

<b>Line of Business</b>	Lower Churchill Project
<b>Department</b>	Supply Chain
<b>Audit</b>	Contract Administration (incl. Legal Agreements)
<b>Audit Risk Level</b>	Medium
<b>Person Responsible</b>	Pat Hussey
<b>Supervisor</b>	Ron Power
<b>Auditor</b>	Douglas Woodford
<b>Audit Manager</b>	Mark Bradbury

## Objectives

1. To ensure that the contract administration function has an adequate control environment that includes a charter, written policies and procedures, that personnel have appropriate skills and training and that the function has proper performance measures in place to demonstrate their effectiveness.
2. To ensure that contract administration procedures post award as documented are consistent with best practices (for purposes of this audit “best practices” was considered to be the PMBOK (Project Management Book of Knowledge), Chapter 12 Project Procurement Management/Contract Administration and the IIA Construction Audit Guide).
3. To review legal contract templates for completeness and to ensure there was legal oversight and approval during their creation.

## Scope

The audit included assessing the following: (1) Purpose & Governance, (2) Contract Administration, and (3) Legal Agreements.

A summary of the scope of the audit is as follow:

### Purpose and Governance

This included testing for a charter or objective statement, such as a Procurement Management Plan, providing Supply Chain with a well-defined mission and scope of work, accountability, roles and responsibilities, and authority. Additionally we sought to establish that all necessary related procedures had been developed and circulated. This included an Overarching Contract Strategy,

Prepare and Issue Contract procedure, procedures related to contract close, etc. Testing was also completed to ensure that adequate staff is in place (both numbers of employees and competency of employees) possessing the necessary levels of objectivity and independence.

### **Contract Administration**

This involved reviewing both the Post Contract Award Procedure and the Agreement Closeout Procedure to ensure that they included elements that adhere to best practices in an effort to minimize inherent risks.

The Post Contract Award Procedure was reviewed to confirm that it contained thorough, well developed language regarding roles and responsibilities, risk measurement, compliance monitoring, performance measurement, reporting, performance securities and insurance, etc.

The Agreement Closeout Procedure was reviewed to confirm that it contained thorough, well developed language regarding roles and responsibilities, close out checklists, punch lists, final inspection requirements, settlement of liens, final completion process, etc.

### **Legal Agreements**

This included testing to ensure that contract attributes provided adequate legal assurance between LCP and Contractors. Documents were reviewed to confirm that standardized agreement templates were used; and that they included complete and relevant articles and exhibits. Articles and exhibits were reviewed to ensure that they defined the scope of work, schedules, Company and Contractor responsibilities, safety standards, change management, worker's compensation, contract completion, etc. The preparation and approval/authorization process for creation of the documents was also reviewed in detail.

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### **Background**

Nalcor Energy is committed to developing procedures and agreement templates for LCP contracts that are in accordance with industry best practices and which mitigate risk. In this case best practices were considered to be the PMBOK (Project Management Book of Knowledge), Chapter 12 Project Procurement Management/Contract Administration and the IIA Construction Audit Guide. Nalcor Energy believes that this is fundamental to achieving project objectives, as well as supporting its corporate goal of business excellence. To that end, extensive training and orientation is provided to all Supply Chain staff in the areas of contracts administration and claims management.

The audit activities included: reviewing various documentation within Aconex, conducting a kick-off meeting, interviewing Supply Chain members and the Claims Management Specialist, obtaining

clarifications and additional documentation unavailable in Aconex, and conducting an exit meeting where preliminary concerns and recommendations were discussed with the client.

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## **Conclusion**

The Contracts Administration audit was performed by examining the following areas:

### **Purpose and Governance**

The Contract Administration function does have an adequate control environment that includes a charter, appropriate written policies and procedures, personnel that have appropriate skill and objectivity, and the proper performance measures in place to demonstrate effectiveness.

The Charter and other procedures were thoroughly reviewed to ensure that they contained elements consistent with best practices. The documents are easy to understand and are readily available to all staff. Staff bios were also reviewed and they confirm that Supply Chain staff have a beyond adequate combination of education and experience.

### **Contract Administration**

The Post Contract Award Activities are consistent with best practices. The Post Contract Award contained thorough, well developed language regarding roles and responsibilities, risk measurement, compliance monitoring, performance measurement, reporting, performance securities and insurance, etc. It was also noted that the function has a robust Claims Avoidance Strategy. This includes a LCP Claims Specialist with over 35+ years of experience that includes relevant educational background, there is also Claims Avoidance training provided to the Supply Chain Function and relevant package engineers, this in return is supported by the projects Claims Avoidance Philosophy Document.

The Contract Close Activities are consistent with best practices. The Agreement Closeout Procedure contained thorough, well developed language regarding roles and responsibilities, close out checklists, punch lists, final inspection requirements, settlement of liens, final completion process, etc.

### **Legal Agreements**

Internal Audit (IA) has verified standard agreements are being used on the LCP. These standard agreements have been reviewed and IA has determined that there was appropriate management and legal oversight when creating those agreement templates and that these legal agreements contain pertinent articles & exhibits. The administration of these legal agreements under Supply Chain is consistent with best practices.

### **Opportunities for Improvement**

There were two areas of improvement noted; both documents should be made available in Aconex:

- (1) The Contracts Due Diligence Procedure has not been issued for use. However it is still active and being used as a guide. As such it may warrant making it available in Aconex.
- (2) The Agreement Articles Approval and Sign Off is not currently available in Aconex. Supply Chain may want to consider making it available going forward.

In the Exit Meeting, Supply Chain management was in agreement with these opportunities and will be addressing them in the near future.

### **Final Comments**

There were no issues identified during the audit of the Contract Administration on the Lower Churchill Project. It can be concluded that the Supply Chain is working within an appropriate control environment and has developed contract administration procedures that are consistent with best practices. In addition, contracts were drafted based on legal contract templates that appear comprehensive in scope and that were developed with legal oversight and approval.