



Hydro Place, 500 Columbus Drive,
P.O. Box 12800, St. John's, NL
Canada A1B 0C9
t. 709.737.1440 f. 709.737.1800
nalcorenergy.com

Internal Audit Memo

RE: MF Review – Sea Cans

To: Scott O'Brien – Project Manager MF Generation

CC: Ron Power – LCP Deputy Project Director (Generation), Faustina Cornick – LCP HR Manager

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

Date: June 4, 2018

Review

An investigation was conducted on shipping containers (sea cans) highlighted in an anonymous letter dated March 20, 2018. Although a similar letter was reviewed late in 2017, the information related to the sea cans was new. The letter alleged that three sea cans were transported from the Muskrat Falls site and shipped to Deer Lake with material that was owned by the project. Sea can serial numbers were provided and confirmation was obtained that those sea cans were in fact on a property in Deer Lake. This investigation was conducted between May 1/18 and June 1/18.

Objective/Scope

The objective of this investigation was to verify whether the identified sea cans could have been used to transport material inappropriately. In order to complete this, a staged approach was taken which included:

1. Verification that the sea-cans were at some point held by the project (purchased – brought onto site)
2. If held by the project, determine if sea can is still on site (in use – still on site)
3. If held by the project, verification that they were appropriately disposed as per the surplus and disposal process and tracing of the container is appropriate (sold – removed from site)

The scope of this work included the review of the following sea cans identified within the letter:

1. MISCU 129440
2. TGHU 213245
3. CLHU 2618622GI

This was not a process review or compliance review of the surplus and disposal procedure.

Investigation Summary

Prior to any analysis and interviewing, a review of the LCP Materials Management Plan and LCP Surplus Disposal Procedure was conducted by the auditor and served as background information related to this investigation.

Process

Ideally, a surplus and disposal asset register would identify if the sea cans (or other small assets) had been or are currently on site. This register was not complete; therefore Internal Audit and the LCP Material Controller used an alternative process of reviewing sea can purchases and bill of sales in an effort to identify whether or not any of those serial numbers referenced within the letter were bought/sold/free issued by the LCP. This is a targeted method that is time consuming and may not result in fulsome results.

In addition, because there was no surplus and disposal asset register, identifying even those sea cans left on hand and their location was not possible. Sea cans located at a secure location like the marshalling yard may be easier to identify; but would require personnel to physically count and record serial numbers (if located there). Assets transferred outside the compound become much harder to track and locate.

As an alternative to both of these methods, Internal Audit and the LCP Material Controller requested the sea can vendor to review their records to determine if they had record of providing the specific sea cans to the MF site.

A further interview was conducted with the LCP Site Services Manager, along with LCP Deputy General Project Manager, and LCP HR Manager. No anomaly was found within the analysis; but this complaint was reviewed with the LCP Site Services Manager. Many possible reasons exist for the complaint and it is plausible it could be attributed to personnel that have been demobilized from site, of which the LCP Site Services Manager is responsible for. The manager did disclose that Deer Lake Rebar is a subcontractor of Astaldi; but the LCP does no direct business with that company.

Results

Sea cans are purchased via the freight forwarder(s), PF Collins (10%) and or Panalpina (90%), therefore, these serial numbers were provided to them to compare to their list of containers sold or provided to the project. Of the three sea cans, 1 **was likely** purchased by the LCP. The serial number provided on the letter was **MISCU 129440**; however, the one identified by the LCP was **MSCU 129440**, this was purchased through PF Collins. As all sea can serial numbers start with 4 letters, it is likely that the letter contained a typing error and it is same container.

Panalpina verified that the other serial numbers (**TGHU 213245** and **CLHU 2618622GI**) were not provided by them; therefore decreasing the likelihood that they were purchased by the LCP.

As one of the sea cans was likely on site at some point, the next steps was to review how it may have been transported to Deer Lake. Site management had been selling sea cans (once no longer required on site) either to companies in bulk for resale, free issue, donations or sale to individuals. LCP are partially tracking the sale of these sea cans, however the listing is incomplete. None of the three sea cans were listed on the disposed asset list; therefore the sea cans next location is not traceable.

Conclusion

Based on information available, two of the three sea cans were not likely held by the LCP. One container was likely purchased by the LCP; but not tracked or the data is not available. It is unknown whether it was disposed of as surplus (either sold/free issued/donated). The lack of appropriate record keeping for small assets and surplus and disposal of assets increases the likelihood that asset theft may occur.

For the sea can that was likely held by the LCP, Internal Audit does not believe there is sufficient evidence to warrant searching a private property for stolen good for several reasons:

- Given the quantity of sea cans (approximately 3,000) moving through site and then sold or donated, it is plausible that the matched serial numbered sea can was legitimately obtained.
- The lack of documentation on the movement of the sea cans. As many of these sea cans did not have appropriate transfer documentation, it is not unusual for this can not to be traceable.
- Many sea cans were sold in bulk to companies which intended to resell, therefore, increasing the likelihood of sea cans being held on various private properties.

Recommendation

Although the development and documentation surrounding the LCP surplus and disposal procedure is appropriate, there are instances of non compliance related to the addition of serial numbers to tracking spreadsheets and bills of sale. It is suggested that on a go forward basis due diligence be enhanced in this area.

Jackie Borden
Manager, Internal Audit
Nalcor Energy
709-737-1201
jackieborden@nalcorenergy.com