

Nalcor Energy Internal Audit

Ethics Line Report 27
Conflict of Interest and Procurement

File 18-37 Date – January 24, 2019

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Objective

The objective of this engagement was to review a complaint received through Nalcor Energy's Ethics line in October 2018 regarding Labrador Island Transmission Link (LITL) and

The review had two objectives:

- 1. Conflict of Interest
 - Does a conflict of interest exist and if so, was it addressed in accordance with the Nalcor Energy Business Conduct and Ethics Policy? The policy requires disclosure of actual or perceived conflicts followed by the requirement to immediately address the conflict.
- 2. Procurement
 - o Were Nalcor Energy's procurement practices appropriately followed?

Complaint Summary

The complaint received via Nalcor Energy Ethics line states	
to negotiate the purchase of the in early 2018	. No
one from the project team or supply chain was involved in the solicitation or negotiation of the	
is not an employee of Nalcor Energy or the Lower Churchill Project, but is	a
subcontractor on the project. It was later found out that	There
was no RFP process and the purchase was sole sourced"	

Internal Audit Process

Based on the allegations received, Internal Audit collected and reviewed the contracts, communications, procurement documentation and other documentation as deemed appropriate, along with completing interviews.

Background



In April 2017, changes to the implementation strategy with General Electric (GE) were completed via amendments of contract CDO501 (GE). A phased approached was implemented to allow first power to be delivered. At that time, the goal was that Monopole (Pole 1) of the HVdc system would be delivered by the end of 2017 with full bi-pole (Pole 1 & 2) by the beginning of 2019. As part of the contract renegotiation, a second set of protection and control cabinets/cubicle were to be installed at Stafford, UK to allow the bi-pole testing to continue while focus was placed on the mono-pole delivery. These additional cubicles were at a cost of \$5m.

In February 2018, Labrador Island Transmission Link (LITL) entered into a purchase agreement with The purchase specifications included:

Product	
Product Purpose	 Establish a "Centre of Excellence" training center for training of operators and technical personnel on HVdc Systems Allow trouble shooting, testing and commissioning during dynamic commissioning.
Cost	\$1.6 million Cdn
Funding	To be funded through transfer from LITL contingency.
Procurement	Product sole sourced as product used by all "major manufacturers", including
process	current supplier and installer of HVdc assets (GE).

Summary of Facts

Conflict of Interest The allegation suggested that a LITL contractor equipment through company. was involved in the procurement of company.
Relationship
Ownership
Internal Audit was unable to obtain definite evidence (i.e. legal documentation) to confirm that
however, based on publicly available information and an
interview with however, the percentage
of ownership is unknown. It appears that 3-4 other individuals are also owners of the company,
therefore assuming equal ownership, could hold 20-25% ownership. He is also publicly listed
as the Co-Founder, President, Director and Owner. The role and percentage of ownership is relevant as
a smaller ownership stake would reduce the conflict. With a sole sourced contract, the full level of
financial due diligence is not required; therefore, the corporation's ownership would not necessarily be
disclosed during the procurement process.
Procurement involvement
was involved in the procurement process for the contract that
was awarded to his One of his roles was to document the sole source justification
for the also coordinated and/or attended meetings related to the
coordinated and attended a meeting between the himself and another utility that
uses the (a company he had previously worked with). He also coordinated a meeting
with which he did not attend.

Conflict of Interest process

indicated that he did disclose the relationship to Nalcor Energy via the project management team, but was not entirely sure to whom. He suggested several individuals to whom he likely disclosed the relationship. One of those individuals indicated that he did not know at the time of the purchase, but heard through other means several months later. Indicated that he was uncertain if he disclosed it to All other individuals listed are no longer on the project. No documentation of the disclosure was maintained. Indicated that he was not aware of the relationship.

Conflict of Interest Conclusion

did not approve the purchase and the procurement process was appropriately completed, however, he should have been removed from the procurement process entirely. This is a violation of Nalcor Energy's Business Conduct and Ethics policy, which requires immediate action to address actual or potential conflicts of interest.

Procurement Process and Decision

Required Documentation

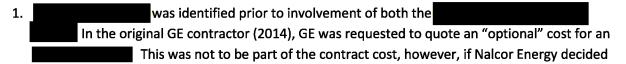
The allegation suggested that the proper procurement process was not followed. Internal Audit reviewed all procurement documentations to ensure completeness and appropriate approvals. For this type of purchase, with a cost of \$1.6m, various procurement documents were required. Below is a list of the required documents, along with who approved them.

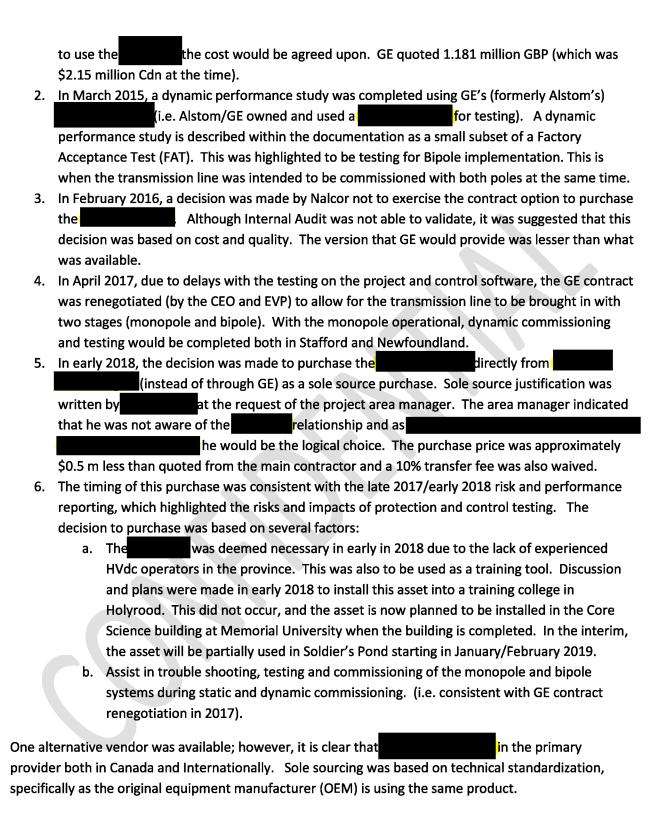
Procurement / Project	Approvals	
Control Document		
Requisition	HVdc Area Manager	
	 Deputy Project Manager – HVdc 	
	Cost control	
	Component Project Manager	
	 Commercial Lead – HVdc specialties (for Supply Chain Manager))
Purchaser Order	Component Project Manager	
	 Commercial Lead – HVdc specialties (for Supply Chain Manager))
Sole Source	HVdc Area Manager	
Justification Form	 Commercial Lead – HVdc specialties (for Supply Chain Manager))
	VP, Transmission	
Project Change Notice	HVdc Area Manager	
	 Deputy Project Manager – HVdc 	
	Cost control	
	VP, Transmission	
	EVP, Power Supply	

Based on the number and role of the individuals (area management, project management, project controls, supply chain and vice president and executive vice president) approving the procurement documentation, it is evident that the purchase was not completed independently by the and Note: Due to the dollar value of the purchase, the EVP was not required to sign the procurement documents. The Project Change Notice was approved by the EVP as the spending was to be moved from project contingency.

Appropriateness of purchase

As a conflict of interest did exist with the involvement of the procurement process, Internal Audit reviewed the appropriateness of the purchase and the use of the particular supplier to assess if an inappropriate purchased was made. Below are the facts of how the purchase occurred:





Conclusion

The objective of this investigation was to determine if a conflict of interest existed and if any conflict impacted the vendor selection in the procurement process.

Conflict of Interest

At the time of procurement, any relationship that may bias (or appear to bias) the vendor selection must be must be addressed to remove the conflict of interest. Should have been removed from the procurement process entirely due to a conflict of interest. Although he indicated that he did disclose the conflict, it was not properly documented or managed due to, what appears to be, miscommunication.

Procurement

The investigation has concluded that Nalcor Energy procurement processes were followed.

Procurement process allowed sole sourcing and the appropriate approvals were obtained. Internal Audit is comfortable with the vendor chosen and believes the involvement of the vendor choice. The timing of the purchase was intended to align with commissioning activities along with negotiations to be installed in an educational/training facility. Due to delays in both, the asset was stored temporarily and will be partially used in Soldier's Pond starting in January/February 2019.

Recommendation

Conflict of Interest

- 1. Remove from any further activity related to
- 2. Consistent with prior conflict of interest audits and recommendations; disclosure, assessments decisions and potential action plans for real or perceived conflicts should be documented.

Procurement

1. No recommendations.