluated to ensure that potential bidders meet specific requirements in the areas of safety, technical ability, and financial capacity.
- This evaluation is done by a multi-discipline evaluation team using preapproved evaluation criteria, including assessments of local benefits.
- All submitters of expressions of interest are notified by letter advising them that they have or have not been included on the accepted bidders list for the contract.
- There is a Request for Proposals assessment process which evaluates proposals from approved bidders using a preapproved evaluation plan incorporating criteria in the areas of safety, technical, commercial, quality, and environment.
- Commercial bid details are provided only to the Commercial Evaluation Team pending completion of

evaluation work in all key areas.

- The evaluation process is an independent assessment of the commercial and technical aspects of the proposals incorporating a bid normalizing option to develop a consistent basis for bidder evaluation, and to determine optimal project value.
- There is a multi-level approval of the final selection recommendation reflecting a robust due diligence process that includes a separate cold eyes review of the final agreement for larger contracts.

The review of relevant documents and files for the selected contracts indicated that the procedures were followed, there was consistent application of the evaluation criteria to all potential bidders, and that documentation exists demonstrating the required levels of approvals at the applicable stages of the process.

The procurement team exhibit significant knowledge and understanding of these processes and demonstrate a commendable level of commitment to apply them effectively.

The review did note some exceptions in the completion of some documentation, all of which were considered as having low inherent risk. More information on these are contained in the Internal Audit Issue Reports attached to this Internal Audit Report. There were also some potential opportunities for improvement identified and these have been communicated to the Procurement Team for their consideration.

Internal Audit Issue Report

Audit Number:	I4T3030	Date Created:	06/25/2013 11:57 AM
Created By:	Paul Turpin/NLHydro	Issue Number:	I6P494F
Status:	Complete	Review Cycle Created:	No

Followup Update Required

Area Update Required

Issue Title: Single Source Approvals**Person Responsible:** Pat Hussey/NLHydro**Company Responsible:** Nalcor Energy - Lower Churchill
Project**Division Responsible:** Project Management**Department Responsible:** Business Services**Section Responsible:** Supply Chain
Management**Risk Level:** Low Risk**Class:** Compliance with Policies and
Procedures**Sub Class:****Causal Factor:** Lack of Compliance**Working Paper
Number:** E2-2**Effect:** Potential for inappropriate approvals of committments**Issue:**

There was one instance in the sample of contract documents reviewed where the value of a single source justification exceeded the approval level of the person who approved the document. The Approval Matrix for Key Procurement Recommendations makes a reference to the Approval Authority Limits Matrix which outlines the approvals that are required for sole source justification.

Upon further enquiry it was noted that the person with the higher required authority had knowledge that there was only one bidder but obtaining his signature on the sole source document was an oversight. In addition, the justification for sole source was well documented with no other apparent potential bidder.

Recommendation:

Management should ensure that all single source documents are approved by the designated individuals with the appropriate approval limits.

Formal Management Response:

<p>All Supply Chain Management personnel have a copy of the latest Approval Authority Limits Matrix. Any Updates to this matrix will be

Single Source Approvals

issued to all personnel.</p>

<p>The Single Source Justification Form will be amended to include a statement that the form must be approved by one level higher than the required authority level for the acquisition of the goods or services requested. This action will be completed by 19 July 13.</p>

<p> The Supply Chain Manager or his designate will be the last person to sign the sole source form which will ensure that the appropriate approval levels have been obtained.</p>

Finalized Email Sent To:

Lance Clarke/NLHydro

Monthly Update:

Issue Number - 16P494F - Single Source Approvals

The Single Source Justification form has been updated to include a statement at the top of the form "the form must be approved by one level higher than the required authority level for the acquisition of the goods and services requested". In addition, the Supply Chain Manager will be the last signature on the form which ensures all required signatures are obtained.

Project Instruction LCP-SN-CD-0000-SC-PR-0001-01, Invitation for Bidder Selection, Section 6.3 has been updated to include the same statement as noted above.

Follow-up:

<p> Follow up will be done by IA as a separate project</p>

Internal Audit Issue Report

Audit Number:	I4T3030	Date Created:	06/25/2013 12:05 PM
Created By:	Paul Turpin/NLHydro	Issue Number:	I6P367C
Status:	Complete	Review Cycle Created:	No

Followup Update Required	Area Update Required
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Issue Title: Bid Evaluation Plans

Person Responsible: Pat Hussey/NLHydro

Company Responsible: Nalcor Energy - Lower Churchill **Division Responsible:** Project Management Project

Department Responsible: Business Services **Section Responsible:** Supply Chain Management

Risk Level: Low Risk

Class: Compliance with Policies and Procedures **Sub Class:**

Causal Factor: Lack of Compliance **Working Paper Number:** E2-2

Effect: Potential for proposals being opened before an approved evaluation plan in place

Issue:

There was one instance in the sample of contract documents reviewed where the formal bid evaluation plans were attached to emails rather than in a documented form per procedure. While the evaluation templates developed by the evaluation team were in place before the actual bid opening, full documentation per procedure is required.

Having the evaluation plans fully documented and approved in accordance with procedure before all bid openings, helps ensure an assessment process that is objective and consistently applied.

Recommendation:

Management should ensure that evaluation plans are consistently and fully documented and approved in accordance with procedure prior to all bid opening.

Formal Management Response:

<p>The bid opening form has been amended to include a section to give the status of the bid evaluation plan. It will state if the bid evaluation

Bid Evaluation Plans

plan is approved and the date. No bids will be opened until the bid evaluation plan is approved. This updated form has been issued to the Supply Chain Team.</p>

<p>In addition, the Project Instruction pertaining to Bid Receipt and Bid Opening will also be amended to include a statement that no bids are to be opened unless the bid evaluation plan is approved. This will be completed by 19 July 13.</p>

Finalized Email Sent To:

Lance Clarke/NLHydro

Monthly Update:

Issue Number - 16P367C - Bid Evaluation Plans

The Bid Opening form has been amended to include a requirement to indicate if the bid evaluation plan is approved and the date of when it was approved. This revised form was issued to all Supply Chain personnel advising of the change.

Project Instruction LCP-SN-CD-0000-SC-PR-0003-01, Bid Receipt and Opening, Section 6.2 has been updated to state that no bids are to be opened unless the bid evaluation plan has been approved.

Follow-up:

<p> Follow up will be done by Internal Audit as separate project </p>

Internal Audit Issue Report

Audit Number:	I4T3030	Date Created:	06/25/2013 12:20 PM
Created By:	Paul Turpin/NLHydro	Issue Number:	I6P5464
Status:	Complete	Review Cycle Created:	No

Followup Update Required

Area Update Required

Issue Title: Documented Award Procedures**Person Responsible:** Pat Hussey/NLHydro**Company Responsible:** Nalcor Energy - Lower Churchill Project
Division Responsible: Project Management**Department Responsible:** Business Services**Section Responsible:** Supply Chain Management**Risk Level:** Low Risk**Class:** Compliance with Policies and Procedures
Sub Class:**Causal Factor:** inadequate documentation of decisions
Working Paper Number: E2-3**Effect:** Potential for inconsistent and inconcomplete rationale for procurement decisions**Issue:**

The contracting documents for the specific contracts selected were reviewed to confirm that the required procedures and approvals were documented in a manner and sequence as required. While most documents met requirements, there were some documentation exceptions as noted in the following:

1. There was one instance in the sample where the evaluation plan for an Expression of Interest excluded the requirement for a quality assessment, but there was no information in the file to indicate the reason for the exclusion. The staff discussions indicated that the particular bidders had been quality assessed for a prior similar package and the quality assessor deemed that another evaluation was not considered necessary.
2. There was one instance in the sample where the bid opening date was extended to accommodate a bid receipt but there was no information in the file to document the reasons, and the approvals for the extension. The staff indicated that contact with the bidder indicated that documents had been forwarded but were delayed in transit.
3. There was one instance in the sample where the date on the formal contract strategy document was after the date of the Request for Proposal. Upon further enquiry with staff they indicated that the strategy was being discussed before the RFP was issued but had not been formally documented until after.
4. Supply Chain Management document MSD-MMM-001 – Identify and Select Bidders, does not

include the requirement to have a contract strategy in place before issuing an Expression of Interest. There is a reference in other related documents about having a strategy but no specific procedural requirement to create one.

Recommendation:

In instances where management discretion is permitted procedurally and employed, some brief explanation should be documented.

In addition, Management should assess instances where current processes are not reflected in procedures to ascertain whether additional documentation or changes are necessary.

Formal Management Response:

<p>Examples such as the findings outlined in 1 - 3 above may occur during the execution of the process, however these should be kept to a minimum.</p>

<p>The Supply Chain Project Instructions will be amended to include a statement that if there are circumstances whereby the process is altered it must be documented, approved by the appropriate level of management and included within the package files. This will be completed by 19 July 13.</p>

<p>Procedure MSD-MMM-001 will be reviewed and revised as required. This will be completed by 26 July 13.</p>

Finalized Email Sent To:

Lance Clarke/NLHydro

Monthly Update:

Issue Number - 16P5464 - Documented Award Procedures

Item 1 of the finding. Project Instruction LCP-SN-CD-0000-SC-PR-0001-01, Invitation for Bidder Selection, Section 6.2 has been revised to address this finding.

Item 2 of the finding. Project Instruction LCP-SN-CD-0000-SC-PR-0003-01, Bid Receipt and Opening, Section 6.1 has been revised to address this finding.

Item 3 of the finding. Project Instruction LCP-SN-CD-0000-SC-PR-0001-01, Invitation for Bidder Selection, Section 6.1 has been revised to address this finding.

Item 4 of the finding. Procedure MSD-MMM-001 - Identify and Select Bidders has been replaced with Project Instruction LCP-SN-CD-0000-SC-PR-0001-01, Invitation for Bidder Selection. Section 6.1 of this Project Instruction has been revised to address the finding.

Follow-up:

<p> Follow up will be done by Internal Audit as a separate project</p>