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Internal Audit Memo

RE: Site Purchasing Review

To: Pat Hussey – LCP Supply Chain Manager, Dave Parady – MF Generation Site Manager

CC: Lance Clarke – LCP Business Services Manager, Scott O'Brien – Project Manager MF Generation

From: Jackie Borden, Manager, Internal Audit, Nalcor Energy

Date: October 26, 2017

Review

A Site Purchasing Review was conducted at the Muskrat Falls between Sept 26/17 and Sept 28/17 the objective and scope of that review included:

Objective/Scope

Objective 1: To review, discuss, and compliance test site purchasing, receiving, and disbursement of site supplies and tools, this will include a safety walkaround of maintenance facility.

Scope: The scope of work was primarily limited to the LCP Site Purchasing Procedure and includes process walkthroughs of that procedure, sampling, and compliance testing.

Summary

Process Walkthrough

The LCP Site Buyer provided a walkthrough of the procedure which in return allowed for a round table discussion of its contents and holistically areas for continuous improvement. Continuous improvement areas included; but is not limited to: updating the procedure with current data with authorization limits and p-card limits, using the p-card more frequently for \$5K purchase and below to reduce the number of requisitions and purchase orders, establishing another position - material controller/buyer to enhance segregation of duties, streamlining receiving activities to localized areas to improve receipt/inspection of supplies and tracking of small assets. Generally the LCP Site Purchasing Procedure is being followed, as demonstrated via compliance testing; it does however require an update, which the LCP Supply Chain Manager is already in the process of doing. It is anticipated that within the weeks to come a

presentation will be delivered to site personnel regarding changes to this procedure and in general this review.

Compliance Testing

Internal Audit sampled 25 requisition/purchase order/packing slip/material receiving report (MRR) at random and compliance tested, in addition 3 invoices were randomly sampled and tracked back to the MRR/packing slip/purchase order/requisition, in summary;

Tests from requisition to purchase order, minor observations were identified. No red flags were observed that indicated any significant bypass in controls. All requisitions and purchase orders were appropriately authorized according to the limits set out in the LCP Site Purchasing Procedure, all purchase orders were raised in logical sequence (e.g. the PO date was not earlier than the requisition date) and generally purchase order values matched requisition values (less any administrative errors).

Tests from material receipt, which included the physical receipt/packing slip, inspection, and creation of the MRR in PM+, minor observations made. Packing lists were not always legible and at times an inspection of those received supplies were assumed complete, at times the Site Buyer would physically receive the supplies and sign off on the packing slip and create the MRR in PM+. There was good turnaround time from physical receipt of the supplies to the creation of the MRR in PM+ and on average this was less than 7 days. The physical receipt of supplies and MRR in PM+ were also created in logical sequence (e.g. MRR date was not before the packing list date, or PO date, or requisition date).

For Inventory Management it is important to distinguish between inventory and consumable supplies. From an inventory perspective small assets (e.g TV's, computer monitors) can be ordered and received on site. Although there is an asset listing it is outdated and it will need to be updated. Small assets will need to be disposed of at the end of the project, therefore, an up to date list is required to ensure assets are appropriately disposed and recorded.

For consumable supplies (e.g. water, PPE) just in time strategies are used, when it's needed it is purchased. Due to the type of consumables ordered; quantity doesn't warrant a min/max system.

In addition, for both Inventory Management and Consumable Supplies there are three general locations for receiving, inspecting, and issuance: the Admin Building, Camp, and the Site Services Trailer. With the introduction of the material control function business controls will be enhanced for receiving activities.

In addition, as a standard field practice, Internal Audit along with the MF Site Manager and MF H&S Advisor conducted a safety walkabout of the MF Maintenance Building and Fire Hall; minor observations were made and corrected on the spot. Noted by Internal Audit were the cleanliness of work areas and the use of safety guards on tools.

Conclusion

Those committed changes to be implemented by the Supply Chain management such as the addition of a material controller/buyer, re-instatement of the asset listing, a centralized receiving area(s), and revisions to the existing LCP Site Purchasing Procedure will improve control and efficiency for site

purchasing. Nominal procedural errors are documented in the attached observation log. No trends or errors were noted.

Final Comments

Internal Audit would like to extend gratitude to the management and staff involved in this review for their respectful participation in interviews and discussions, their assistance with providing the documentation to support the compliance testing procedures and their prompt replies to information requests throughout the review process.

Attachments:

1. Appendix A – Sample and Compliance Testing
2. Appendix B – Observation Log

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