



Report to the Commission of Inquiry Respecting the
Muskrat Falls Project

Additional Scope of Work – Review of Specific Expenditures

April 22, 2019

Updated May 7, 2019





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April 22, 2019

Updated May 7, 2019

Dear Commissioner LeBlanc:

ADDITIONAL SCOPE OF WORK – REVIEW OF SPECIFIC EXPENDITURES

We enclose our report of the findings and observations with respect to the additional scope of work requested pertaining to the review of specific expenditures of the Muskrat Falls Project.

We would like to take this opportunity to thank the Commission, Nalcor and the Province for their support throughout this project. We would also like to thank employees and contractors of Nalcor, other participants and their respective legal counsel for their co-operation throughout this engagement.

Yours sincerely,

Grant Thornton LLP

A handwritten signature in black ink that reads "Jennifer Fiddian-Green". The signature is fluid and cursive.

Jennifer Fiddian-Green, CPA,
CA/IFA, CAMS, CFF, CFE, CFI
 National Advisory Partner
 Forensic & Dispute Resolution Services

A handwritten signature in black ink that reads "C. Hillyard". The signature is cursive and elegant.

Caroline Hillyard, CPA,
CA/IFA, CFF
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1 **Background**

2 In 2007, the Government of Newfoundland and Labrador (“GNL”) released the Provincial
3 Energy Plan (“Energy Plan”). The Energy Plan refers to the development of the Lower
4 Churchill as a cornerstone public policy action. Nalcor Energy (“Nalcor”), the
5 Newfoundland and Labrador crown corporation which owns Muskrat Falls Corporation,
6 along with Emera Inc. (a company based in Nova Scotia) undertook the Lower Churchill
7 Project (“LCP”, “the Project”). The following is a summary of the components of the
8 Muskrat Falls Project (“Project” or “Muskrat Falls”):

- 9 – Muskrat Falls Generating (“MFG”) facility, an 824 megawatt (“MW”) hydroelectric
10 generating facility consisting of two dams and a powerhouse at Muskrat Falls;
- 11 – Labrador-Island Transmission Link (“LIL”), an 1,100 kilometre (“km”) High Voltage
12 direct current (“HVdc”) transmission line from Muskrat Falls to Soldiers Pond on the
13 Avalon Peninsula, including a 35 km subsea cable across the Strait of Belle Isle;
- 14 – Labrador Transmission Assets (“LTA”), two 250 km High Voltage alternating current
15 (“HVac”) transmission lines between Muskrat Falls and Churchill Falls; and
- 16 – Maritime Link (“ML”), a 500MW HVdc transmission link between Newfoundland and
17 Nova Scotia. (The portion of the Project completed by Emera Inc.)

18 Due to cost overruns, schedule delays and the public’s request for greater transparency, the
19 provincial government established the Commission of Inquiry Respecting the Muskrat Falls
20 Project (“Commission”).

21 Grant Thornton was previously engaged to conduct a forensic audit (in two phases) and
22 prepare two reports of the findings (“Forensic Audit Report – Sanctioning Phase” and
23 “Forensic Audit Report – Construction Phase”). We were further engaged by the
24 Commission to conduct an additional scope of work relating to a review of specific
25 expenditures (as detailed in our Scope of Work below) and to prepare a report of the
26 findings (the “review”); the results of this additional scope of work are provided in this
27 report.

28 *Note – the page numbers referenced in the footnotes throughout this report reflect the page numbers from the*
29 *source pdf document and not the page number noted on the document itself.*

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1 Scope of Work

2 In accordance with our Additional Services Agreement¹ our additional scope of work was
3 focused on four areas:

- 4 1 Living Out Allowances (“LOAs”);
- 5 2 Supplies, including personal protective equipment (“PPE”) and small tools;
- 6 3 Non-arm’s length contracts; and
- 7 4 Recording of daily work hours.

8 This report details the work performed in each of the four areas and presents our findings
9 and observations with respect to each. Our review was focused on the time period of
10 January 1, 2016 to December 31, 2018 (the “Period of Review”).

11 The engagement has been conducted in accordance with the Standard Practices for
12 Investigative and Forensic Accounting Engagements² of the Chartered Professional
13 Accountants of Canada and was led and supervised by Jennifer Fiddian-Green, National
14 Advisory Partner, Forensic and Dispute Resolution Services and Caroline Hillyard, Senior
15 Manager, Forensic and Dispute Resolution Services.

16 Generally, as part of our review, we performed the following procedures:

- 17 – Identified and reviewed supporting documentation (see Appendix B for a list of
18 documents referenced in this report);
- 19 – Conducted interviews with Nalcor-LCP employees (see Appendix C for a list of
20 interviews conducted);
- 21 – Documented our understanding of specific policies and processes and provided this
22 documentation to Nalcor for their review and feedback;
- 23 – Performed various analyses and selected specific transactions, contracts and other
24 items for review of the specific supporting documentation; and
- 25 – Submitted requests for information and written questions to Nalcor and reviewed
26 written responses to the questions and, if applicable, the supporting documentation
27 included in the responses.

28 This report was updated on May 7, 2019 to reflect information received after the date it was
29 initially issued.

¹ Additional Services Agreement – Commission of Inquiry Respecting the Muskrat Falls Project – November 15, 2018

² Standard Practices for Investigative and Forensic Accounting Engagements – November 2006

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1 **Restrictions and Limitations**

2 We acknowledge that our report will be submitted to the Commission and may become a
3 public document. Our report is not to be reproduced or used for any purpose other than as
4 outlined above without prior written permission in each specific instance. Grant Thornton
5 LLP recognizes no responsibility whatsoever to any third party who may choose to rely on
6 its reports or other material provided to the Commission.

7 Our scope of work is set out in our Additional Services Agreement dated November 15,
8 2018 and the related Proposal Letter referred to within, dated November 9, 2018. The
9 procedures undertaken in the course of our review do not constitute a financial statement
10 audit of Nalcor's financial information and consequently, we do not express an opinion or
11 provide any assurance on the financial information provided by Nalcor.

12 Unless stated otherwise, within the body of this report, Grant Thornton LLP has relied upon
13 information provided by Nalcor in the preparation of this report, whom Grant Thornton
14 LLP believes to be reliable. Information was obtained from Nalcor through responses to our
15 specific document requests, written responses prepared by Nalcor, responses provided by
16 interviewees, and searches performed in the document management system administered by
17 the Commission.

18 We reserve the right to revise and update this report based on continuing analysis of existing
19 information and the results of our ongoing quality control review. We may supplement our
20 analysis based upon any other information which comes to our attention before our
21 testimony, as well as modify any demonstrative aids herewith, or add or eliminate those
22 submitted herewith. Furthermore, upon testimony, we may prepare aids such as graphs,
23 charts or tables.

Report to the Commission of Inquiry Respecting
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1 Detailed Findings & Observations

2 1 Living Out Allowances (“LOAs”)

3 1.1 Mandate

4 *“It was suggested that living allowances were paid to individuals that should not have qualified for these living*
5 *allowances.”*³

6 Further, during the course of our review and interviews, the following was learned to further
7 inform the mandate:

- 8 • On January 21, 2019 a package of anonymous letters was received by Grant
9 Thornton. The letters ranged in date from May 20, 2016 to January 9, 2019.
- 10 • It is our understanding that most (if not all) of the information presented in these
11 letters was already known to the Commission and was one of the reasons we were
12 engaged to conduct this additional scope of work.
- 13 • It appears that the letters continued to be sent over the years as the individual(s)
14 writing the letters was/were not satisfied that the issues had been appropriately
15 addressed and resolved (e.g. the contents of the letters contain mostly the
16 same/similar/repeating information).
- 17 • The letters specifically note that an LOA was being paid out to an individual who
18 works at the Muskrat Falls site who had a permanent residence in Goose Bay and
19 who also ate at the camp residence. The allegations note that the new camp manager
20 is very upset with the amount of food this individual is taking/and consuming at the
21 lodge.

22 1.2 Policy, Processes & Background⁴

23 We have been informed that three collective agreements were established for the
24 construction of the Lower Churchill generation and transmission projects in Newfoundland
25 and Labrador:

- 26 1) Lower Churchill Hydroelectric Generation Project at Muskrat Falls on the Lower
27 Churchill River Newfoundland and Labrador between Muskrat Falls Employers’
28 Association Inc. and Resource Development Trades Council of Newfoundland and
29 Labrador;
- 30 2) Lower Churchill Project Transmission Construction between the Lower Churchill
31 Transmission Construction Employers’ Association Inc. and the International
32 Brotherhood of Electrical Workers and IBEW Local Union 1620; and
- 33 3) Lower Churchill Reservoir Clearing between Lower Churchill Reservoir Clearing
34 Employers’ Association Inc. and Labourers’ International Union of North America

³ Investigation of Specific Expenditures – Request for Proposal Letter – Commission of Inquiry Respecting the
Muskrat Falls Project – November 2, 2018 – Page 4

⁴ GT Summary of MF Process Narratives – LCP Comments March 8, 2019

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1 and Construction and General Labourers' Union, Rock and Tunnel Workers Local
2 1208.

3 Each collective agreement has 'Articles on Travel and Board' for the purposes of
4 determining entitlement to accommodations and travel compensation. These articles apply
5 to craft workers covered under the respective collective agreement.

6 For employees and contractors/consultants of the LCP Project Delivery Team working on
7 Labrador construction sites, the Assignment Conditions for the Muskrat Falls site in
8 Labrador provided them with two options:

- 9 1) Receive \$3,500 living allowance (per month) and arrange accommodations privately
10 (this was reduced to \$3,000 per month in 2016 due to Nalcor-LCP implementing
11 cost savings measures as part of the government renewal initiative).
- 12 2) Avail of the Muskrat Falls Accommodations Complex ("camp").⁵

13 For employees and contractors/consultants of the LCP Project Delivery Team working in
14 St. John's (at the Project Office), for long-term assignments (greater than 6 months'
15 duration), according to the Assignment Conditions, they were entitled to a living allowance
16 of \$4,500 per month if unaccompanied and \$4,700 if accompanied. This was reduced to
17 \$4,000 per month (unaccompanied) and \$4,200 per month (accompanied) in 2016 due to
18 Nalcor-LCP implementing cost savings measures as part of the government renewal
19 initiative.⁶

20 Based on our discussions, interviews and documentation review, we understand that LOAs
21 for certain contractors were paid in accordance with the various contracts put in place. The
22 LOA amounts paid out by Nalcor-LCP pertaining to contractors were/are included on
23 invoices that are submitted by contractors each month. When these invoices are submitted
24 to Nalcor-LCP, they are verified by a cost analyst (through an attestation process) who
25 confirms that the invoice is compliant with the contract agreement in place. This does not
26 include craft labour as they stay on site at the Muskrat Accommodations Complex, meaning
27 they are not eligible for LOA.

28 Eligibility to receive an LOA is determined during the recruitment and application process.
29 Each recruitment agency, engineering firm or independent contractor has a copy of Nalcor's
30 approved 'Assignment Conditions'. When these agencies, engineering firms and independent
31 contractors send resumes to the Human Resources ("HR") department at Nalcor-LCP, they
32 indicate an individual's point of origin (also called current location) ("Origin") and their
33 choice between living at camp and receiving an LOA. This information is stored in a
34 spreadsheet which is maintained with the individual's personnel file. If an individual decides
35 to switch from camp to receiving an LOA during the Project, then there is a process around
36 this that involves the recruitment agency putting in a request to HR and approval being
37 received by the Project manager for Muskrat Falls.

⁵ Assignment Conditions for LCP Project Delivery Team Personnel (PDT) Working on Labrador Construction Sites – Rev. 4 November 2016 (provided by Nalcor)

⁶ Assignment Conditions for Consultants of LCP Project Delivery Team Working in St. John's, NL Project Office – Rev. 4 November 2016 (provided by Nalcor)

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1 If an individual elected to move to Goose Bay during their tenure on the Project, they would
2 have to self-report this. HR would then receive a request from the individual's agency to
3 change their Assignment Conditions. If an individual decided to move to Goose Bay and not
4 inform their agency of this, we were informed that Nalcor would likely realize this as they
5 would not be paying free-issue travel for this individual anymore. The travel coordinators
6 would likely notice and inform HR that they are no longer booking flights for an individual.

7 Per discussion with employees of the Internal Audit department at Nalcor, we understand
8 that the LOA is based on where an individual lives when they commence employment with
9 the Project. We were initially informed that if the individual decided to move during their
10 employment, it is policy that they would still continue to receive the allowance based on
11 what their living situation was at the beginning of the Project. Based on follow-up
12 discussions and further clarification from Nalcor, we were subsequently informed that if a
13 person relocated permanently, their Origin information would be updated and their LOA
14 adjusted to match the Assignment Conditions.⁷

15 1.3 Work Performed

16 1.3.1 Internal Audit Work

17 Nalcor's internal audit team performed an LCP Rotational Travel Audit in mid-2016, as well
18 as an LOA Review in late 2017.

19 The 2016 Rotational Travel Audit focused on assessing whether adequate procedures were
20 in place to execute, monitor, and control rotational and business travel activities relating to
21 the LCP and verifying whether or not personnel received appropriate guidance/training for
22 rotational travel.

23 Overall, internal audit concluded that there were a number of controls in place relating to
24 rotational travel activities but these controls had not been documented in a formal rotational
25 travel policy. Further, six issues were identified relating to rotational travel and one
26 opportunity for improvement, indicating they were not generally operating in compliance
27 with those controls.

28 Internal audit noted that business travel activities were generally operating in compliance
29 with the LCP Standard for Business Travel, however, two additional issues were identified
30 (in addition to the six noted above).

31 As it pertains to LOAs, this work is relevant, as internal audit's testing included agreeing the
32 Travel Authorizations ("TAs") to the actual travel to each individual's home/point of origin
33 ("Origin") location. The TA is in place to approve all travel between the site and home and
34 is approved at the time of hiring (i.e. when an individual's Origin is declared).

35 One of the noted issues pertained to TAs; 20% of rotational travel tested and 25% of
36 business travel tested did not have signed TAs in place prior to the travel reservations being
37 made. There were also inconsistencies with respect to the details provided on the TAs. There
38 was therefore a risk that reservations were being booked without validating the legitimacy of

⁷ Nalcor Response to GT#4 - Additional Questions - April 11, 2019 (provided by Nalcor); Nalcor Email Response RE: Outstanding Questions – April 22, 2019 (provided by Nalcor)

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1 the travel (e.g. was it approved, is the individual still employed, is the rotation as per their
2 contract, does the Origin on the TA match their New Hire Requisition, is the employee's
3 work location correct, etc.).⁸

4 The 2017 LOA Review that was performed focused on assessing the adequacy of controls
5 established to ensure live out allowances were only paid for contractors at the Muskrat Falls
6 Site who were eligible to receive them. The scope of work was primarily limited to personnel
7 within the Muskrat Falls Site Management Team and included interviews as well as sampling
8 and compliance testing.

9 Internal audit noted that they had tested the controls for contractor Origin in a previous
10 LCP audit engagement (outlined above) and that during that engagement, they determined
11 that the controls for contractor Origin were appropriately designed and implemented. As a
12 result, internal audit confirmed that there had not been any changes to Origin controls since
13 that engagement. They also determined that the LOAs were standardized and outlined and
14 approved on the Assignment Conditions Listing maintained by HR. Therefore, all
15 contractors working at the Muskrat Falls Site should receive the same LOA unless the
16 contractor relocated to Goose Bay (i.e. not at the Muskrat Falls Site), at which time the
17 contractor would receive the same LOA as those in the St. John's Project Office (as per the
18 Assignment Condition amounts noted above on page 8, lines 13-19).

19 Overall, internal audit concluded that controls for documenting, verifying and managing
20 change of contractor Origin appeared to be adequate and the rates appeared to be
21 standardized for all contractors working at the same site. Internal audit also noted that
22 compliance to these controls appeared to be adequate and LOAs appeared to only be paid to
23 qualified personnel at approved rates (as per the Assignment Conditions Listing).⁹

24

25 1.3.2 Grant Thornton Work

26 Grant Thornton performed the following work pertaining to LOAs:

- 27 • We requested and were provided with an excel listing of individuals who received
28 LOA payments during the Period of Review. The listing showed the names of 228
29 individuals, the Purchase Order ("PO") or contract number that they were paid
30 under, the agency/contractor that they worked for, their start and end dates, their
31 Origin, and the monthly LOA amount they were paid.
- 32 • From this listing, we judgmentally selected a sample of 50 Nalcor employees and
33 independent contractors/consultants.
- 34 • For this sample selected, we requested supporting files and documents to support
35 the LOA payments for one month (October 2017), including relevant PO,
36 contracts, invoices, approved Assignment Conditions, and evidence of Origin. This
37 reduced the population to 25, since not all of the 50 individuals selected were
38 working during October 2017.

⁸ NAL0106574 – 16-09 LCP Rotational Travel Audit – July 5, 2016

⁹ Internal Audit Memo – Live Out Allowance Review – November 1, 2017 (provided by Nalcor)

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- 1 • We then reviewed the supporting documentation to determine the eligibility of the
2 person receiving the LOA. This included reviewing available documentation and
3 support for eligibility, approval, appropriate amount, as well as reviewing swipe
4 card data (from security access cards at the site) to confirm if these individuals
5 were working at the site.
- 6 • For the remaining 25 individuals (not working during the specific month of
7 October 2017), we agreed the monthly LOA payment amount (as per the listing
8 provided) to approved Assignment Conditions for each.
- 9 • During our review and testing, we became aware (through the anonymous letters
10 noted above) of a specific allegation against an individual who was said to be living
11 full-time in Goose Bay and claiming an LOA. We therefore reviewed
12 documentation relating to this individual in more detail and asked specific
13 questions related to this during interviews (in addition to our previously selected
14 sample).
- 15 • We also reviewed policy documentation and performed enquiry through
16 interviews, into Nalcor's payment and approval processes for LOAs to understand
17 how payments were made, what the policy, Assignment Conditions or contract
18 terms were, etc.
- 19 • Specifically, interviews were conducted with the following individuals relating to
20 this area of review:
- 21 o Jackie Borden, Manager, Internal Audit, Nalcor;
- 22 o Tanya Power, Project Controls Manager, LCP;
- 23 o John Skinner, Accounting Manager, LCP;
- 24 o Mel Melham, MFG Contracts Administrator, LCP;
- 25 o Dave Pardy, MFG Site Manager, LCP; and
- 26 o Faustina Cornick, HR Manager, LCP.
- 27 • As needed, Grant Thornton followed up with Nalcor to assist us in understanding
28 the documentation provided and any related questions we had.

29

30 1.4 Findings & Observations

31 Based on testing performed and interviews conducted, we note the following findings and
32 observations with respect to LOAs:

- 33
- 34 • Nalcor relies on what was declared by the individual at the time of hiring (this
35 information is stored in a spreadsheet which is maintained with the individual's
36 personnel file) and does not independently verify Origin or require the individual
37 to provide evidence of Origin. Additionally, approved TAs are based on the self-
38 declared Origin.

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- 1 • For purposes of our testing, we were informed that some of the confirmation of
2 residence/Origin information we requested to complete our testing had to be
3 requested from the recruitment companies. Documentation was only available (and
4 was kept on file from the time of hiring) to validate Origin information for 9 out of
5 50 (18%) staff selected for testing.
- 6 • We requested evidence for our selected sample that Nalcor verified that individuals
7 receiving an LOA are not living at the Muskrat Falls camp, however, this evidence
8 was not readily available. There is a risk that staff are living on site (with
9 accommodations and meals included) and potentially receiving an LOA as well,
10 which is intended to cover the cost of long-term accommodations.
- 11 • However, based on a response from Nalcor¹⁰, we were informed that the process
12 for receiving LOA or staying at camp is part of the recruitment process and initial
13 hiring of the team member. A selection is made and documented on their
14 Personnel Requisition which is then approved by their manager. LCP Supply Chain
15 then prepares a PO which documents approved information from the Personnel
16 Requisition. If a person requested to stay at camp a Camp Reservation Form is
17 completed and provided to Labrador Catering. There are controls and processes in
18 place (including documentation and approvals on required forms) to help reduce
19 the risk that individuals receive more than they are entitled to.
- 20 • We were informed during interviews that if an individual's status changed during
21 the employment period (e.g. an individual moved permanently to Goose Bay from
22 Gander), they continued to receive the same LOA as they did from the time of
23 hiring. We were initially told that this does not change even if they no longer
24 require the additional compensation to cover the cost of a second residence.
- 25 • Based on follow-up discussions and further clarification from Nalcor, we were
26 subsequently informed that if a person relocated permanently, their Origin
27 information would be updated and their LOA adjusted to match the Labrador
28 Construction Sites Assignment Conditions (i.e. if they relocated to within 125km
29 of the site, they would be considered a local hire and would not be eligible to
30 receive an LOA, travel allowance or company free issued travel).¹¹
- 31 • We note that, to the extent that this is considered policy/Nalcor practice, it is not
32 formally documented in the approved Assignment Conditions or elsewhere in
33 Nalcor policy documentation.
- 34 • For the specific individual noted in the allegations, we noted that this person was
35 not included on the LOA list provided to us by Nalcor and, as such, did not appear
36 to have received an LOA during our Period of Review. However, Nalcor clarified
37 that this individual did in fact receive an LOA of \$3,500 per month starting
38 November 1, 2013 and continued to receive an LOA until he finished work on the
39 Project on October 20, 2017. His LOA amount was reduced to \$3,000 on April 1,

¹⁰ Nalcor Response to GT#4 - Additional Questions - April 11, 2019 (provided by Nalcor)

¹¹ Nalcor Response to GT#4 - Additional Questions - April 11, 2019 (provided by Nalcor); Nalcor Email Response RE: Outstanding Questions – April 22, 2019 (provided by Nalcor)

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- 1 2016. This individual was an SNC Lavalin contractor and, as noted below, was
2 inadvertently omitted from the LOA list originally provided to us by Nalcor.
- 3 • We understand that there were allegations that this individual moved to Goose
4 Bay, Labrador from Newfoundland during the Project and, as noted above, may
5 not have been eligible to continue receiving an LOA. However, Nalcor has
6 confirmed that this individual's Origin, as provided to LCP by his employer, did
7 not change during his employment with LCP.¹² As such, according to Nalcor
8 policy, he was eligible to receive the same LOA for the entire time he worked on
9 the Project.
- 10 • Given the lack of formal documented policy relating to this, combined with the
11 fact that Nalcor did not independently verify Origin information, it is likely that
12 misunderstandings could occur relating to LOAs.
- 13 • As the result of a number of follow up communications with Nalcor, it was
14 determined that 54 contractors, specifically contractors who worked for SNC
15 Lavalin, were inadvertently omitted from the LOA list provided to us by Nalcor
16 for testing.¹³ Accordingly, these individuals were not included in the population
17 available to us to select our sample for testing.
- 18 • There are allegations that the same individual noted in the prior paragraphs was
19 also eating food at the camp. Nalcor confirmed that if a person is not living at
20 camp they should not be eating camp food. Nalcor noted that there is a process/
21 approval required (with the Site Supply Chain Contractors Administrator) for staff
22 to follow if they require meals. It is unclear if this individual had approval to be
23 eating at camp, however this individual has been dismissed by Nalcor (for other
24 reasons as noted below in Section 4 of this report) so the potential problem is no
25 longer occurring.
- 26 • We noted that Assignment Conditions (including details of LOAs) as applicable
27 for the Period of Review, were not signed/documented as approved. With the split
28 of LCP in June 2016 to Power Development (Generation) and Power Supply
29 (Transmission) it is our understanding that approval signatures were required from
30 both Power Development and Power Supply. While the updated Assignment
31 Conditions were provided to the appropriate signing representatives, the final
32 documents were not signed as evidence of approval. This finding applies to all
33 individuals included in our sample testing.
- 34 • However, the LOA amounts paid to the individuals selected do agree to the
35 amounts noted on the Assignment Conditions for 46 out of 50 individuals tested
36 (92%). Four out of 50 (8%) have amounts paid that do not agree with Assignment
37 Conditions. Explanations were provided by Nalcor as follows:¹⁴

¹² Nalcor Email Response RE: Outstanding Questions – April 18, 2019 (provided by Nalcor)

¹³ Nalcor Email Response RE: Outstanding Questions – April 17, 2019 (provided by Nalcor)

¹⁴ Nalcor Response to GT#4 - Additional Questions - April 11, 2019 (provided by Nalcor)

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- 1 o Two individuals received higher travel allowances (\$2,500 and \$2,000 instead
2 of \$1,600) as their Origin was the UK and travel costs were identified as
3 being higher. This explanation appears reasonable.
- 4 o One individual was hired through a third party company with pre-existing
5 terms and conditions, which were applied to his position as part of the LCP
6 Project Delivery Team. LCP maintained the amounts for his allowances
7 based on the prior contract. This explanation appears reasonable.
- 8 o One individual was part of LCP Component 4 Overland Transmission.
9 When team members started working on the Transmission Line in
10 Newfoundland they received \$3,000 in LOA. When the reductions to LOA
11 came into effect, the LOA was reduced to \$2,750 per month. Per Nalcor, this
12 updated (reduced) amount should have been included in the written
13 Assignment Conditions; however, it was missed by mistake (i.e. this
14 individual received the correct amount but it was not documented well).
- 15 • As noted above, we selected the month of October 2017 for testing. No variances
16 were noted between amounts paid on October 2017 invoices as compared to
17 contracts for the individuals selected for testing that worked during that month (25
18 out of the 50 selected). Also, swipe card data (where relevant) confirmed that the
19 individuals selected were on site during that time. Where swipe card data was not
20 available, we confirmed that the individuals were posted at a different work
21 location and therefore would not be included in the swipe card data that we were
22 provided with, as it is just for the Muskrat Falls site.
- 23 • Based on the enquiry, review and testing work performed, we have identified no
24 issues that appear systemic; accordingly, we have not recommended an increase to
25 the sample testing. We do note that a number of process, approval and
26 documentation improvement opportunities were identified.

27 2 Personal Protective Equipment (“PPE”) and Small Tools

28 2.1 Mandate

29 *“It was suggested that certain supplies, such as building supplies, tools and clothing, were acquired in excessive*
30 *quantities. That is, in quantities that far exceed the reasonable needs of the project. Examples include safety*
31 *boots, cold weather suits, small tools and other similar items. We understand that there is an inference that*
32 *items were taken by employees for personal use and/or resale.”¹⁵*

33 Further, during the course of our review and interviews, the following was learned to further
34 inform the mandate:

- 35 • As previously noted, a package of anonymous letters was received by Grant
36 Thornton, ranging in date from May 20, 2016 to January 9, 2019.

¹⁵ Investigation of Specific Expenditures – Request for Proposal Letter – Commission of Inquiry Respecting
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- 1 • The letters specifically allege that small tools and materials were being
2 misappropriated and shipped off site by being packaged up onto flat decks or crates.
- 3 • There are also allegations that shipping containers/sea cans were used to send
4 materials to an off-site location in Newfoundland.

5

6 2.2 Policy, Processes & Background¹⁶

7 Based on our discussions, interviews and documentation review, we understand that there
8 was no specific budget for PPE and small tools. There was a safety budget, which
9 incorporates PPE, however this was a large budget that included several different types of
10 expenditures. These budgets only included the money being spent by Nalcor-LCP, and did
11 not include funds spent by contractors for the small tools and safety costs they acquired /
12 incurred. We have been informed that no significant quantity of small tools were ever
13 purchased by LCP; these were/are the responsibility of contractors.

14 For PPE that was purchased for the Project, Nalcor-LCP was only responsible for PPE that
15 related to LCP employees and the independent contractors/consultants directly hired by
16 Nalcor-LCP. Large contractors that were paying craft labour were responsible for the PPE
17 and small tools costs for their staff and workers; the cost of PPE and small tools was built
18 into the rates in the contracts and was not considered a separate reimbursable charge for
19 these large contractors. Therefore any excess PPE and small tools that were purchased (or
20 potentially misused or misappropriated) by the contracting companies was not the
21 responsibility of Nalcor-LCP and any related costs would not be incurred by Nalcor-LCP.

22 For Nalcor employees and independent contractors/consultants, the process for obtaining
23 PPE was as follows:

- 24 • When an LCP team member required PPE, they were required to fill out a request
25 form. This form must be signed by a safety manager and the person's supervisor.
- 26 • The approved form was taken to an external supplier (i.e. a pre-approved vendor
27 that Nalcor had a standing offer with), who accepted the form and outfitted the
28 individual with the proper safety equipment.
- 29 • On a monthly basis, LCP received the invoices for the PPE purchases from the
30 external supplier along with the approval forms. The accounts payable department
31 verified that each approval form was signed and included prior to payment.
- 32 • The LCP individual's function/role determined the level of PPE they would be
33 eligible to receive.

34 We were also informed that there was no Nalcor warehouse on-site where PPE would be
35 stored and given out to LCP staff and/or craft labour. The only inventory of PPE kept on
36 site was a small amount that is kept for guests and dignitaries who might require PPE during
37 a visit.

38

¹⁶ GT Summary of MF Process Narratives – LCP Comments March 8, 2019

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1 2.3 Work Performed

2 2.3.1 Internal Audit Work

3 Nalcor's internal audit team performed a Site Purchasing Review in late 2017, as well as a
4 specific investigation relating to sea cans in mid-2018.

5 Their 2017 purchasing review work included testing the purchasing, receiving and
6 disbursement processes relating to site supplies and tools, as well as a safety walk-around of
7 the maintenance facility. The scope of the work was primarily limited to the LCP Site
8 Purchasing Procedure.

9 It was determined that changes were needed to improve control and efficiency for site
10 purchasing (to be implemented by the Supply Chain Manager), such as the addition of a
11 material controller/buyer to enhance segregation of duties, re-instatement of the asset listing
12 for small asset/inventory items (e.g. TVs, computer monitors), a centralized receiving area,
13 and revisions to the existing LCP Site Purchasing Procedure. However, nominal procedural
14 errors were noted during the testing.

15 For consumable supplies (e.g. water, PPE) just in time strategies were used – when
16 something was needed, it was purchased.

17 Overall, internal audit noted that, based on their compliance testing performed, the LCP Site
18 Purchasing Procedures were generally being followed.¹⁷

19 Internal audit's 2018 investigation in this area focused on three shipping containers ("sea
20 cans") that were highlighted in an anonymous letter. The letter alleged that these sea cans
21 were transported from the Muskrat Falls site and shipped to Deer Lake with material that
22 was owned by the Project. Sea can serial numbers were provided and confirmation was
23 obtained that those sea cans were in fact on a property in Deer Lake.

24 Internal audit's work was performed to verify whether the identified sea cans could have
25 been used to transport/misappropriate material off site.

26 One main problem that was reiterated by internal audit as a finding in this area was the lack
27 of an up-to-date listing of small assets to track when items were purchased and disposed.
28 Since the register was not complete, the investigation had to use alternate methods to review
29 sea can purchases.

30 Overall, internal audit noted that based on information available, two of the three sea cans
31 were not likely held by the LCP. One container was likely purchased by the LCP but, since it
32 was not properly tracked, information was not available to confirm this. Internal audit
33 concluded that it was unknown if it was disposed of as surplus (either sold, free issued, or
34 donated) and noted that the lack of appropriate record keeping for small assets (including
35 surplus and disposal of assets) increased the likelihood that asset theft may occur. For the sea
36 can that was likely held by the LCP, internal audit did not believe there was sufficient
37 evidence to warrant searching a private property for stolen goods.¹⁸

38

¹⁷ NAL4848318 – Internal Audit Memo – Site Purchasing Review – October 26, 2017

¹⁸ Internal Audit Memo – MF Review – Sea Cans – June 4, 2018 (provided by Nalcor)

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1 2.3.2 Grant Thornton Work

2 Grant Thornton performed the following work pertaining to PPE and small tools:

- 3 • We requested dollar amounts and quantities of purchases of small tools and PPE,
4 including safety boots and cold weather suits. We were informed that this is
5 recorded in a General Ledger (“GL”) account along with many other safety related
6 items (i.e. the Safety Cost Control Account).
- 7 • We reviewed the GL purchase detail provided pertaining to the Safety Cost
8 Control Account and selected a sample of vendors and purchases for further
9 review, inquiry and supporting documentation.
- 10 • We then reviewed responses to our questions, as well as supporting documentation
11 provided, to determine if any excessive or inappropriate spending occurred.
- 12 • In addition, we also reviewed policy documentation and performed enquiry
13 through interviews conducted, into Nalcor’s process for these types of purchases,
14 including Nalcor staff related purchases and purchases made by contractors for
15 their staff.
- 16 • Specifically, interviews were conducted with Glen O’Neill, Safety Manager, LCP,
17 Pat Hussey, Supply Chain Manager, LCP, and Dave Parady, MFG Site Manager,
18 LCP relating to this area of review.
- 19 • As needed, Grant Thornton followed up with Nalcor to assist us in understanding
20 the documentation provided and any related questions we had.

21 2.4 Findings & Observations

22 Based on testing performed and interviews conducted, we note the following findings and
23 observations with respect to PPE and small tools:

- 24 • We were informed (and confirmed based on our review) that costs pertaining to
25 these type of purchases are recorded in a General Ledger (“GL”) account (i.e. the
26 Safety Cost Control Account) along with many other safety related items (e.g.
27 safety advertising, safety signage, health and safety consulting services, security
28 services, installation of security gates and signs, etc.).
- 29 • We obtained this GL account detail for the Safety Cost Control Account for the
30 Period of Review and noted that just over \$1M total was coded to this account, of
31 which:
 - 32 ○ \$227K (23%) appears to relate to PPE and supplies and is therefore included
33 in the scope of our review;
 - 34 ○ Approximately \$334K (33%) appears to relate to security services and is
35 therefore out of scope;
 - 36 ○ \$166K (17%) appears to relate to safety advertising, printing and
37 communications and is also out of scope;
 - 38 ○ \$129K (13%) appears to relate to safety/road signage, concrete barriers and
39 security gates installation and is therefore out of scope;

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- 1 ○ \$75K (8%) appears to relate to safety consulting which is also outside the
2 scope of this report; and
- 3 ○ \$69K (6%) includes other expenses that are also outside the scope of this
4 report (i.e. none appear to relate to PPE or small tools).
- 5 • We were informed that no significant quantity of small tools are ever purchased by
6 LCP; these are the responsibility of contractors. Based on our review of the GL
7 detail provided for the Safety Cost Control Account (as noted above), we did not
8 identify any purchases that appear to relate to small tools.
- 9 • As noted above, for PPE that is purchased for the Project, Nalcor-LCP is only
10 responsible for PPE that relates to LCP employees and the independent
11 contractors/consultants directly hired by Nalcor-LCP.
- 12 • Large contractors that are paying craft labour are (mostly) responsible for the PPE
13 and small tool costs for their staff and workers; the cost of PPE and small tools is
14 built into the rates in the contracts and is not considered a separate reimbursable
15 charge for these large contractors.
- 16 • We did note that for Nalcor’s contract with Astaldi Canada Inc., there was an
17 option to implement “Reimbursable Change Orders” which would apply to work
18 resulting from a Change Order which has been determined to be completed on a
19 cost reimbursable basis. These would include a price addition on labour hours
20 certified of \$2.30 to cover consumables, personal protective equipment and small
21 tools (with a value of less than \$2,000). Therefore, in these cases, these types of
22 costs would be indirectly included in the cost of labour paid by Nalcor.¹⁹
- 23 • As part of our work in Sections 1 and 3 of this report, we reviewed a sample of
24 invoices and contracts (for the samples selected) and did not identify additional
25 charges for these types of purchases from the contractors.
- 26 • This was also confirmed through our prior work performed relating to the
27 following contractors: Valard Construction LP and Barnard Pennecon LP. These
28 contracts note that “...Contractor shall, at its own expense and in accordance with
29 Applicable Laws, supply and maintain Contractor’s Personnel with personal
30 protective equipment which shall be worn and used on all occasions as indicated
31 by notices, instructions, good practice or as required by risk assessment”²⁰ and
32 “...small tools which cost Contractor less than \$2,000 dollars each, or
33 consumables and personal protective equipment...the cost of these items is
34 included in the rates listed...”²¹
- 35 • Therefore any excess PPE and small tools (i.e. tools that cost less than \$2,000) that
36 are purchased (or potentially misused or misappropriated) from the contracting
37 companies is not the responsibility of Nalcor-LCP and any related costs would not
38 be incurred by Nalcor-LCP.

¹⁹ NAL0011236 – Contract for CH0007-001 Exhibit 2 Compensation – November 29, 2013 - Page 11

²⁰ NAL0014341 – Contract for CT0327-001 – August 8, 2014 – Page 46

²¹ NAL0012524 – Contract for CH0009 Exhibit 2 Compensation – Page 8

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- 1 • Items that are greater than or equal to \$2,000 are not considered small tools and
2 are therefore outside the scope of this report. However, based on a review of the
3 contracts noted above, we understand that actual costs for materials supplied (if
4 greater than or equal to \$2,000) were reimbursed at actual invoiced cost to the
5 contractor, as substantiated by invoices (that were certified as being paid), plus any
6 arranged mark-up as per the contractors' contracts with Nalcor.
- 7 • For PPE such as cold weather suits and safety boots, no inventory of these items is
8 kept on hand. They are ordered as needed for specific individuals based on
9 appropriate approvals on a required PPE request form. As noted above, approval
10 signatures are required on the PPE request form from the safety manager and the
11 person's supervisor. This control helps reduce the risk of overspending for these
12 types of purchases but is dependent on the safety manager and supervisor's
13 recollection of prior purchases for that individual.
- 14 • Based on our review of the GL detail for the Safety Cost Control Account and
15 supporting invoices provided, we identified approximately \$227K that related to
16 PPE (including clothing, safety boots, cold weather suits, glasses, gloves, vests, etc.)
17 and safety supplies (roadside safety kits, flashlights, portable spill kits, etc.) during
18 the Period of Review. This amount does not appear to be excessive, given the size
19 of the Project and the number of individuals requiring personal safety gear and
20 supplies over the three year time period. As previously noted, no amounts
21 pertaining to small tools were identified in our review of the GL detail provided.
22 This finding is consistent with information we learned through interviews
23 conducted.
- 24 • We note that our work focused on consumable supplies such as PPE and small
25 tools (as per the Additional Services Agreement²²). The allegations according to the
26 letters we received in January 2019, were broader and included larger items such as
27 material, lumber and equipment (in addition to small tools).
- 28 • Based on the enquiry, review and testing work performed, we have identified no
29 issues to report relating to PPE and small tools. We do note, however, that a
30 number of internal control/process improvement opportunities were identified,
31 given the size of this project.

32 3 Non-Arm's Length Contracts

33 3.1 Mandate

34 *"It was suggested that companies that were not at arm's length with senior Nalcor management were*
35 *contracted for services without tender."*²³

36 No further information was provided in the anonymous letters pertaining to this mandate.
37 However, during the course of our review and interviews, we learned more details about

²² Additional Services Agreement – Commission of Inquiry Respecting the Muskrat Falls Project – November 15, 2018

²³ Investigation of Specific Expenditures – Request for Proposal Letter – Commission of Inquiry Respecting the Muskrat Falls Project – November 2, 2018 – Page 4

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1 prior allegations of conflicts of interest that helped further inform our mandate. Specifics of
2 these allegations are noted below in Section 3.3.1.
3

4 3.2 Policy, Processes & Background²⁴

5 There is a Code of Conduct and Business Ethics Handbook that all LCP Project delivery
6 team members (Nalcor employees as well as contracted staff) received through on-boarding
7 orientation.²⁵ Part of the orientation process was to provide an overview of the conflict of
8 interest (“COI”) principals that are within this code of conduct. This was part of the on-
9 boarding process for all LCP Project delivery team members, and they were required to
10 confirm they understood and were aware of Nalcor’s code of conduct. If at any point they
11 become aware of a potential conflict of interest issue, they are supposed to report this as
12 outlined in the code of conduct guidelines.

13 Nalcor-LCP employees, independent contractors and consultants, and recruitment agencies
14 were also required to complete detailed orientation training. It was tracked to see who had
15 completed the training, and reminders were sent by the HR department to those that had the
16 training outstanding. In addition, Nalcor required that employees and staff completed online
17 training and education on certain corporate topics. In 2016 and 2018, LCP Project delivery
18 team members were required to complete the Nalcor Code of Business Conduct and Ethics
19 online training course.

20 For individuals that were hired through recruitment agencies, there was an employment
21 agreement between the individual and the agency that included reference to conflicts of
22 interest and this was supposed to be noted in the agreement between Nalcor-LCP and the
23 agency (referred to as the Master Service Agreement).

24 Additionally, as part of the bidding process for contractors, companies were required to fill
25 out Commercial Questionnaires, which included disclosing the ownership information of the
26 company. We were informed by Nalcor that for the over 100 main contracts for goods and
27 services, information regarding Nalcor's conflict of interest guidelines was included in these
28 contracts. We were also informed that, due to the significant number of vendors used for
29 goods and services, LCP did not require every vendor to affirm they were not in a conflict of
30 interest.

31 There was a reliance on the agencies and contractors to ensure that all conflicts were
32 disclosed for a potential staff member, employee or vendor, as Nalcor-LCP did not perform
33 independent checks to determine key individuals involved and any available ownership
34 information to verify the information provided by the individuals or contractors.

35 Any conflict of interest concerns were/are to be reported to HR, or anonymously through
36 Nalcor’s Ethics Line. When reported to HR, they are included in the Code of Conduct
37 Report that is provided to the Nalcor Board of Directors each year.
38

²⁴ GT Summary of MF Process Narratives – LCP Comments March 8, 2019

²⁵ NAL0132308 – Code of Conduct and Business Ethics Handbook

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1 3.3 Work Performed

2 3.3.1 Internal Audit Work

3 Nalcor's internal audit team previously performed work relating to procurement and
4 allegations of conflicts of interest.

5 In 2017, Nalcor received an Access to Information and Protection of Privacy Act
6 ("ATIPPA") request relating to a perceived conflict of interest between an LCP Project
7 Manager and a recruitment company working for LCP ("Company #1"). Documents were
8 compiled in support of this request and noted that the relationship had previously been
9 disclosed to the recruiting team and the issue had been managed by excluding the person
10 with the relationship from recruiting decisions and approvals where Company #1 was a
11 potential or actual service provider.²⁶

12 Additionally, three anonymous complaints were investigated that were received through
13 Nalcor's Ethics Line in January 2018 pertaining to Lower Churchill Management
14 Corporation (LCMC) and a second company ("Company #2"), as follows:

- 15 • Allegation #1 – According to the anonymous report, during a contract settlement
16 in December 2017, terms and conditions were added into the agreement that
17 resulted in Company #2 being awarded a \$4-5M contract. The anonymous report
18 also suggested that, as an outside contractor, Company #2 had significant access to
19 internal corporate information.
- 20 • Allegation #2 – According to the anonymous report, Company #2 had a special
21 deal with an EVP and was recruiting LCP contractors to work for Company #2.
22 The report noted that they believed the sole source process was being abused.
- 23 • Allegation #3 – According to the anonymous report, Company #2 had inside
24 knowledge of rates paid to other LCP contractors (employees of another company,
25 "Company #3") which enabled Company #2 to recruit them and contract them
26 back to the Project.

27 Internal audit collected and reviewed contracts, communications, procurement and other
28 documentation and concluded that processes were followed, sole sourcing was approved and
29 potential conflicts were disclosed. Details are as follows:

- 30 • Allegation #1 - Based on the review of the settlement contract and subsequent
31 communication between the contractor, LCMC and Company #2, internal audit
32 concluded that inappropriate procurement did not occur. Company #2
33 communicated to the contractor that they could not pursue the scopes of work
34 within the settlement agreement due to conflict of interest.
- 35 • Allegations #2 and #3 – With respect to procurement, internal audit concluded
36 that Power Supply awarded the contracts within policy. Sole sourcing justification
37 was completed and approved at the appropriate level. Procurement documentation
38 to manage the contracts had opportunities for improvement. In compliance with

²⁶ Pdf File (Emails in Response to ATIPPA Request) - Documentation re Company #1 2017 – August 14, 2017 to February 2, 2018 (provided by Nalcor)

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1 Nalcor policy, both Power Supply management and Company #2 management
2 disclosed Company #2's prior history with the Project.

3 As a result of this internal audit, recommendations were made relating to procurement
4 processes to increase consistency between contracts and demonstrate that work scopes were
5 appropriately pre-approved. Internal audit also made recommendations related to conflict of
6 interest processes at a corporate level.²⁷

7 Subsequently, an additional anonymous letter was received and internal audit concluded that
8 the information provided within this letter was consistent with the prior investigation (noted
9 above) and therefore no additional report was issued.²⁸

10 Internal audit also performed an LCP Conflict of Interest Audit (report dated April 23,
11 2018) to ensure that the Project management team had procedures in place for the effective
12 management of COIs, including identifying COIs, maintaining a COI log, and establishing
13 mitigation plans to address COIs. The scope of this audit was focused on independent
14 consultants comprising the senior management team and included a review of policies and
15 procedures, as well as compliance testing.

16 This report noted that, given the complexity of the Project, it was reasonable to expect that
17 potential conflicts would arise from time to time. Internal audit concluded that the LCP had
18 the basic elements of a conflict of interest management process in place, mirroring the
19 approach taken at Nalcor, however, a more detailed and robust approach would be preferred
20 and should be developed. It was recommended that a detailed COI procedure be developed
21 which focused on education and communication regarding COI.

22 One specific item that was noted was that a log was in place for COIs but was not being
23 used regularly or updated. It was noted that improvements were needed to appropriately
24 track and manage COIs.²⁹

25 An additional report was prepared by internal audit (dated January 24, 2019) in response to
26 COI allegations reported through Nalcor's Ethics Line in October 2018.³⁰ According to
27 allegations, a Labrador Island Transmission Link ("LITL") contractor (i.e. not a Nalcor /
28 LCP employee) was involved in the procurement of equipment that cost \$1.6M (on behalf of
29 Nalcor) through his brother's company.

30 Internal audit confirmed that the relationship did in fact exist and that the contractor's
31 brother appeared to be an owner (or part owner) in a company that was sole-sourced for the
32 purchase of the equipment; there was no RFP process. Internal audit's report noted that
33 with a sole-sourced contract, the full level of financial due diligence was not required;
34 therefore, the corporation's ownership would not necessarily be disclosed during the
35 procurement process.

²⁷ NAL4848317- Internal Audit Report – Ethics Line Report 8, 9, 11 – Conflict of Interest and Procurement – April 12, 2018

²⁸ Internal Audit Note to File – Procurement and Conflict of Interest Investigation – Company #2 – undated (provided by Nalcor)

²⁹ ARS-LCP001-0028 – 17-30 LCP Conflict of Interest Audit – April 23, 2018

³⁰ Internal Audit Report – Ethics Line Report 27 – Conflict of Interest and Procurement – January 24, 2019 (provided by Nalcor)

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1 The contractor worked for Company #2, which was discussed previously on pages 21 and
2 22 of this report, and was involved in the procurement process for the contract that was
3 awarded to his brother's company. The contractor indicated to internal audit that he had
4 verbally disclosed the relationship to Nalcor but he could not recall exactly who he had told.
5 No documentation of the disclosure was maintained and another key individual interviewed
6 by internal audit indicated that he was not aware of the relationship.

7 Internal audit concluded that the contractor in question did not approve the purchase and
8 the procurement process was appropriately completed, however, he should have been
9 removed from the procurement process entirely. This was a violation of policy, which
10 required immediate action to address the conflict of interest. Internal audit concluded that
11 the purchase was appropriate and the sole-sourcing justification was adequately documented
12 (by the contractor in question, at the request of the project area manager) noting that the
13 purchase price was \$0.5M less than quoted by another vendor. Internal audit also concluded
14 that the company used was the primary provider of the equipment in Canada and
15 Internationally.

16 As noted, the contractor should have been removed from the process entirely as a conflict of
17 interest did exist, and the conflict should have been documented, but procurement processes
18 were appropriately followed in purchasing the equipment and obtaining sole-sourcing
19 approvals. Internal audit noted that they were comfortable with the vendor chosen but
20 recommended that this contractor not be involved in any activities relating to his brother's
21 company in the future. Recommendations were also made to improve COI disclosure,
22 assessment decisions and documentation going forward.³¹

23 Additionally, each year, HR compiled a Code of Business Conduct and Ethics Report for the
24 Nalcor Board of Directors. The 2016 report noted that no conflicts were reported.³² The
25 2017 report noted allegations of a relationship between two workers and that there were
26 more hours being paid than worked. Internal audit reviewed the allegations and found the
27 claims were not substantiated.³³ The 2018 report is yet to be finalized, as of the date of this
28 report, and therefore has not yet been reviewed by Grant Thornton.

29 3.3.2 Grant Thornton Work

30 Grant Thornton performed the following work pertaining to non-arm's length contracts:

- 31 • We reviewed a list of over 200 vendors to the Project and judgmentally selected 43
32 specific vendors and requested dollar amounts paid to each for the Period of
33 Review.
- 34 • We also requested to know which of the vendors selected went through a
35 contract/RFP bidding process prior to being awarded the work.

³¹ Internal Audit Report – Ethics Line Report 27 – Conflict of Interest and Procurement – January 24, 2019 (provided by Nalcor)

³² Annual Activity and Compliance Report 2015-2016 – Code of Business Conduct and Ethics LCMC – February 8, 2017 (provided by Nalcor)

³³ Annual Activity and Compliance Report 2017 – Code of Business Conduct and Ethics LCMC – February 13, 2018 (provided by Nalcor)

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- 1 • For vendors where no dollar amount was paid during the Period of Review, we
2 requested to see evidence of this from the financial system.
- 3 • For 12 specific vendors (out of the original 43) we requested supporting files to
4 review the contract award process, including bid evaluation, contracts, and listings
5 of POs/invoices paid.
- 6 • We then reviewed this supporting documentation to determine whether or not the
7 file documented the vendor ownership, changes, etc. and if any potential for
8 conflict of interest was identified and if so, how it was handled.
- 9 • We also performed independent public record searches for the 12 vendors to
10 determine key individuals involved and any available ownership information for
11 each to ensure this information was consistent with what was disclosed in the
12 contract files (including the Commercial Questionnaires or other similar
13 documentation completed by each vendor).
- 14 • We were also provided with details of prior work performed by internal audit into
15 potential conflicts of interest and related allegations of non-arm's length contracts
16 (as documented in the prior section of this report).
- 17 • We reviewed policy documentation and performed enquiry through interviews
18 conducted, into Nalcor's process around identifying and disclosing conflicts of
19 interest and related party relationships.
- 20 • Specifically, interviews were conducted with the following individuals relating to
21 this area of review:
- 22 ○ Jackie Borden, Manager, Internal Audit, Nalcor;
 - 23 ○ Tanya Power, Project Controls Manager, LCP;
 - 24 ○ John Skinner, Accounting Manager, LCP;
 - 25 ○ Mel Melham, MFG Contracts Administrator, LCP;
 - 26 ○ Pat Hussey, Supply Chain Manager, LCP;
 - 27 ○ Dave Pardy, MFG Site Manager, LCP; and
 - 28 ○ Faustina Cornick, HR Manager, LCP.
- 29 • As needed, Grant Thornton followed up with Nalcor to assist us in understanding
30 the documentation provided and any related questions we had.

31

32 3.4 Findings & Observations

33 Based on testing performed and interviews conducted, we note the following findings and
34 observations with respect to non-arm's length contracts and potential conflicts of interest:

- 35 • As noted above, LCMC uses a significant number of vendors to supply goods and
36 services for the Muskrat Falls Project. We were informed by Nalcor that, for the
37 over 100 main contracts for goods and services, information regarding Nalcor's
38 conflict of interest guidelines is included in these contracts. We were also

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- 1 informed, however, that due to the significant number of vendors used for goods
2 and services, LCP did not require every vendor to affirm they are not in a conflict
3 of interest.
- 4 • Nalcor does not perform independent checks to determine key individuals
5 involved and any available ownership information prior to executing a contract
6 with an individual or contractor to ensure no conflicts exist.
 - 7 • There is a reliance on the agencies and contractors to ensure that conflicts are
8 disclosed for a potential staff member, employee or vendor.
 - 9 • We noted that a log of COI allegations is still not being used to track and manage
10 work/investigations performed in this area, even though we were informed one
11 exists.
 - 12 • For the 12 specific vendors tested, we were provided with supporting files and
13 were able to review the listing of POs/invoices paid , contracts, and contract award
14 process, including bid evaluation (where relevant). Files provided documented the
15 vendor ownership and none identified any potential conflicts of interest.
 - 16 • Based on our independent public record searches, we identified 3 vendors (out of
17 the 12 selected) with names of key individuals associated with the companies (i.e.
18 Directors according to the Corporate Profiles) that were inconsistent with supplier
19 representatives/contact names disclosed in Nalcor's contracts and other file
20 documentation provided.
 - 21 • We provided these specific names to Nalcor and were provided with the following
22 responses:³⁴
 - 23 o Vendor #1 – Nalcor was aware of some of the individuals which were
24 involved in the contracts. Based on the new names provided, Nalcor is not
25 aware of any existing non-arm's length relationships and therefore has no
26 requirement to investigate the existence of any such relationships. Nalcor's
27 contracts contain conflict of interest language.³⁵
 - 28 o Vendor #2 – The individual noted was the consultant that provided the
29 services and was known to Nalcor. Nalcor is not aware of any existing non-
30 arm's length relationships and therefore has no requirement to investigate
31 further. Nalcor's contracts contain conflict of interest language.³⁶
 - 32 o Vendor #3 – Nalcor was not aware of the new name provided however,
33 based on this new name, Nalcor is not aware of any existing non-arm's
34 length relationships and therefore has no requirement to investigate further.
35 Nalcor's contract contain conflict of interest language.³⁷

³⁴ Response to GT#18 – Follow-up Questions - April 9, 2019 (provided by Nalcor)

³⁵ Vendor #1's Contract - Agreement CD0503-002 Rev 1 – SIGNED.pdf – October 18, 2013 – Pages 1220 to 1240 (provided by Nalcor)

³⁶ DISCL-NAL-13001 - Vendor #2's Contract – LC-PM-121.pdf – February 4, 2013 – Page 8

³⁷ Vendor #3's Purchase Order/Contract – CT0355-030-003.pdf – January 7, 2016 – Pages 74 to 94 (provided by Nalcor)

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- 1 • Based on the enquiry, review and testing performed, no additional conflicts of
2 interest were identified. However, for a project of this size, we would have
3 expected that a more detailed, risk-based approach be followed to independently
4 assess, research and verify vendor ownership and directorship information to
5 ascertain that no undisclosed non-arm's length relationships or other conflicts
6 existed, rather than relying on vendors to self-declare.

7

8 4 Recording of Daily Work Hours

9 4.1 Mandate

10 *"It was suggested that employees have been paid for time not worked through the falsification of time records,*
11 *such as time sheets."*³⁸

12 Further, during the course of our review and interviews, the following was learned to further
13 inform the mandate:

- 14 • As previously noted, a package of anonymous letters was received by Grant
15 Thornton, ranging in date from May 20, 2016 to January 9, 2019.
- 16 • The letters specifically note certain individuals who are alleged to leave site early (e.g.
17 to visit a local bar or watch TV), even though they are billing for a full day's work.
- 18 • The allegations include charging for hours never worked and not swiping in and out
19 when entering or leaving the site.

20 4.2 Policy, Processes & Background³⁹

21 Based on our discussions, interviews and documentation review, we understand that the
22 recording of daily hours differs depending on the type of work/role of the individual
23 working on the Project.

24 For Nalcor-LCP employees, the entire process to record time worked was electronic. Each
25 employee would open the system used to record hours and would enter their work code and
26 number of hours worked for each day for a particular week. This would then get
27 electronically transmitted to the appropriate supervisor who would approve it. Each
28 supervisor would typically have about 12 or 15 timesheets to review and approve (including
29 both Nalcor employees and contractors). Once approved, it was forwarded to the payroll
30 department.

31 For independent contractors and agency personnel, there was a software program called
32 LCP Tracker. Individuals on the Project management team would enter their timesheets in
33 this program on a weekly basis. This included the Project delivery team, SNC Lavalin
34 employees working on the Project, professional services contractors, and consultants. Each
35 individual would enter their time for the previous week, print off a form and get it signed by

³⁸ Investigation of Specific Expenditures – Request for Proposal Letter – Commission of Inquiry Respecting
the Muskrat Falls Project – November 2, 2018 – Page 4

³⁹ GT Summary of MF Process Narratives – LCP Comments March 8, 2019

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1 the appropriate supervisor. The timesheets then would go back to the agency or company
2 that employed the individual, who then used it for invoicing purposes.

3 Contractors submitted invoices on a monthly basis and it was required that they were
4 supported by signed timesheets. As part of Nalcor's attestation process, a cost analyst would
5 review the invoice to ensure that each timesheet was signed. They would also verify the
6 charge rates, the HST being invoiced, and check that there was room under the commitment
7 for the charges. Once this was complete, they would circulate for approval. Paper
8 submissions were required for the monthly invoices, which were date stamped when
9 received.

10 Nalcor-LCP performed tests on site to ensure the time worked by craft labour was
11 approved. There was a process in place where the contract administrator worked with an
12 individual who was on-site administering the agreement for the other party. They were
13 required to work to ensure that the hours were reviewed and validated as worked. This was
14 then rolled up into a weekly report. For larger contracts, this was to be validated to weekly
15 payroll reports to substantiate the true cost of the payroll which was compared to the hours
16 approved on site. This was performed weekly as all craft labour is paid on a weekly basis. It
17 was part of the finance department's attestation process to validate that the hours within an
18 invoice were correct based on what was approved.

19 For many contractors there was a payment certificate approval process. These payment
20 certificates were submitted to the contract administrator, who was part of the supply chain
21 team. It was then reviewed for approval by the contract administrator, cost controller, and
22 the Project manager for that particular scope of work, among other LCP representatives
23 depending on the contract. Signatories to each payment certificate would vary depending on
24 the requirements for the specific contract. When all the necessary approvals had been
25 obtained, it was sent back to the contractor, who would attach it to the invoice.

26 4.3 Work Performed

27 4.3.1 Internal Audit Work

28 Nalcor's internal audit team performed a Muskrat Falls Site Timesheet Review in late
29 October 2017.⁴⁰ This work was initiated as a result of anonymous allegations that were
30 reported to Nalcor regarding timesheets and inappropriate billings. The work included a
31 review of the controls established to review, verify and approve timesheets for personnel
32 working at the Muskrat Falls Site and was primarily limited to personnel within the Muskrat
33 Falls Site Management Team and the Muskrat Falls Site Health, Safety, Security ("HSS") &
34 Emergency Response ("ER") Team.

35 The review included walkthroughs of the timesheet verification and approval process,
36 sampling and compliance testing, and analyses of hours on the Site Security Cardholder
37 Report (entry and exit swipe date and time).

38 Internal audit noted that there were no formal controls in place for the review and
39 verification of timesheet hours and there was no formal documented procedure followed.⁴¹

⁴⁰ Internal Audit Memo – Muskrat Falls Site Timesheet Review – October 25, 2017 (provided by Nalcor)

⁴¹ Internal Audit Memo – Muskrat Falls Site Timesheet Review – October 25, 2017 (provided by Nalcor)

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1 However, it was noted that supervisors would be aware that the personnel are on site and
2 were performing their duties according to their respective scopes of work. In addition,
3 supervisors had employee turnaround schedules so they know when contractors were on site
4 and when they were on days off. The Muskrat Falls Site operated on 10 hour days and,
5 therefore, a standard 10 hour day was generally the standard number of hours per day that
6 contractors should be invoicing. All supervisors were aware of this and would be looking at
7 timesheets prior to approval to ensure that contractors were not billing more than 10 hours.
8 If there were more than 10 hours per day on the timesheet, supervisors would verify that the
9 overtime hours were approved by ensuring that there was an approved overtime form
10 attached to the timesheet.

11 Based on work performed, internal audit identified controls/processes in place for the
12 review, verification and approval of timesheets, including:

- 13 1) Hours on timesheets appeared reasonable (generally should be 10 hours per day);
- 14 2) Days off should be evident on the timesheets (turnaround/days off had no hours in
15 those days);
- 16 3) Overtime hours, if applicable, had an appropriate approved overtime form attached;
17 and
- 18 4) An appropriate supervisor signed the timesheet.

19
20 Internal audit concluded that the controls in place to verify timesheets, although they were
21 not formally documented procedures, appeared to be reasonable to ensure that contractors
22 were billing only for time worked. Additionally, based on testing performed, timesheets for
23 the MFG Site team appeared to be in compliance with the MFG Site Management timesheet
24 verification and approval process.

25 Based on data analysis performed by internal audit of the Site Security Cardholder Report
26 (entry and exit swipe date and time) and a comparison to hours invoiced by contractors,
27 internal audit noted that increased diligence surrounding entry and exit swipe of security
28 cards could be implemented, along with a process for recording time spent on the North
29 Spur (if still applicable). Additionally, internal audit recommended that analyses of hours
30 could be prepared on a quarterly basis to compare hours spent on the Muskrat Falls Site (as
31 per swipe card data) to the hours invoiced by contractors. Internal audit noted, however, that
32 this remained a business decision.

33 During testing, internal audit noted inconsistencies between hours per the swipe card data
34 and amounts billed for the individuals identified in the allegations. Internal audit was able to
35 obtain explanations for the variances for some of the individuals (e.g. contractor stayed at
36 camp for 4 days but did not register at the camp, contractor had lost his card or did not
37 swipe for a couple of days, contractor worked off-site at the North Spur for this time period
38 where no cardholder access is required, etc.) but not all.⁴² Further investigation was required
39 and corrective, follow-up action (including warnings and dismissal of one contractor
40 employee) was taken relating to some of the variances. To date, Nalcor has not been

⁴² Internal Audit Memo – Muskrat Falls Site Timesheet Review – October 25, 2017 (provided by Nalcor)

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1 reimbursed for the over-billings relating to this one contracted individual that was dismissed
2 but is still pursuing this with the individual's employer.⁴³

3

4 4.3.2 Grant Thornton Work

5 Grant Thornton performed the following work pertaining to recording of daily work hours:

- 6 • We obtained electronic security swipe card access data for all individuals who
7 worked at the Muskrat Falls Site from January 1 to December 31, 2017.
- 8 • We performed data analytics to identify potential irregularities or patterns (e.g.
9 individuals with multiple days of less than the standard 10 hours per day on site).
10 We identified a significant number of individuals with irregular days and/or
11 anomalous characteristics (e.g. short days, long days, gaps in days on site, etc.). We
12 judgmentally selected a sample of 11 to follow up on with Nalcor to understand
13 their roles and help determine if the patterns in their swipe card data make sense.
- 14 • From this sample of 11, Nalcor informed us that 8 were contractors/non-Nalcor
15 staff and 3 were Nalcor employees. From the 8 non-Nalcor individuals, we
16 requested invoices for one month (June 2017) for 5 individuals to verify if hours
17 billed on invoices matched hours as per their swipe card data.
- 18 • For the 3 remaining Nalcor staff, we obtained and reviewed information to
19 understand the role of the individuals identified and what a regular work day would
20 typically look like for each of them and compared this to the swipe card data.
- 21 • During our review and testing, we became aware (through the anonymous letters
22 noted above) of specific allegations against 2 Nalcor staff who were said to be
23 leaving site early on a regular basis, even though they were billing for a full day's
24 work. We therefore reviewed these individuals in more detail, in addition to our
25 previously selected sample. We requested information from Nalcor to understand
26 the roles of these individuals to compare this to their swipe card data.
- 27 • In addition, we reviewed policy documentation and performed enquiry through
28 interviews conducted, into Nalcor's processes for recording daily hours, including
29 for Nalcor staff and contractors.
- 30 • Specifically, interviews were conducted with the following individuals relating to
31 this area of review:
- 32 ○ Jackie Borden, Manager, Internal Audit, Nalcor;
 - 33 ○ Tanya Power, Project Controls Manager, LCP;
 - 34 ○ John Skinner, Accounting Manager, LCP;
 - 35 ○ Mel Melham, MFG Contracts Administrator, LCP;
 - 36 ○ Pat Hussey, Supply Chain Manager, LCP;
 - 37 ○ Dave Pardy, MFG Site Manager, LCP; and

⁴³ Response to GT#23 – Follow-up Questions - April 9, 2019 (provided by Nalcor)

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- 1 o Faustina Cornick, HR Manager, LCP.
- 2 • As needed, Grant Thornton followed up with Nalcor to assist us in understanding
- 3 the documentation provided and any related questions we had.
- 4

5 4.4 Findings & Observations

6 Based on testing performed and interviews conducted, we note the following findings and

7 observations with respect to the recording of daily work hours:

- 8 • A recommendation to do further analysis work (quarterly) on the swipe card data
- 9 was made by internal audit but not actioned. Internal audit's prior work in this area
- 10 that was initiated as a result of an anonymous tip, identified issues with billings (as
- 11 compared to actual hours worked) and therefore doing this type of analysis proved
- 12 to be beneficial. However, internal audit suggested that it remained a business
- 13 decision on whether this work would be performed or not.
- 14 • Our analysis of swipe card data (as expected with this size of a project, the data is
- 15 complex) identified a significant number of individuals with irregular days and/or
- 16 anomalous characteristics (e.g. short days, long days, gaps in days on site, etc.). We
- 17 were informed that the expected standard work day while on site is 10 hours.
- 18 • For the selected sample, for those that were Nalcor employees (3 out of 11
- 19 judgmentally selected), we were able to review role descriptions and determine if
- 20 their hours worked looked reasonable based on their required duties. We noted for
- 21 all 3 that the primary location for their roles was the Muskrat Falls Site, however
- 22 based on the duties required to be performed, some off-site work is to be expected
- 23 and appears reasonable.
- 24 • We also asked Nalcor to review and confirm that the swipe card data (recorded
- 25 hours) was reasonable for these 3 Nalcor employees and were informed that they
- 26 agree with this conclusion. Specifically Nalcor noted that one individual was based in
- 27 Goose Bay so his hours on site would not be consistent 10 hour days, one individual
- 28 was a survey technician and worked in the Torbay Road office and various locations
- 29 across the province so swipe card data would also not be consistent 10 hour days,
- 30 and the third individual (who worked for a contractor) had a work order that was for
- 31 less than 10 hour days (he was stationed at the Muskrat Falls Site but was required to
- 32 travel and support other work sites, such as North Spur, Churchill Falls, Marshalling
- 33 Yard, LCP Office or other sites requiring his support services.⁴⁴
- 34 • For the 2 additional Nalcor employees/contractors with specific allegations against
- 35 them, we were also able to review their role descriptions and swipe card data to
- 36 determine if their hours worked looked reasonable based on their required duties.
- 37 Based on swipe card data reviewed, we note that:
- 38 o For 1 of these individuals ("Individual #1"), they were on site less than 9.5
- 39 hours per day 51% of the time for the period we tested (hours were erratic

⁴⁴ Response to GT#23 – Follow-up Questions - April 9, 2019 (provided by Nalcor)

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- 1 and ranged from 2.56 to 9.47). An additional 21% of the time this individual
2 appeared to not correctly swipe in or out and therefore the data could not be
3 used to test attendance on site on those days. For the remaining
4 approximately 28% of the time, based on the swipe card data reviewed, this
5 individual appeared to be on site for more than 9.5 hours per day (i.e. a
6 standard day is 10 hours) during the period tested.
- 7 o For the second individual (“Individual #2”), they were on site less than 9.5
8 hours per day 85% of the time for the period tested (hours were erratic and
9 ranged from 0.02 to 9.41). An additional 5% of the time this individual
10 appeared to not correctly swipe in or out and therefore the data could not be
11 used to test attendance on site on those days. For the remaining
12 approximately 10% of the time, based on the swipe card data reviewed, this
13 individual appeared to be on site for more than 9.5 hours per day (i.e. a
14 standard day is 10 hours) during the period tested.
- 15 • We asked Nalcor to review and confirm that the swipe card data (recorded hours)
16 was reasonable for these 2 additional Nalcor staff and note the following:
- 17 o Based on responses provided by Nalcor,⁴⁵ we understand that Individual #1
18 is the same individual discussed in Section 4.3.1 above that was dismissed
19 based on internal audit’s work performed. This individual’s role was mainly
20 on site and therefore the hours per the swipe card data did not make sense
21 and did not align with billings to Nalcor. This situation appears to have been
22 appropriately addressed by Nalcor.
- 23 o We were informed that Individual #2’s role requires a significant amount of
24 off-site work and therefore the hours noted per the swipe card data are
25 reasonable and in-line with Nalcor’s expectations.
- 26 • For the 5 non-Nalcor employees selected for testing (out of the 11 judgmentally
27 selected), we requested invoices from June 2017 to determine if amounts billed
28 aligned with the swipe card data. Nalcor provided us with details for each explaining
29 their roles and expectations of hours on site.⁴⁶ Specifically:
- 30 o One individual selected was a delivery truck driver and was a sub-contractor
31 of a larger Nalcor contractor. The individual worked adhoc hours as needed
32 and therefore would not have worked consistent 10 hour days. The hours for
33 this individual would not be associated with any reimbursable charge on an
34 invoice to LCMC, it was associated with a lump sum scope. We would
35 therefore not be able to agree hours to a specific invoice. This explanation
36 appears reasonable and is in line with hours reviewed for this individual; no
37 further testing was deemed necessary for this individual.
- 38 o One individual selected was a manager for an equipment rental company
39 used by various contractors on the Project. The individual visited the site

⁴⁵ Response to GT#23 – Follow-up Questions - April 9, 2019 (provided by Nalcor)

⁴⁶ Response to GT Q#23 - Info for Invoice Request for Contractor Workers - March 8, 2019 (provided by Nalcor)

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- 1 periodically to check the hours' meters on the equipment that was being
2 rented and would not have worked consistent 10 hour days. The hours for
3 this individual would not be associated with any reimbursable charge on an
4 invoice to LCMC. This explanation appears reasonable and is in line with
5 hours reviewed for this individual; no further testing was deemed necessary
6 for this individual.
- 7 o One individual selected was a crane mechanic who worked for a sub-
8 contractor of a larger Nalcor contractor. The individual came to site
9 periodically to check on or do repairs to cranes and would not have worked
10 consistent 10 hour days. The cost of supplying cranes under the contractor
11 agreement would be part of the unit rates of concrete and steel installation
12 and, as such, would not be associated with any reimbursable charge on an
13 invoice to LCMC. This explanation appears reasonable and is in line with
14 hours reviewed for this individual; no further testing was deemed necessary
15 for this individual.
- 16 o One individual selected was an employee of a contractor working on the
17 construction of the transmission line. The associated contract was mostly a
18 unit rate agreement and therefore LCMC did not reimburse the cost of
19 labour. As such, this individual's time would not be associated with any
20 reimbursable charge on an invoice to LCMC. This explanation appears
21 reasonable; no further testing was deemed necessary for this individual.
- 22 o One individual selected was a labourer with a contractor and their time was
23 billable to LCMC. We were provided with the time details charged on the
24 June 2017 invoice as requested. Explanations were provided where
25 discrepancies were noted between hours billed vs. hours per the swipe card
26 data (e.g. transporting equipment/porta-potties/materials to site, picking up
27 supplies, office equipment, parts, etc.). Explanations provided appear
28 reasonable and are in line with hours reviewed for this individual; no further
29 testing was deemed necessary for this individual.
- 30 • Based on the enquiry, review and testing performed, no unexplained discrepancies
31 were noted relating to daily hours worked, other than for Individual #1 described
32 above (and in Section 4.3.1). As noted, this situation was previously dealt with by
33 Nalcor and the individual (who worked for a contractor) was dismissed from the
34 Project.

35 Understanding Nalcor's Internal Audit Function

36 Based on our review and an interview with Nalcor's Manager, Internal Audit, we understand
37 that Nalcor's internal audit function includes an ongoing five year audit plan which
38 prioritizes audit work based on their assessment of risk.⁴⁷

⁴⁷ NAL0685623 – Audit & Resource Plan 2015-2019 – Slide 1, Slide 7 & Slide 14

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1 We reviewed Nalcor’s Internal Audit Plans for 2016 to 2018⁴⁸ and requested audit reports
2 and memos that were identified as relevant to our scope of review. Specifically, we reviewed
3 the following Nalcor internal audit reports and documentation and have discussed them
4 (where relevant) above in the Detailed Findings and Observations section of this report:

- 5 • 15-17 LCP Payment Certificate Review and Compliance Audit⁴⁹
- 6 • 16-09 LCP Rotational Travel Audit⁵⁰
- 7 • Live Out Allowance Review⁵¹
- 8 • Site Purchasing Review⁵²
- 9 • MF Review – Sea Cans⁵³
- 10 • Code of Business Conduct and Ethics Report (2016 and 2017)⁵⁴
- 11 • 17-30 LCP Conflict of Interest Audit⁵⁵
- 12 • Company #1 ATIPPA Request⁵⁶
- 13 • Ethics Line Report 8, 9, 11 – Conflict of Interest and Procurement⁵⁷
- 14 • Note to File Re: Procurement and Conflict of Interest Investigation – Company #2⁵⁸
- 15 • Muskrat Falls Site Timesheet Review⁵⁹
- 16 • Muskrat Falls Site Review⁶⁰
- 17 • Ethics Line Report 27 – Conflict of Interest and Procurement⁶¹

18 We also note that, in 2013, the Institute of Internal Auditors (“IIA”) conducted an
19 External Quality Assessment of the Internal Audit Activity at Nalcor Energy. The IIA’s
20 report concluded, *“It is our overall opinion that the IA activity generally conforms to the Standards
21 and Definition of Internal Audit... The IIA Quality Assessment Manual suggests a scale of three
22 ratings, “generally conforms,” “partially conforms,” and “does not conform.” “Generally Conforms” is*

⁴⁸ NAL0106586, NAL0106587 and NAL0106588 – Internal Audit Plans – 2016 to 2018

⁴⁹ NAL0106566 – 15-17 Payment Certificate Review and Compliance – January 28, 2016

⁵⁰ NAL0106574 – 16-09 LCP Rotational Travel Audit – July 5, 2016

⁵¹ Internal Audit Memo – Live Out Allowance Review – November 1, 2017 (provided by Nalcor)

⁵² NAL4848318 – Internal Audit Memo – Site Purchasing Review – October 26, 2017

⁵³ Internal Audit Memo – MF Review – Sea Cans – June 4, 2018 (provided by Nalcor)

⁵⁴ Annual Activity and Compliance Reports 2015-2017 – Code of Business Conduct and Ethics LCMC – February 8, 2017 and February 13, 2018 (provided by Nalcor)

⁵⁵ ARS-LCP001-0028 – 17-30 LCP Conflict of Interest Audit – April 23, 2018

⁵⁶ Pdf File (Emails in Response to ATIPPA Request) - Documentation re Company #1 2017 – August 14, 2017 to February 2, 2018 (provided by Nalcor)

⁵⁷ NAL4848317- Internal Audit Report – Ethics Line Report 8, 9, 11 – Conflict of Interest and Procurement – April 12, 2018

⁵⁸ Internal Audit Note to File – Procurement and Conflict of Interest Investigation – Company #2 – undated (provided by Nalcor)

⁵⁹ Internal Audit Memo – Muskrat Falls Site Timesheet review – October 25, 2017 (provided by Nalcor)

⁶⁰ Internal Audit Memo – Muskrat Falls Site Review – December 15, 2017 (provided by Nalcor)

⁶¹ Internal Audit Report – Ethics Line Report 27 – Conflict of Interest and Procurement – January 24, 2019 (provided by Nalcor)

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1 *the top rating and means that an internal audit activity has a charter, policies, and processes that are*
2 *judged to be in conformance with the Standards...”⁶²*

3 Additionally, in 2015, Emera conducted a reliance review of Nalcor’s internal audit
4 function.⁶³ Emera’s report notes: “*We used the IIA Professional Practices Framework (IPPF)*
5 *Practice Guide “Reliance By Internal Audit on Other Assurance Providers” as the basis for our review*
6 *and specifically focused on the following five key principles: 1) Purpose, 2) Independence & Objectivity,*
7 *3) Competence, 4) Elements of Practice, and 5) Communication of Results & Impactful Remediation.*
8 *Our review included an assessment of overall governance in the above noted areas, as well as examining a*
9 *sample of audit files from both the Labrador Transmission Asset and the Labrador Island Link*
10 *projects for consistency with stated methodology and approach. We did not evaluate specific findings or*
11 *challenge results of previous audits performed by the Nalcor team.” The report concludes: “Based on*
12 *the results of the work performed, we have concluded that Nalcor’s Internal Audit function meets the*
13 *necessary standards to allow Emera Internal Audit to place a high level of reliance on work performed.”*

⁶² NAL3531156 – External Quality Assessment of the Internal Audit Activity at Nalcor Energy – June 2013 – Page 3

⁶³ NAL0106563 – 15-02 – Emera Conclusion Memo - Nalcor Internal Audit Reliance Review – December 18, 2015 – Pages 1 to 2



Appendix A - Qualifications



Jennifer Fiddian-Green

CPA, CA/IFA, CAMS, CFF, CFI, CFE

Partner, Advisory Services – Forensics and Dispute Resolution

Jennifer is a partner with Grant Thornton LLP's Advisory Services, practicing in the area of Forensic Accounting, Investigations and Litigation Support Services. She leads the firm's National Forensic and Dispute Resolution practice. Jennifer is a specialist in investigation and forensic accounting (IFA) and is an anti-money laundering (AML) specialist. She has worked with Grant Thornton since joining the firm as a co-operative student while attending the University of Waterloo.

Jennifer has investigated, reported and managed numerous fraud investigations and financial disputes, involving both civil and criminal allegations. She also works with clients to understand fraud and money laundering risks and to implement strategies to prevent and detect fraud and to comply with government legislation. Jennifer also provides litigation support services for financial dispute matters.

Jennifer was awarded the Institute of Chartered Accountants of Ontario's Award of Distinction in September 2006.

Professional education

- Executive member of Association of Certified Anti-Money Laundering Specialists GTA/Canadian Chapter, 2009 to current
- Graduate of Grant Thornton's Leadership Development Coaching Program; 2016
- CICA qualified Investigation and Forensic Accountant, 2001; assisted with DIFA Capstone finalist program 2003 and 2004; Instructor for Emerging Issues course 2005 – 2015.
- Member of Member and Marketing Services Committee, Investigative and Forensic Accounting Alliance, 2006-2012
- Leadership Development Training: Grant Thornton International Partner Development Program July 2004 to January 2005, GT Leadership Development Initiative- December 2003 to 2007.
- September 2006: Institute of Chartered Accountants of Ontario Award of Distinction
- Past member of the National Board of the Association of Certified Forensic Investigators, 2003-2006, obtained CFI designation in 2003. Past member of the Executive Advisory Committee for the ACFI.
- Charter member of the Association of Certified Anti-Money Laundering Specialists ("ACAMS"), 2002, obtained CAMS certification in 2003. Founding member of the ACAMS Canada Task Force, 2005.
- Certified Fraud Examiner, 1997
- Certified Management Accountant, 1996
- Chartered Accountant, 1995
- Honours Bachelor of Arts, University of Waterloo, 1993



Caroline Hillyard

CPA, CA•IFA, CFF, BA, BComm

Senior Manager, Advisory Services – Forensics and Dispute Resolution

Caroline is a qualified Chartered Accountant and a CA-designated specialist in Investigative and Forensic Accounting (CA•IFA). She specializes in providing forensic accounting services to a diverse client base and has also conducted a wide range of anti-fraud work, including fraud risk and vulnerability assessments and internal control compliance engagements.

Caroline has experience conducting fraud investigations, forensic accounting assignments, and anti-fraud work for numerous industries including police services, education, municipal, provincial and federal governments, healthcare, forestry, pharmaceutical, not-for-profit, and other public sector or crown corporations. Caroline has 17 years' experience working for public accounting firms, 13 of which have been spent specializing in forensic accounting and fraud.

Caroline frequently presents on the topics of forensic accounting, fraud awareness and prevention, and internal control risks, has co-authored articles and whitepapers relating to fraud, and has helped clients develop fraud policies and anti-fraud regimes.

Presentations and publications

- “Understanding Fraud: Assessing Risk, Prevention & Detection” for The Institute of Internal Auditors, Newfoundland & Labrador Chapter and the Professional Municipal Administrators of Newfoundland (2016)
- “The Modern Forensic Landscape” for the Office of the Auditor General of Ontario (2016)
- “Ponzi Schemes – Dissecting the Investigative Process. What’s in Your Forensic Accounting Toolbox?” for the Ontario Securities Commission and for Grant Thornton’s Fraud Breakfast Series (2015)
- “Contract and Procurement Fraud” for the Federated Press (2013, 2014 & 2015)
- “The Sexy & Not So Sexy: Forensic Accounting, The Police & Money Laundering Investigations” for Genworth Financial Canada (2014)
- “How Forensic Accountants Can Assist the Police and Crown Attorneys” for Toronto Police College, Peel Regional Police, Niagara Counterfeit & Fraud Conference, and the Money Laundering Experts Training Forum (Guns and Gangs Provincial Operation Centre) (2013 & 2014)
- “Fraud in Construction” for Grant Thornton Real Estate Seminar and National Webinar Series (2013), Mechanical Contractors Association of Hamilton, and Grand Valley Construction Association (2014)
- “Incident Response Planning and Fraud Risk Management” for the American Institute of CPAs & CPA Canada Forensic and Valuation Services Conference (2013)
- “Payment Card Fraud Risks” for The Canadian Institute (2013)
- Co-authored a Grant Thornton whitepaper entitled “Construction fraud in Canada - Understand it, prevent it, detect it” (2013)
- “Fraud in Payroll and HR” for the Federated Press (2010)
- Co-authored an article in The Advocates Society E-Brief entitled “Economic Crime Still a Problem for Canadian Companies” (2008)
- Numerous fraud awareness presentations for various other clients and organizations

Appendix B – List of Referenced Documents

The following represents the documents that have been referenced throughout the body of this report:

Title of Reference	Ref# / Author
15-02 Emera Conclusion Memo - Nalcor Internal Audit Reliance Review – December 18, 2015	NAL0106563
15-17 Payment Certificate Review and Compliance – January 28, 2016	NAL0106566
16-09 LCP Rotational Travel Audit – July 5, 2016	NAL0106574
17-30 LCP Conflict of Interest Audit – April 23, 2018	ARS-LCP001-0028
Additional Services Agreement – Commission of Inquiry Respecting the Muskrat Falls Project – November 15, 2018	Grant Thornton
Agreement CD0503-002 Rev 1 – SIGNED.pdf – October 18, 2013	Nalcor
Annual Activity and Compliance Report 2015-2016 – Code of Business Conduct and Ethics LCMC – February 8, 2017	Nalcor
Annual Activity and Compliance Report 2017 – Code of Business Conduct and Ethics LCMC – February 13, 2018	Nalcor
Annual Activity and Compliance Reports 2015-2017 – Code of Business Conduct and Ethics LCMC – February 8, 2017 and February 13, 2018	Nalcor
Assignment Conditions for Consultants of LCP Project Delivery Team Working in St. John's, NL Project Office – Rev. 4 November 2016	Nalcor
Assignment Conditions for LCP Project Delivery Team Personnel (PDT) Working on Labrador Construction Sites – Rev. 4 November 2016	Nalcor
Audit & Resource Plan 2015-2019	NAL0685623
Code of Conduct and Business Ethics Handbook	NAL0132308
Contract for CH0007-001 Exhibit 2 Compensation – November 29, 2013	NAL0011236
Contract for CH0009 Exhibit 2 Compensation	NAL0012524
Contract for CT0327-001 – August 8, 2014	NAL0014341
CT0355-030-003.pdf – January 7, 2016	Nalcor
External Quality Assessment of the Internal Audit Activity at Nalcor Energy – June 2013	NAL3531156
GT Summary of MF Process Narratives – LCP Comments – March 8, 2019	Grant Thornton / Nalcor

Title of Reference	Ref# / Author
Internal Audit Memo – Live Out Allowance Review – November 1, 2017	Nalcor
Internal Audit Memo – MF Review – Sea Cans – June 4, 2018	Nalcor
Internal Audit Memo – Muskrat Falls Site Review – December 15, 2017	Nalcor
Internal Audit Memo – Muskrat Falls Site Timesheet Review – October 25, 2017	Nalcor
Internal Audit Memo – Site Purchasing Review – October 26, 2017	NAL4848318
Internal Audit Note to File – Procurement and Conflict of Interest Investigation – Company #2 (undated)	Nalcor
Internal Audit Plans – 2016 to 2018	NAL0106586 NAL0106587 NAL0106588
Internal Audit Report – Ethics Line Report 8, 9, 11 – Conflict of Interest and Procurement – April 12, 2018	NAL4848317
Internal Audit Report – Ethics Line Report 27 – Conflict of Interest and Procurement – January 24, 2019	Nalcor
Investigation of Specific Expenditures – Request for Proposal Letter – Commission of Inquiry Respecting the Muskrat Falls Project – November 2, 2018	Commission
LC-PM-121.pdf – February 4, 2013	DISCL-NAL-13001
Nalcor Email Response RE: Outstanding Questions – April 17, 2019	Nalcor
Nalcor Email Response RE: Outstanding Questions – April 18, 2019	Nalcor
Nalcor Email Response RE: Outstanding Questions – April 22, 2019	Nalcor
Nalcor Response to GT#4 - Additional Questions - April 11, 2019	Nalcor
PDF File (Emails in Response to ATIPPA Request) - Documentation re Company #1 2017 – August 14, 2017 to February 2, 2018	Nalcor
Response to GT#18 Follow-up Questions - April 9, 2019	Nalcor
Response to GT#23 Follow-up Questions - April 9, 2019	Nalcor
Response to GT Q#23_March 8, 2019_Info for invoice request for contractor workers	Nalcor
Standard Practices for Investigative and Forensic Accounting Engagements – November 2006	CPA Canada (IFA Alliance)

Appendix C – List of Interviews Conducted

The following is a list of interviews we conducted as part of this review:

Individual	Role	Date of Interview
Jackie Borden	Manager, Internal Audit, Nalcor	January 17, 2019
Tanya Power	Project Controls Manager, LCP	January 17, 2019
John Skinner	Accounting Manager, LCP	January 17, 2019
Pat Hussey	Supply Chain Manager, LCP	January 18, 2019
Dave Pardy	MFG Site Manager, LCP	January 18, 2019
Faustina Cornick	HR Manager, LCP	January 18, 2019
Glen O'Neill	Safety Manager, LCP	February 6, 2019
Mel Melham	MFG Contracts Administrator, LCP	February 6, 2019



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