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# **Presentation to the Commission of Inquiry Respecting the Muskrat Falls Project June 28, 2019**

## **Additional Scope of Work – Review of Specific Expenditures**

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# Review of Specific Expenditures

Grant Thornton was engaged to conduct an additional scope of work relating to a review of specific expenditures

## *Scope of Work*

The additional scope of work was focused on four areas:

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

*Period of Review: January 1, 2016 to December 31, 2018*

# Review of Specific Expenditures

## *Scope of Work*

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

- Identified and reviewed supporting documentation;
- Conducted interviews with Nalcor-LCP employees;
- Documented our understanding of specific policies and processes and provided this documentation to Nalcor for their review and feedback;
- Performed various analyses and selected specific transactions, contracts and other items for review of the specific supporting documentation; and
- Submitted requests for information and written questions to Nalcor and reviewed written responses to the questions and, if applicable, the supporting documentation included in the responses.

# Mandate

## 1. *Living out Allowances (“LOAs”)*

- *“It was suggested that living allowances were paid to individuals that should not have qualified for these living allowances.”*
- Further, during the course of our review and interviews, the following was learned to further inform the mandate:
  - On January 21, 2019 a package of anonymous letters was received by Grant Thornton. The letters ranged in date from May 20, 2016 to January 9, 2019.
  - The letters specifically note that an LOA was being paid out to an individual who works at the Muskrat Falls site who had a permanent residence in Goose Bay and who also ate at the camp residence. The allegations note that the new camp manager is very upset with the amount of food this individual is taking/and consuming at the lodge.

# Findings & Observations

## 1. *Living out Allowances (“LOAs”)*

- Nalcor relies on what was declared by the individual at the time of hiring (this information is stored in a spreadsheet which is maintained with the individual’s personnel file) and does not independently verify Origin or require the individual to provide evidence of Origin. Additionally, approved TAs are based on the self-declared Origin.
- For purposes of our testing, we were informed that some of the confirmation of residence/Origin information we requested to complete our testing had to be requested from the recruitment companies. Documentation was only available (and was kept on file from the time of hiring) to validate Origin information for 9 out of 50 (18%) staff selected for testing.
- We requested evidence for our selected sample that Nalcor verified that individuals receiving an LOA are not living at the Muskrat Falls camp, however, this evidence was not readily available. There is a risk that staff are living on site (with accommodations and meals included) and potentially receiving an LOA as well, which is intended to cover the cost of long-term accommodations.

# Findings & Observations

## 1. *Living out Allowances (“LOAs”)*

- We were informed during interviews that if an individual’s status changed during the employment period (e.g. an individual moved permanently to Goose Bay from Gander), they continued to receive the same LOA as they did from the time of hiring. We were initially told that this does not change even if they no longer require the additional compensation to cover the cost of a second residence.
- Based on follow-up discussions and further clarification from Nalcor, we were subsequently informed that if a person relocated permanently, their Origin information would be updated and their LOA adjusted to match the Labrador Construction Sites Assignment Conditions (i.e. if they relocated to within 125km of the site, they would be considered a local hire and would not be eligible to receive an LOA, travel allowance or company free issued travel).
- We note that, to the extent that this is considered policy/Nalcor practice, it is not formally documented in the approved Assignment Conditions or elsewhere in Nalcor policy documentation.

# Findings & Observations

## 1. *Living out Allowances (“LOAs”)*

- For the specific individual noted in the allegations, we noted that this person was not included on the LOA list provided to us by Nalcor and, as such, did not appear to have received an LOA during our Period of Review. However, Nalcor clarified that this individual did in fact receive an LOA of \$3,500 per month starting November 1, 2013 and continued to receive an LOA until he finished work on the Project on October 20, 2017. His LOA amount was reduced to \$3,000 on April 1, 2016. This individual was an SNC Lavalin contractor and, as noted below, was inadvertently omitted from the LOA list originally provided to us by Nalcor.
- We understand that there were allegations that this individual moved to Goose Bay, Labrador from Newfoundland during the Project and, as noted above, may not have been eligible to continue receiving an LOA. However, Nalcor has confirmed that this individual’s Origin, as provided to LCP by his employer, did not change during his employment with LCP. As such, according to Nalcor policy, he was eligible to receive the same LOA for the entire time he worked on the Project.

# Findings & Observations

## 1. *Living out Allowances (“LOAs”)*

- As a result of a number of follow up communications with Nalcor, it was determined that 54 contractors, specifically contractors who worked for SNC Lavalin, were inadvertently omitted from the LOA list provided to us by Nalcor for testing. Accordingly, these individuals were not included in the population available to us to select our sample for testing.
- We noted that Assignment Conditions (including details of LOAs) as applicable for the Period of Review, were not signed/documentated as approved.
- However, the LOA amounts paid to the individuals selected do agree to the amounts noted on the Assignment Conditions for 46 out of 50 individuals tested (92%). Four out of 50 (8%) have amounts paid that do not agree with Assignment Conditions. Explanations for these higher allowances were provided to us by Nalcor and all appear reasonable.
- We selected the month of October 2017 for testing. No variances were noted between amounts paid on October 2017 invoices as compared to contracts for the individuals selected for testing that worked during that month (25 out of the 50 selected).



# Findings & Observations

## 1. *Living out Allowances (“LOAs”)*

- Also, swipe card data (where relevant) confirmed that the individuals selected were on site during that time. Where swipe card data was not available, we confirmed that the individuals were posted at a different work location and therefore would not be included in the swipe card data that we were provided with, as it is just for the Muskrat Falls site.

### **Conclusion:**

- Based on the enquiry, review and testing work performed, we have identified no issues that appear systemic; accordingly, we have not recommended an increase to the sample testing. We do note that a number of process, approval and documentation improvement opportunities were identified.

# Mandate

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

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

# Mandate

## *2. Personal Protective Equipment (“PPE”) and Small Tools*

- Further, during the course of our review and interviews, the following was learned to further inform the mandate:
  - As noted, on January 21, 2019 a package of anonymous letters was received by Grant Thornton. The letters ranged in date from May 20, 2016 to January 9, 2019.
  - The letters specifically allege that small tools and materials were being misappropriated and shipped off site by being packaged up onto flat decks or crates.
  - There are also allegations that shipping containers/sea cans were used to send materials to an off-site location in Newfoundland.

# Findings & Observations

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

- We were informed (and confirmed based on our review) that costs pertaining to these type of purchases are recorded in a General Ledger (“GL”) account (i.e. the Safety Cost Control Account) along with many other safety related items (e.g. safety advertising, safety signage, health and safety consulting services, security services, installation of security gates and signs, etc.).
- We obtained this GL account detail for the Safety Cost Control Account for the Period of Review and noted that just over \$1M total was coded to this account, of which: *(next slide)*

# Findings & Observations

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

- \$227K (23%) appears to relate to PPE and supplies and is therefore included in the scope of our review;
- Approximately \$334K (33%) appears to relate to security services and is therefore out of scope;
- \$166K (17%) appears to relate to safety advertising, printing and communications and is also out of scope;
- \$129K (13%) appears to relate to safety/road signage, concrete barriers and security gates installation and is therefore out of scope;
- \$75K (8%) appears to relate to safety consulting which is also outside the scope of this report; and
- \$69K (6%) includes other expenses that are also outside the scope of this report (i.e. none appear to relate to PPE or small tools).

# Findings & Observations

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

- We were informed that no significant quantity of small tools are ever purchased by LCP; these are the responsibility of contractors. Based on our review of the GL detail provided for the Safety Cost Control Account (as noted above), we did not identify any purchases that appear to relate to small tools.
- For PPE that is purchased for the Project, Nalcor-LCP is only responsible for PPE that relates to LCP employees and the independent contractors/consultants directly hired by Nalcor-LCP.
- Large contractors that are paying craft labour are (mostly) responsible for the PPE and small tool costs for their staff and workers; the cost of PPE and small tools is built into the rates in the contracts and is not considered a separate reimbursable charge for these large contractors.
  - E.g. Astaldi - price addition on labour hours certified of \$2.30 to cover consumables, personal protective equipment and small tools (with a value of less than \$2,000). Therefore, in these cases, these types of costs would be indirectly included in the cost of labour paid by Nalcor.

# Findings & Observations

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

- As part of our work in other sections of this report, we reviewed a sample of invoices and contracts (for the samples selected) and did not identify additional charges for these types of purchases from the contractors.
- This was also confirmed through our prior work performed relating to the following contractors: Valard Construction LP and Barnard Pennecon LP. These contracts note that “...Contractor shall, at its own expense and in accordance with Applicable Laws, supply and maintain Contractor’s Personnel with personal protective equipment which shall be worn and used on all occasions as indicated by notices, instructions, good practice or as required by risk assessment” and “...small tools which cost Contractor less than \$2,000 dollars each, or consumables and personal protective equipment...the cost of these items is included in the rates listed...”
- Therefore any excess PPE and small tools (i.e. tools that cost less than \$2,000) that are purchased (or potentially misused or misappropriated) from the contracting companies is not the responsibility of Nalcor-LCP and any related costs would not be incurred by Nalcor-LCP.

# Findings & Observations

## *2. Personal Protective Equipment (“PPE”) and Small Tools*

- Items that are greater than or equal to \$2,000 are not considered small tools and are therefore outside the scope of this report. However, based on a review of the contracts noted above, we understand that actual costs for materials supplied (if greater than or equal to \$2,000) were reimbursed at actual invoiced cost to the contractor, as substantiated by invoices (that were certified as being paid), plus any arranged mark-up as per the contractors’ contracts with Nalcor.
- For PPE such as cold weather suits and safety boots, no inventory of these items is kept on hand. They are ordered as needed for specific individuals based on appropriate approvals on a required PPE request form. Approval signatures are required on the PPE request form from the safety manager and the person’s supervisor. This control helps reduce the risk of overspending for these types of purchases but is dependent on the safety manager and supervisor’s recollection of prior purchases for that individual.



# Findings & Observations

## *2. Personal Protective Equipment (“PPE”) and Small Tools*

- Based on our review of the GL detail for the Safety Cost Control Account and supporting invoices provided, we identified approximately \$227K that related to PPE (including clothing, safety boots, cold weather suits, glasses, gloves, vests, etc.) and safety supplies (roadside safety kits, flashlights, portable spill kits, etc.) during the Period of Review.
- This amount does not appear to be excessive, given the size of the Project and the number of individuals requiring personal safety gear and supplies over the three year time period. As previously noted, no amounts pertaining to small tools were identified in our review of the GL detail provided. This finding is consistent with information we learned through interviews conducted.

# Findings & Observations

## *2. Personal Protective Equipment (“PPE”) and Small Tools*

- We note that our work focused on consumable supplies such as PPE and small tools (as per the Additional Services Agreement). The allegations according to the letters we received in January 2019, were broader and included larger items such as material, lumber and equipment (in addition to small tools).

### **Conclusion:**

- Based on the enquiry, review and testing work performed, we have identified no issues to report relating to PPE and small tools. We do note, however, that a number of internal control/process improvement opportunities were identified, given the size of this project.

# Mandate

## 3. *Non-Arm's Length Contracts*

- *“It was suggested that companies that were not at arm's length with senior Nalcor management were contracted for services without tender.”*
- No further information was provided in the anonymous letters pertaining to this mandate. However, during the course of our review and interviews, we learned more details about prior allegations of conflicts of interest that helped further inform our mandate.

# Findings & Observations

## 3. *Non-Arm's Length Contracts*

- LCMC uses a significant number of vendors to supply goods and services for the Muskrat Falls Project. We were informed by Nalcor that, for the over 100 main contracts for goods and services, information regarding Nalcor's conflict of interest guidelines is included in these contracts. We were also informed, however, that due to the significant number of vendors used for goods and services, LCP did not require every vendor to affirm they are not in a conflict of interest.
- Nalcor does not perform independent checks to determine key individuals involved and any available ownership information prior to executing a contract with an individual or contractor to ensure no conflicts exist.
- There is a reliance on the agencies and contractors to ensure that conflicts are disclosed for a potential staff member, employee or vendor.

# Findings & Observations

## 3. *Non-Arm's Length Contracts*

- We noted that a log of COI allegations is still not being used to track and manage work/investigations performed in this area, even though we were informed one exists.
- For the 12 specific vendors tested, we were provided with supporting files and were able to review the listing of POs/invoices paid , contracts, and contract award process, including bid evaluation (where relevant). Files provided documented the vendor ownership and none identified any potential conflicts of interest.
- Based on our independent public record searches, we identified 3 vendors (out of the 12 selected) with names of key individuals associated with the companies (i.e. Directors according to the Corporate Profiles) that were inconsistent with supplier representatives/contact names disclosed in Nalcor's contracts and other file documentation provided.

# Findings & Observations

## 3. *Non-Arm's Length Contracts*

- We provided these specific names to Nalcor and were provided with the following responses:
  - Vendor #1 – Nalcor was aware of some of the individuals which were involved in the contracts. Based on the new names provided, Nalcor is not aware of any existing non-arm's length relationships and therefore has no requirement to investigate the existence of any such relationships. Nalcor's contracts contain conflict of interest language.
  - Vendor #2 – The individual noted was the consultant that provided the services and was known to Nalcor. Nalcor is not aware of any existing non-arm's length relationships and therefore has no requirement to investigate further. Nalcor's contracts contain conflict of interest language.
  - Vendor #3 – Nalcor was not aware of the new name provided however, based on this new name, Nalcor is not aware of any existing non-arm's length relationships and therefore has no requirement to investigate further. Nalcor's contract contain conflict of interest language.

# Findings & Observations

## 3. *Non-Arm's Length Contracts*

### **Conclusion:**

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

# Mandate

## 4. Recording of Daily Work Hours

- *“It was suggested that employees have been paid for time not worked through the falsification of time records, such as time sheets.”*
- Further, during the course of our review and interviews, the following was learned to further inform the mandate:
  - As noted, a package of anonymous letters was received by Grant Thornton, ranging in date from May 20, 2016 to January 9, 2019.
  - The letters specifically note certain individuals who are alleged to leave site early (e.g. to visit a local bar or watch TV), even though they are billing for a full day’s work.
  - The allegations include charging for hours never worked and not swiping in and out when entering or leaving the site.



# Findings & Observations

## 4. *Recording of Daily Work Hours*

- A recommendation to do further analysis work (quarterly) on the swipe card data was made by internal audit but not actioned. Internal audit's prior work in this area that was initiated as a result of an anonymous tip, identified issues with billings (as compared to actual hours worked) and therefore doing this type of analysis proved to be beneficial. However, internal audit suggested that it remained a business decision on whether this work would be performed or not.
- Our analysis of swipe card data (as expected with this size of a project, the data is complex) identified a significant number of individuals with irregular days and/or anomalous characteristics (e.g. short days, long days, gaps in days on site, etc.). We were informed that the expected standard work day while on site is 10 hours.

# Findings & Observations

## 4. *Recording of Daily Work Hours*

- For the selected sample, for those that were Nalcor employees (3 out of 11 judgmentally selected), we were able to review role descriptions and determine if their hours worked looked reasonable based on their required duties. We noted for all 3 that the primary location for their roles was the Muskrat Falls Site, however based on the duties required to be performed, some off-site work is to be expected and appears reasonable.
- We also asked Nalcor to review and confirm that the swipe card data (recorded hours) was reasonable for these 3 Nalcor employees and were informed that they agree with this conclusion. Specifically, Nalcor noted that one individual was based in Goose Bay so his hours on site would not be consistent 10 hour days, one individual was a survey technician and worked in the Torbay Road office and various locations across the province so swipe card data would also not be consistent 10 hour days, and the third individual (who worked for a contractor) had a work order that was for less than 10 hour days (he was stationed at the Muskrat Falls Site but was required to travel and support other work sites, such as North Spur, Churchill Falls, Marshalling Yard, LCP Office or other sites requiring his support services).

# Findings & Observations

## 4. Recording of Daily Work Hours

- For the 2 additional Nalcor employees/contractors with specific allegations against them, we were also able to review their role descriptions and swipe card data to determine if their hours worked looked reasonable based on their required duties. Based on swipe card data reviewed, we note that:
  - For 1 of these individuals (“Individual #1”), they were on site less than 9.5 hours per day 51% of the time for the period we tested (hours were erratic and ranged from 2.56 to 9.47). An additional 21% of the time this individual appeared to not correctly swipe in or out and therefore the data could not be used to test attendance on site on those days. For the remaining approximately 28% of the time, based on the swipe card data reviewed, this individual appeared to be on site for more than 9.5 hours per day (i.e. a standard day is 10 hours) during the period tested.
  - For the second individual (“Individual #2”), they were on site less than 9.5 hours per day 85% of the time for the period tested (hours were erratic and ranged from 0.02 to 9.41). An additional 5% of the time this individual appeared to not correctly swipe in or out and therefore the data could not be used to test attendance on site on those days. For the remaining approximately 10% of the time, based on the swipe card data reviewed, this individual appeared to be on site for more than 9.5 hours per day (i.e. a standard day is 10 hours) during the period tested.

# Findings & Observations

## 4. Recording of Daily Work Hours

- We asked Nalcor to review and confirm that the swipe card data (recorded hours) was reasonable for these 2 additional Nalcor staff and note the following:
  - Based on responses provided by Nalcor, we understand that Individual #1 is the same individual that was dismissed based on internal audit's work performed. This individual's role was mainly on site and therefore the hours per the swipe card data did not make sense and did not align with billings to Nalcor. This situation appears to have been appropriately addressed by Nalcor.
  - We were informed that Individual #2's role requires a significant amount of off-site work and therefore the hours noted per the swipe card data are reasonable and in-line with Nalcor's expectations.

# Findings & Observations

## 4. Recording of Daily Work Hours

- For the 5 non-Nalcor employees selected for testing (out of the 11 judgmentally selected), we requested invoices from June 2017 to determine if amounts billed aligned with the swipe card data. Nalcor provided us with details for each explaining their roles and expectations of hours on site. Specifically:
  - One individual selected was a delivery truck driver and was a sub-contractor of a larger Nalcor contractor. The individual worked adhoc hours as needed and therefore would not have worked consistent 10 hour days. The hours for this individual would not be associated with any reimbursable charge on an invoice to LCMC, it was associated with a lump sum scope. We would therefore not be able to agree hours to a specific invoice. This explanation appears reasonable and is in line with hours reviewed for this individual; no further testing was deemed necessary for this individual.
  - One individual selected was a manager for an equipment rental company used by various contractors on the Project. The individual visited the site periodically to check the hours' meters on the equipment that was being rented and would not have worked consistent 10 hour days. The hours for this individual would not be associated with any reimbursable charge on an invoice to LCMC. This explanation appears reasonable and is in line with hours reviewed for this individual; no further testing was deemed necessary for this individual.

# Findings & Observations

## 4. Recording of Daily Work Hours

- One individual selected was a crane mechanic who worked for a sub-contractor of a larger Nalcor contractor. The individual came to site periodically to check on or do repairs to cranes and would not have worked consistent 10 hour days. The cost of supplying cranes under the contractor agreement would be part of the unit rates of concrete and steel installation and, as such, would not be associated with any reimbursable charge on an invoice to LCMC. This explanation appears reasonable and is in line with hours reviewed for this individual; no further testing was deemed necessary for this individual.
- One individual selected was an employee of a contractor working on the construction of the transmission line. The associated contract was mostly a unit rate agreement and therefore LCMC did not reimburse the cost of labour. As such, this individual's time would not be associated with any reimbursable charge on an invoice to LCMC. This explanation appears reasonable; no further testing was deemed necessary for this individual.

# Findings & Observations

## 4. Recording of Daily Work Hours

- One individual selected was a labourer with a contractor and their time was billable to LCMC. We were provided with the time details charged on the June 2017 invoice as requested. Explanations were provided where discrepancies were noted between hours billed vs. hours per the swipe card data (e.g. transporting equipment/porta-potties/materials to site, picking up supplies, office equipment, parts, etc.). Explanations provided appear reasonable and are in line with hours reviewed for this individual; no further testing was deemed necessary for this individual.

### Conclusion:

- Based on the enquiry, review and testing performed, no unexplained discrepancies were noted relating to daily hours worked, other than for Individual #1 described above. As noted, this situation was previously dealt with by Nalcor and the individual (who worked for a contractor) was dismissed from the Project.

# Review of Specific Expenditures

## *Scope of Work*

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