



Lower Churchill Project

Internal Audit Project # 15-17

Report Name: Payment Certificate Review and Compliance

Person Responsible: Pat Hussey

Auditor: Krista Fowler

Audit Manager: Jackie Borden

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Audit Report

Line of Business	Lower Churchill Project (LCP)
Department	Supply Chain Management
Audit	Payment Certificate Review and Compliance
Risk Level	Medium
Person Responsible	Pat Hussey – LCP Supply Chain Manager
Supervisor	Ron Power – General Project Manager Lance Clarke – Deputy Project Director
Auditor	Krista Fowler
Audit Manager	Jackie Borden

Executive Summary

An audit was conducted on the LCP Payment Certificate Approval function with respect to the Payment Certificate Procedure (LCP-PT-MD-0000-CA-PR-0003-01, Rev B2).

Internal Audit reviewed the Payment Certificate Approval Process to assess the adequacy of the controls in place and then completed compliance testing of the Payment Certificate Procedure to invoices that have previously been approved for payment. Walkthroughs for ten key contracts was completed and 25 invoice payments were tested (\$166,186,345).

Based on this Internal Audit it was concluded that the controls in place for the Payment Certificate Approval Process were adequate and the function operated in compliance with the required Payment Certificate Procedure. Several opportunities for improvement to the Payment Certificate Approval Process were identified.

Please see attached audit report for further details on the audit program that was executed.

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as developed by the Institute of Internal Auditors (IIA).

Objective(s)

Objective 1

To review the Payment Certificate Approval Process and assess the adequacy of the controls in place for this process.

Scope

1. 10 key LCP Contracts were reviewed including:
 - CH0007 Astaldi
 - CH0032 Andritz Hydro
 - CH0030 Andritz
 - CD0501 Alstom Grid
 - CD0502 Alstom Grid
 - CD0534 Alstom Renewable Power
 - CT0319 Valard
 - CT0327 Valard
 - LC-SB-003 Nexans
 - LC-SB-011 Tideway

2. For each Package/Contract selected, we selected one previously approved invoice as a sample to be used and performed a walkthrough of the Payment Certificate Approval Process with the individuals involved in the Payment Certificate validation.

Objective 2

To test compliance to the Payment Certificate Procedure to invoices that have been previously approved for payment.

Scope

1. 25 invoices were selected from the above 10 key LCP Contracts.

2. For each invoice selected, we obtained the Payment Certificate Approval package and ensured that the Payment Certificate Approval Process had been complied with.

Background

Invoices for all LCP Contracts are paid by LCP Finance and Accounting. To ensure Contractors are billing only for goods or services received, the goods or services have been inspected and accepted, the payment certificate is correct and complies with the pricing, terms, and conditions of the contract, and

the total payments do not exceed the contract limits, LCP Finance and Accounting rely heavily on compliance to the Payment Certificate Approval Process prior to processing invoices for payment. Due to the large number of contracts and individuals involved in the Payment Certificate Approval process testing compliance to the Payment Certificate Process is a key control.

Analysis & Recommendations for Improvement

The Payment Certificate Review and Compliance audit was performed by examining the following areas:

1. Review of the Payment Certificate Package

Compliance testing conducted on the Payment Certificate Approval Process indicated that procedures are being followed in most instances. All of the selections tested had a Payment Certificate attached with all key sections completed. In addition, adequate documentation was attached to justify current progress (timesheets, goods received, services rendered, % of completion, milestone achievement) and the Payment Certificate Approval Form had been signed by the appropriate approvers.

There were a couple of nominal items noted below. The nominal nature of these items highlights the detail of testing completed and positive results.

Signoffs on the Payment Certificate Approval Forms by Package Engineers/Package Leaders

According to the Payment Certificate Procedure, the Package Engineer/Package Leader is responsible for reviewing the milestone achievement and/or work progress presented in the payment certificate application, including the basis of measurement, to confirm that it is reasonable and representative of the actual work performed by the Contractor. In addition, they ensure that any outstanding issues with the Contractor not identified in the Payment Certificate application, including quality issues, have been considered and documented in the Payment Certificate application.

We noted during the walkthroughs and testing of a number of different contract packages that the Package Engineer/Package Leader was not identified as a participant in the verification and approval process.

This is due to:

- Some of the Contracts selected for testing had payments based on actual quantities completed and not milestones or work progress.
- In addition, some of the Package Engineer/Package Leaders are not involved in the Contractor work verification process as other individuals perform various verifications of actual work performed by the Contractor including quality issues.

- Finally, the Area Construction Manager must approve the Payment Certificate and he/she is very involved in the progress of construction and is aware of any outstanding quality issues that would affect the Payment Certificate and would ensure that these issues were considered and documented prior to approving the Payment Certificate.

Therefore, in some contract packages, having the Package Engineer/Package Leader named as an approver on the Payment Certificate Approval Form is not necessary.

Opportunity for Improvement - We recommend that the LCP Payment Certificate Procedure be updated to change the procedure 7.2.4 from Package Leader or Package Engineer to Technical and/or Construction Representative. This would provide more flexibility to the Contract Administrator with input from the Company Representative on who reviews and approves the Payment Certificate.

Payment Certificate Approval Process for the LCP Marine Crossing Team/SOBI Team

During the walkthroughs of Payment Certificate Approval Process we identified that the LCP Marine Crossing Team/SOBI team does not use the LCP Payment Certificate Process for Payment Certificates associated with their scope of work – the Strait of Bell Isle (SOBI) Crossing. However, we noted that the SOBI contracts are paid based on the achievement of milestones and each milestone payment must be supported by a Milestone Certificate approved by the Area Manager. Milestone Certificates are outlined in the contract and have specific Milestone Completion Criteria that must be met prior to being approved. The Marine Crossing Team/SOBI Team was using the Milestone Completion Criteria outlined in their contracts for approval of Payment Certificates. The identified controls in place within SOBI team for appropriate Payment Certificate Approval ensure that the contractor is billing only for goods or services received, the goods or services have been inspected and accepted, the payment certificate is correct and complies with the pricing, terms, and conditions of the contract and the total payments do not exceed the contract limits. We also noted that the supporting documentation for the approval of Payment Certificate packages are filed in Aconex, stored in the contract file on the network drive and contained in the contract binder. It would be beneficial if the documentation to support the approval of Payment Certificates was maintained in a Payment Certificate Package, either electronically on the network drive or in a hard copy binder, for the approval of each Payment Certificate.

Opportunity for Improvement - We recommend that the Marine Crossing/SOBI team use the LCP Payment Certificate Procedure along with the Payment Certificate Approval Form for the approval of all Payment Certificates on a go forward basis. We also recommend that the LCP Payment Certificate Policy be updated to modify the definition of Payment Certificates to include Milestone Certificates. Following the LCP Payment Certificate Procedure would provide guidance on the individuals required to validate the items on the Payment Certificate and the individuals required to approve a Payment Certificate. In addition, we recommend that a Payment Certificate package be maintained either electronically on the network drive or in a hard copy binder for the approval of each Payment Certificate.

2. Role of the Contract Administrator

Compliance testing conducted on the role of the Contract Administrator indicated that the procedures outlined in the Payment Certificate Procedure are being followed in most instances. All of the Contract Administrators were adequately performing their responsibilities to ensure that the appropriate verification supports were involved in the approval of Payment Certificate to ensure the charges were in compliance with the respective agreements.

There were a number of nominal items noted. The nominal nature of these items highlights the detail of testing completed and positive results.

Receipt of the Payment Certificate from the Contractor

According to the Procedure, upon the receipt of the Payment Certificate application, the Contract Administrator is supposed to date stamp the receipt date on the Payment Certificate application. All Contractor Administrators indicated that they do not date stamp the as date received is captured in the Event Log of the Aconex Record. The date the Payment Certificate was received in Aconex is the entered into the Date Received field on the Payment Certificate Approval Form by the Contract Administrator.

Opportunity for Improvement - We recommend that the LCP Payment Certificate Procedure be updated to remove the requirement for Payment Certificates to be date stamped when received. We suggest that the procedure should state that when a Payment Certificate is received in Aconex, the Payment Certificate Approval Form should be printed and the date it was received in Aconex should be the date entered into the Date Received field on the Payment Certificate Approval Form.

Log of Payment Certificates

The Procedure also states that the Contract Administrator is responsible for maintaining a current log of pertinent information regarding the status and location of the Payment Certificate to ensure timely processing and approval of the Payment Certificate application. During the walkthroughs and compliance testing, we noted that the majority of Contract Administrators do not maintain such a log because there are normally only 4-5 individuals involved in the Payment Certificate Approval Process and there are usually not more than 2 payment certificates waiting for approval at any one time. We also noted that the individuals involved in the Payment Certificate Approval Process work closely together so they are aware of the status of the Payment Certificate verifications. Finally, we noted that most Contract Administrators are only responsible for 1 or 2 contract packages. As a result, maintaining a current log of pertinent information regarding the status and location of the Payment Certificate is not an effective or necessary way to ensure timely processing and approval of the Payment Certificate application.

Opportunity for Improvement - We recommend that the LCP Payment Certificate Procedure be updated to remove the Contract Administrator's requirement to maintain a current log of pertinent information regarding the status and location of the Payment Certificate and ensure timely processing and approval of the Payment Certificate application.

Verification of Non-Labour Charges

We noted during the walkthrough of the CH0007 samples and testing that the Quantity Surveyor is not named as an Approver on the Payment Certificate Approval Form. However, the Quantity Surveyor is responsible for performing detailed verifications of non-labour charges and we noted that the work involved in this process is quite extensive. The Quantity Surveyor maintains a spreadsheet to track the verification of the non-labour quantities and the spreadsheet is updated on a weekly basis. When a Payment Certificate is received from the Contractor, the Quantity Surveyor compares the quantities and rates on the Payment Certificate with those verified on the tracking spreadsheet. If the quantities and values agree, the Quantity Surveyor prints a copy of the spreadsheet and signs it indicating the quantities have been verified.

Opportunity for Improvement - We recommend that the Quantity Surveyor be named as an approver on the Payment Certificate Approval Form for CH0007 Payment Certificates which include non-labour charges. This will allow for more transparency of the fact that the quantities for non-labour charges on the Payment Certificate Approval Form have been verified and it is also consistent with other contract packages by requiring those who provide verification support to sign the Payment Certificate Approval Form.

Attest Procedures

During the walkthroughs and compliance testing, we noted that for the majority of attest procedures performed for Payment Certificate verifications there were no formal procedures or checklists developed to provide guidance on the attest procedures to be performed.

Opportunity for Improvement - We recommend that all Contract packages have procedures or checklists developed for each attest procedures required for the Payment Certificate Approval process. Having a documented procedure or checklist that guides what is required when performing these attest procedures will be a valuable tool for new employees to the position and also a good reference tool for those currently performing the attest procedures. This would be especially important for:

- CH0007 in which the attest process is labour and non-labour charges were very detailed and involved multiple verifications using various sources of information.

- CT0319 and CT0327 in which the attest process involves an extensive tracking spreadsheet called the "Schedule of Values Tracker". This has been developed to track unit rate quantities that have been verified by Quality personnel using various different quality control forms.

3. Role of the Cost Controller

Compliance testing on the role of the Cost Controller indicated that the procedures outlined in the Payment Certificate Procedure are being followed. All of the Cost Controllers were adequately performing their responsibilities to ensure to verify milestone and/or work progress presented in the payment certificate application, to verify the basis of estimates, if applicable, and to ensure that the appropriate quantities and costs were input into PM+.

4. Role of the Package Engineer/Package Leader

Compliance testing on the role of the Package Engineer/Package Leader indicated that the procedures outlined in the Payment Certificate Procedure are being followed in most instances. As outlined above, the Package Engineer/Package Leader was not always identified as a participant in the verification and approval process. See recommendation in section 1 above.

5. Role of the Area Manager

Compliance testing on the role of the Area Manager indicated that the responsibilities outlined in the Payment Certificate Procedure are being followed. All of the Area Managers were performing their duties to ensure that all verifications had been performed by the appropriate team members, reviewing comments from team members identified on the Payment Certificate Approval form, and reviewing milestone achievement and/or work progress presented in the Payment Certificate application.

Overall Recommendations

Recommendations through this report do not represent a deviation from the Payment Certificate Procedure or any form of non-compliance. They represent challenges to taking an integrated approach to the Payment Certificate Approval process across the Lower Churchill Project. They can be considered as potential ways to improve the efficiency and effectiveness of the Payment Certificate Approval Process.

Supply Chain Management was in agreement with these opportunities and will decide whether or not to address them after they assess their feasibility.

Conclusion

Based on the controls identified during the walkthroughs of the Payment Certificate Approval Process, it can be concluded that the controls in place for this process appear to adequately ensure that the contractor is billing only for goods or services received, the goods or services have been inspected and accepted, the payment certificate is correct and complies with the pricing, terms, and conditions of the contract, and the total payments do not exceed the contract limits. In addition, through the compliance testing conducted, it can be concluded that the appropriate individuals are involved in the Payment Certificate Approval Process and approvals are generally operating in compliance with the Payment Certificate Procedure.

Final Comments

The Audit Team would like to extend gratitude to the management and staff involved in this audit for their respectful participation in interviews and discussions, their assistance with reperforming the detailed verification and attest procedures and their prompt replies to information requests throughout the audit process.