

**Lower Churchill Project
Analysis of Risks Associated With Astaldi Labour**

Brief Synopsis:

Contract CH0007-001 contains a Labour component that is committed based on a Target Price of Labour. The Labour is categorized as follows:

1. Craft labour (Rates agreed upon in pre-defined labour agreements)
2. Management labour (Rates agreed upon in the Agreement)
3. Select subcontractor Labour (Rates either agreed upon in pre-defined labour agreements or in the Agreement)

Company has agreed to pay the reimbursable cost of Labour subject to a cost sharing adjustment based on a comparison of the Target Price and the actual cost. Company’s exposure is limited to a guaranteed maximum cost regardless of what the final cost of Labour is.

The Contract was designed to motivate the Contractor to manage resources in the most efficient manner possible.

A summary of the Labour component is as follows:

- | | |
|--|------------------|
| 1. Target Cost of Labour@ Contract Signing | \$507,598,340.87 |
| 2. LMAX @ Contract Signing | \$571,898,340.87 |

The Contract was designed to pay Contactor for billable Labour as follows:

1. Contractor to submit daily timesheets for Craft labour to be approved by Company and returned to Contractor.
2. Contractor to submit weekly timesheets for Management labour to be approved by Company and returned to Contractor.
3. Contractor to prepare a monthly billing substantiated by the approved timesheets and approved Labour rates.

Current Status:

We currently have senior project staff exerting much time in the review, assessment and approval of timesheets from Astaldi. Astaldi have just implemented an ADP payroll system that has the potential of providing independent reports on payroll costs being incurred by Astaldi. Up to now it is not clear how Astaldi has managed the payroll function.

The Agreement states rates that Company will reimburse for select Site Management Labour at specified rates. Astaldi are hiring Management Labour with titles and in quantities that do not agree with those listed in the Agreement. There is uncertainty of what rate should be billed for this Labour, if approving will imply a change in the Target Price, and if a Contract amendment is necessary to approve such costs.

Summary of things to consider:

Item #	Question	Answer
1	Do we need to verify that we are not being billed for overhead Labour?	Yes. Astaldi will derive some recovery of this cost assuming Labour is below the LMAX. Because of this, we may end up paying for a portion of overhead Labour if billed.
2	Do we need to verify that craft are being paid in accordance with Union agreements and Management is being paid in accordance with the rates in the Contract?	Yes. Further, for Craft Labour, we want to ensure that Astaldi are incurring the cost being billed. Therefore, pay stubs are more appropriate that timesheets to validate the

**Lower Churchill Project
Analysis of Risks Associated With Astaldi Labour**

		billable nature of a charge.
3	Do we need to assess if Astaldi are being prudent in cost management?	Yes. We should make notes on any observations regarding Labour charges. These concerns should not hold up a payment but may need to be communicated via formal notice.
4	Do We need to be able to verify what our total Labour cost is to determine if we are being appropriately billed for overages / underage's compared to the Target Price.	Yes, we should be tracking billable Labour costs and comparing to progress to determine if we are trending high or low. This analysis should not hold up payment but need to be communicated via formal notice.
5	Do we need to determine if we are funding Astaldi too quickly compared to progress?	Yes, see answer to #4 above.
6	Do we need to ensure we are only paying Astaldi for what billable Labour costs they are incurring. I highlight the cash difficulties that Astaldi have shown to date, despite the large up-front advance already paid.	Yes. See answer to #1 above.
7	Do we need to minimize the amount of back-end work that we will need to perform?	Yes. The Contract does have audit rights but we need sound processes and controls to ensure we are paying costs approved in the Agreement and that these costs are properly documented and supported.

Answers to be used to develop the following:

1. To develop an attest plan that includes processes and controls to manage risks associated with the reimbursement of reimbursable Labour for CH0007-001.
2. To establish requirements for the Contractor with regards to time and Labour cost reporting.
3. To ensure all relevant team members have an understanding of the Agreement.
4. To roll out roles and responsibilities associated with achieving objectives.

Proposed Action Plan:

1. Finance, Supply Chain and Project Controls will work together to finalize the requirements of the Contractor to obtain approval and bill for Labour and define Company's approval process and roles and responsibilities.
2. Company will meet with Astaldi representatives to deliver the reporting requirements and discuss issues / concerns.
3. A Calendar of reporting periods will be developed to ensure alignment of reports to be included in each bill and timeframes to receive and approve weekly time reports submitted by Astaldi to ensure no impediment in the billing cycle.

**Lower Churchill Project
Analysis of Risks Associated With Astaldi Labour**

Site Meeting (16-Jul-2014)

Attendees: John Skinner, Mel Melham, Phonse Kelly, Hisham Geres, Paul Aucoin

Issue #1: Need to define the reporting requirements of Astaldi with regards to Labour:

Paul Aucoin has developed a spreadsheet template that captures the required information for both Craft and Staff Astaldi labour (Attachment 1). Through review and discussion, it was decided to incorporate a “non-billable” column to capture hours that would be included in a timesheet but not billed to Company. An example would be rework. This would allow Company to more efficiently assess if we are being incorrectly billed for rework, etc. Further, an “Exception” column would be added to allow for the capture of hours related to prior periods but being billed in the current week.

It was further agreed that Astaldi would submit the worksheet on a weekly basis for Company approval. The weekly report would be supported by the timesheets approved by Astaldi Management for the time being. If at a later date we determine that Astaldi processes and controls can be relied on or development of more efficient means of capturing time is implemented Company would reassess the need to supply individual timesheets.

Based on this discussion, it was decided that the submission of daily timesheets for approval by Company would no longer be required. Approval of time by Company would be attained by approving the weekly timesheet summary.

Issue #2: Need assess the risks that need to be addressed in the attest and approval of Astaldi Weekly Time Reports:

Held discussions around what Company’s concerns should be related to reviewing and approving Astaldi time. Issues identified included:

1. Hours being billed were considered non-billable and should be in overheads.
2. Hours being billed for overtime were being questioned.
3. The payment of meal allowances over what was required under labour agreements was noted.
4. The hiring of Astaldi Staff whose title was not identified in the Agreement was noted.

Further discussions were held regarding what the primary risks were that need to be addressed during the approval process of weekly time reports. It was agreed that the primary risks that need to be addressed in the attest of weekly time reports include:

- a. Are there any non-billable hours being charged.
- b. Were the costs associated with the craft hours actually incurred by Astaldi?
- c. Is Astaldi Craft being paid in excess of the rates approved in the labour agreements?
- d. Is Astaldi Staff being paid in excess of the rates approved in the Agreement?
- e. There are certain risks to be identified with Astaldi during the weekly time report approval process but would not be adjusted or impede the approval process. These issues and concerns will be relayed to the Contractor in a comments section of the Weekly Time Report and summarized in a Register to be used to support commercial communications to Company Management and Astaldi regarding these concerns. These types of risks include:
 - i. Excessive overtime being worked.

Lower Churchill Project
Analysis of Risks Associated With Astaldi Labour

- ii. Trend issues.
- iii. Progress vs. total paid analysis.

Issue #3: Need to keep working with Astaldi to further advance their processes and controls around time management:

We need to work with Astaldi to positively impact the development of good processes and controls around the capturing of billable time, particularly as it relates to Craft hours. These processes and controls will ultimately be incorporated in Astaldi's Cost Management Plan.

It was noted that the implementation of ADP and the potential for non-manual timesheet records at site could positively impact controls. The current processes and controls appear to be a short-term measure.

Issue #4: The Agreement outlines the Astaldi Management structure and rates that Company has agreed to pay as part of the Target Price. The issue has been identified that Astaldi are hiring Management that:

- 1. Have different titles than what was identified in the Agreement and this has made matching individuals to approved rates difficult.
- 2. Are not identified in the Agreement and therefore potentially non-billable.

The concerns raised include:

- 1. Need clarification from Astaldi on what position is being filled by individuals with titles not agreeing to the Agreement.
- 2. Need to ensure we are not paying for non-billable individuals.
- 3. Need to devise a commercial means to approve deviations from the Agreement regarding titles and rates for Management being careful not to imply approval to change the Target Price.

The Site Contract Administration team is currently working on a solution for this issue. The solution will determine a way forward to commercially approve changes in Astaldi staff that do not agree to the Agreement. Once a solution is developed and approved by Company Management, Astaldi will be engaged to agree on the process and any commercial amendments necessary to approve the changes.

**Lower Churchill Project
Analysis of Risks Associated With Astaldi Labour
Astaldi Weekly Time Report Attest & Approval Process:**

The following will outline, at a high level, the attest and approval process of Astaldi Weekly Time Reports and will be fully documented in an attest plan.

1. On a weekly basis that aligns with Astaldi’s payroll cycle, Astaldi will submit a Weekly Time Report in native format and with the content outlined in the schedule drafted by Paul Aucoin with the addition of non-billable time and exception time columns. For the time being and until deemed unnecessary by Company, Astaldi will support the Weekly Time Reports with copies of the Astaldi timesheets.
2. Upon receipt of the Weekly Time Report from Astaldi, Company will conduct the following attest and approval steps:

Item #	Description	Performed By
Primary Attest		
1	Verify the adds and extensions of the spreadsheet are correct (File is in native format, should be a quick check).	Junior Cost Controller
2	Verify the rates (regular and O.T.) for Craft are in compliance with the labour Agreements. (v-lookup with the master table, discrepancies noted)	Junior Cost Controller
3	Verify any allowances paid to Craft are in compliance with the labour Agreement. (Meal tickets, etc.)	Junior Cost Controller
4	Verify rates for Staff agree to the Agreement. (V-lookup with a master table)	Junior Cost Controller
5	Assess individuals included in the Weekly Time Report for any potential overhead hours being charged in error.	Contract Admin
6	Examine any non-billable hours included in the spreadsheet to assess if they reasonably reflect hours incurred to perform rework.	Contract Admin / Const. Mgmt.
7	Select a sample of individuals identified in the Weekly Time Report and agree hours charged to the approved timesheets that accompany the summary. Sample size to be impacted by rate of errors. (i.e.: discretion to be used in determining the sample size and impacted by Company’s confidence in Astaldi’s ability to prepare a proper Weekly Time Report).	Junior Cost Controller
8	Select a sample of individuals identified in the Weekly Time Report and request payroll support to ensure hours being claimed on the timesheet agree to the hours being paid to the Craft labour(Ideally, we would prefer “Read Only” access to ADP to conduct our own verifications).	Junior Cost Controller (Communicated by Contract Admin)
9	Select a sample of individuals identified in the Weekly Time Report and verify coding is correct.	Junior Cost Controller
10	Complete the Weekly Time Report Approval Form denoting any adjustments deemed appropriate by Company. Include any comments in addition to the adjustments on the approval form to ensure Astaldi are aware of any concerns raised by the Company.	Contract Admin
11	Include test results with the Weekly Time Report to document verification work.	Contract Admin
12	Submit Weekly Time Report Package for approval and return to Astaldi.	Contract Admin
Secondary Activities (Does not impede the approval of the Weekly Time Report)		
1	Perform an assessment of Astaldi trend analysis to determine where labour costs are trending.	Project Controls
2	Assess the labour burn in relation to the progress and identify any concerns.	Project Controls
3	Summarize any overtime issues and concerns in the register to be reported to	Project Controls /

**Lower Churchill Project
Analysis of Risks Associated With Astaldi Labour**

	Management.	Supply Chain
4	If deemed necessary at the end of the month, prepare a letter to Astaldi formally denoting any issues or concerns with regards to the approved Weekly Time Reports for that month.	Supply Chain

