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### **Internal Audit Memo**

**RE: Muskrat Falls Site Review - Confidential**

**To:** Stan Marshall, Chief Executive Officer, Nalcor Energy

**CC:** Gilbert Bennett, Executive Vice President, Power Generation

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

**Date:** December 15, 2017

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### **Background**

Based on an anonymous letter received by the Muskrat Falls Generation Project Manager in August 2017, the Lower Churchill Project (LCP) management team requested that Nalcor Energy Internal Audit complete an independent review. LCP management had previously consulted Internal Audit to discuss management's own investigation and action plans completed due to previous letters received, however, due to the receipt of this additional letter, management determined that a full independent review was required.

Due to the level of detail within the letters, Internal Audit categorized the allegations into 4 major categories to enable 4 separate reviews. As several allegations were not specific, broader reviews were designed to cover processes that would prevent or detect against the allegation types. Specific allegations were reviewed within each of these categories, if sufficient detail was available. The categories included:

1. Site Purchasing
2. Billable Time
3. Invoicing and
4. Respectful Workplace

Nalcor Energy Internal Audit completed review 1, 2 and 3, while Nalcor Energy Human Resources and LCP Human Resources completed review 4. This memo summarizes the scope and results of these 4 reviews. More detail is available within the 4 individual review memos that were provided as the reviews were completed.

**Review 1 – Site Purchasing**

The objective of the site purchasing review was to assess the adequacy of processes surrounding site purchasing, receiving, and disbursement of site supplies and tools. This also included a safety walkaround of the warehouse and maintenance facility. This review primarily covered allegations of asset theft, procurement fraud and other site activities.

Prior to Internal Audit's review, management has designed additional controls which were being implemented by the Supply Chain management. These changes included the addition of a material controller/buyer, re-instatement of the asset listing, a centralized receiving area(s), and revisions to the existing LCP Site Purchasing Procedure. Historical testing was completed, along with a review of the pending changes. No signs of fraud, trends or errors were noted within this sample. Process changes recently implemented by management will further enhance controls.

**Review 2 – Billable Time**

The objective of the billable time review was to verify timesheets for personnel working at the Muskrat Falls Site. This review covered specific allegations of time fraud, along with process controls. The focus of testing was comparing site access card activity and hours on site to time sheets and invoicing.

The controls in place to verify timesheets, although not formally documented, appear to be reasonable to ensure that contractors are billing only for time worked. Timesheets for the Muskrat Falls site team appear to be in compliance with the timesheet verification and approval process. Internal Audit performed analyses of hours on the Site Security Cardholder Report (entry and exit swipe date and time) to hours invoiced by contractors. Results were discussed with management, at which point, one contractor's hours on site were deemed not reasonable. This individual (employed by a contractor) was removed from site and no longer works on any Nalcor Energy projects/jobs. Increased diligence surrounding entry and exit swipe of security cards has since been implemented. Additionally, analyses of hours could be prepared on a quarterly basis to compare hours spent on the MF Site to the hours invoiced by contractors.

**Review 3 - Invoicing**

The objective of this review was to evaluate controls and specific allegations regarding live out allowances paid to contractors at the Muskrat Falls Site. Live out allowances may be paid to contractors or employees that have to travel to work at a different location than their point of origin (home location). LCP has a policy and process to manage personnel's point of origin, to determine if they qualify for these allowances.

Controls for documenting, verifying and managing change of contractor point of origin appears to be adequate and the rates appear to be standardized for all contractors working at the same site. The process was reviewed in a previous audit (not specific to these same allegations). Internal Audit discussed the process with management to determine if controls still existed and were still effective. Based on the additional testing performed, live out allowances appear to only be paid to qualified personnel and the amounts are consistent with those approved and outlined in the Assignment Conditions listing. One contractor was specifically highlighted within the letter to be fraudulently claiming this allowance. Additional testing was completed for this contractor to ensure that they qualified for the allowance. It was evident that the contractor did qualify for the allowance and rotational travel schedules support this.

#### **Review 4 – Respectful Workplace**

The objective of this review was to evaluate respectful workplace allegations within the letters. Corporate HR reviewed the allegations and interviewed management (including site management), reviewed a recent independent respectful workplace review and evaluated the appropriateness of actions taken by management as recommended by the independent review.

Management has implemented many of the recommendations from the independent review, with several more in progress. It is recommended that LCP conduct a “refresh” review early in 2018 to evaluate effectiveness of the recommendations recently implemented and to support continual improvement.

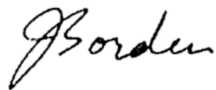
#### **Conclusion**

Based on information available in the anonymous letters, reviews completed, recommendations provided and actions taken, Internal Audit is comfortable that the allegations have been appropriately addressed.

The results of each review can be summarized as:

- 1) Site purchasing – No evidence of asset theft or procurement fraud. Additional controls recently implemented will further reduce the likelihood of fraud.
- 2) Billable hours – One individual (employee of a contractor) was removed from site and no longer works on any Nalcor Energy project/job due to irregularities found in billings compared to time on site. Billings for all other individuals reviewed were found to be reasonable.
- 3) Invoicing – Allegations were deemed unfounded as allowances were invoiced as per contract and policy.
- 4) Respectful Workplace – Specific allegations within the letter could not be substantiated for two individuals who are no longer on site and was undeterminable for another. The one individual remaining on site underwent a discussion with Site Management to reinforce expectations of respect and dignity. An independent review was recently completed of site respectful workplace culture and recommendations and associated actions were effectively addressed (or in progress). A recommendation is made to conduct a similar (refresh) review in Q2 of 2018 to evaluate effectiveness of the recommendations and to support continual improvement.

If you review further information, please do not hesitate to contact me.



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