

# Oil and Gas Corporation (OilCo)

Independent Auditor's Report



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OFFICE OF THE AUDITOR GENERAL  
NEWFOUNDLAND AND LABRADOR

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## Objectives

To determine whether OilCo's employee compensation and benefits are managed in accordance with government direction, and whether OilCo manages operating expenses in a manner that ensures the best use of public money. To also determine whether OilCo ensures adherence to appropriate conflict of interest policies, procedures, and legislation.



## Audit Period

January 1, 2021 - December 31, 2023



## Why this Audit is Important

- The Office of the Auditor General issued two performance audits on Nalcor Energy in 2022 - the first focused on discretionary expenses, conflict of interest, and embedded contractors; the second focused on employee compensation.
- The reports found Nalcor paid higher salaries than government, and did not always make the best use of public money. However, because OilCo was not a separate entity at the time of the Nalcor audits, a separate audit was necessary to assess the new organization against the same four audit areas. Given OilCo's use of contractors was less significant, contractors were assessed as part of the operating expenses line of enquiry.
- Employee compensation is the most significant cost for the public service. As a public sector corporation, it is critical OilCo pursues prudent compensation practices that aim to achieve the best possible use of public money, while also managing operating expenses with the same intent.
- Public confidence is undermined when conflict of interest policies are incomplete or ambiguous; incomplete policies also introduce the possibility of risk for government.



## Conclusions

OilCo did not always manage employee compensation and benefits in accordance with government direction, nor did OilCo always ensure the best possible use of public money. We had concerns regarding adherence to conflict of interest practices, particularly with respect to the inconsistent application of policy prior to September of 2023.

Nalcor employees who transitioned to OilCo retained their salaries at a significant premium compared to other government employees. In the absence of properly classified positions, appropriate recruitment efforts were not evident, and vacancies were widespread. For example, over \$1.1 million was spent on external financial services between 2021 and 2023 on work that potentially could have been performed by OilCo employees.

The continuing pattern of refusal on this classification issue is particularly troubling. We documented repeated instances of government directing OilCo to classify its positions and OilCo refusing to do so. OilCo effectively rejected our audit recommendation on this matter, indicating they were pursuing a market-based compensation scheme instead, a proposal OilCo already made in 2021 - which government rejected. To date, OilCo has spent over \$100,000 on compensation consultants without completing the required position classifications.

There were also concerns around operating expense and oversight processes. For instance, failure to solicit open bids was noted for costly financial services contracts. With respect to monitoring expenses, OilCo lacked formal processes and management reporting, making issues and inefficiencies difficult to identify.

OilCo's Code of Business Ethics and Conduct Policy was generally in compliance with the Conflict of Interest Act. However, prior to September 2023 updates, employees did not consistently provide annual certification of understanding and compliance. There were also shortcomings in the updated Code, whereby the new policy did not require contractors to disclose current or previous conflicts, and only directors and senior managers were required to certify understanding and compliance annually, with other employees and contractors required only upon request.



## Summary of Recommendations

- OilCo should classify its positions on government scales, as directed by government.
- OilCo should fill necessary vacant positions as per government processes, using alternate forms of staffing only as a last resort and on a temporary basis.
- OilCo should ensure expenses are incurred in accordance with government policies, guidelines, and procurement rules.
- OilCo should develop monitoring and reporting processes to ensure expenses are effectively managed and controlled, to ensure the best possible use of public resources.
- OilCo should ensure that all board members, employees, and certain contractors are trained in conflict of interest policies and that certification of understanding and compliance, and disclosure of any conflicts is done annually.

## What We Found

### Compensation

- OilCo did not classify positions on government scales as intended or directed in a timely manner.
- \$79,821 was spent on alternative classification approaches without the prior approval of the Department of Industry, Energy, and Technology, and without a resultant Treasury Board submission being completed.
- The failure to classify positions impacted the compensation of employees who transitioned from Nalcor.
- All 16 of the transitioned permanent employees were paid higher salaries than would have been paid in government had their positions been classified.
- OilCo often did not act within the intent of Treasury Board direction in filling vacant positions. Instead, OilCo often made use of alternative forms of staffing, including external service providers and secondments; without exception, these resources cost more than hiring employees.
- Unproductive recruitment efforts were often characterized by a low level of diligence.
- OilCo's failure to classify its positions may have contributed to its recruitment challenges.

### Operating Expenses

- OilCo made regular use of contractors and secondees to fill vacant positions, with little effort to recruit for those positions. For example, OilCo paid a service provider a 265% premium per hour for Controller services, and 208% premium per hour for accountant services, as compared to a comparable government employee.
- The open bid process was not used for the controller and accountant service provider, as required by government's procurement policy. For example, the open bid process was not used for the Director, Finance and Commercial Services, as required by government's procurement policy.
- OilCo paid a law firm a 295% premium per hour for legal services, as compared to the top of annual scale salary for a comparable government employee. Some of the legal services provided were unnecessarily and included expenses such as \$430 an hour for tasks such as the preparation and review of meeting minutes and agendas.
- OilCo paid excessive rates for the lease of its headquarters, which included paying over 31% more per square foot than the average rate for office space in St. John's, and over 53% more than the average rate paid by government for office space in St. John's. From 2021 to 2023, these higher rates accounted for approximately \$362,000 in extra cost as compared to the overall St. John's market, and \$531,000 as compared to average rates paid by government.
- \$50,845 of the annual lease cost was specifically identified for the repayment of "fit-up and furniture" costs, which covered the use of 237 pieces of furniture, artwork, and appliances, as well as the initial preparation to make the interior space move-in ready in 2017. Over our scope period, this expenditure amounted to \$152,535. Across the initial five-year lease term and the subsequent five-year renewal term, fit-up and furniture would be expected to cost \$508,455.
- Two employees upgraded air travel from economy to business class for a flight to France, paying an extra \$10,268 to change the tickets. In another instance, an employee upgraded a flight at an incremental cost of \$1,058.
- OilCo directors did not sign or submit their own expense claims in 11 of the 12 submissions we sampled, and in one instance, a director was paid \$165 for attending a meeting that never occurred.
- OilCo had no formal or documented processes around expense oversight.
- There were no regularly scheduled meetings with the CEO to review expenses, and there were no reports generated exclusively for management oversight of expenses.

### Conflict of Interest

- Prior to 2023, none of the board members completed an annual certification as required by the Code.
- OilCo's Board of Directors Mandate did not specifically require an annual written conflict of interest disclosure, and OilCo did not provide any formal conflict of interest training to board members, employees, or contractors.
- Prior to 2023, employees did not complete an annual certification as required by the Code.
- Following the updates to the Code in September of 2023, only directors and senior management were required to sign an annual statement of compliance. Other employees were required to do so only upon request.
- Prior to September 2023, contractors were not required to sign a form acknowledging that they received, read, understood, and agreed to comply with the Code, and that they had no current or previous conflicts of interest to report.
- Following updates to the Code in September of 2023, directors and senior management were required to sign an annual statement of compliance, but contractors were required to do so only upon request.



After reading this report, you may want to ask the following questions of government:

1. Will government enforce Treasury Board direction given to OilCo?
2. Has OilCo ceased using contracted services for accounting and legal functions?



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# Background

In March 2019, the Government of Newfoundland and Labrador introduced legislation to establish a new corporation focused on maximizing opportunities for growth in the province's offshore oil and gas industry. This legislation, called the Oil and Gas Corporation Act, was assented in April 2019. In January 2020, the Oil and Gas Corporation of Newfoundland and Labrador (OilCo) was established from its legacy entity Nalcor Energy – Oil and Gas.

OilCo leads the province's oil and gas activities and is responsible for managing equity ownership in existing and potential future offshore developments. Its focus is attracting new investments to the province's offshore oil and gas industry with business focus areas including exploration, development, and facilities' management for the Bull Arm site. On behalf of Nalcor, OilCo manages participating interests in three offshore projects: Hibernia Southern Extension, Hebron, and the White Rose Extension project; and with government approval, OilCo may participate in future projects by acquiring equity at the development and production stages of a project.

Our audit period covered January 2021 to December 2023 and included three lines of inquiry: compensation, operating expenses, and conflict of interest. Seven criteria were established to assess these lines of inquiry.

## Compensation

This audit examined compensation paid to an employee, including salary, bonuses, and benefits, as well as the accrual of leave.

**Base Salary:** Compensation paid for a position, based on a pre-determined pay scale. Pay scales coincided with the points rating given to a position using a job evaluation methodology, also known as position classification. Accountability, problem-solving, and know-how were the criteria used in that methodology. For this audit, we used the top of the pay scale for comparisons to the provincial government. OilCo employees who transferred from Nalcor were not to receive salary increases until their positions were classified by Treasury Board, if that level was higher.

**Bonuses:** Annual lump sum payments in excess of the base salary. For OilCo employees who transitioned from Nalcor, offers outlined terms and conditions of transition allowances, and, for six senior employees, market adjustment payments. The provincial government does not provide any form of bonus or incentive compensation.

**Benefits:** Compensation paid beyond salary, bonuses, and incentives. For OilCo and the provincial government, employment-related benefits included group insurance premium cost-sharing, matched defined benefit pension contributions, and leave entitlements.

We reviewed compensation for compliance with the terms of offer, where applicable, and with Treasury Board policies when terms of offer did not apply. We also compared OilCo's compensation with government using various job documentation. This documentation included position descriptions, which contain specific information about a position's key duties and responsibilities and provide expectations, targets, and goals that aid in evaluating job performance.

Finally, we reviewed OilCo's activities to determine whether management acted according to Treasury Board's intent in its administration of employee compensation.

## Operating Expenses

Treasury Board policies outline expectations and requirements regarding expenses within the public service, while Public Procurement Agency policies provide direction to all public bodies on the procurement of goods, services, public works, and lease of space.

Our audit specifically assessed seven categories of expenses selected from a review of OilCo's financial records across the scope period. Where OilCo had expense and procurement policies, we compared them to government policies. We also examined expenses for compliance with government and OilCo policies, and for reasonability, to assess whether OilCo made the best use of public money.

## Conflict of Interest

The Conflict of Interest Act applies to all government departments, Crown agencies, boards, and commissions. The Act sets out terms and situations where there may be a conflict between an individual's self-interest and the interest of the public or government. Our audit compared and assessed OilCo's policies and procedures to this legislation.



# Summary of Key Findings

## Compensation

- Salaries, market adjustments, and allowances of all employees who initially transitioned from Nalcor were paid in accordance with Treasury Board approvals.
- OilCo employees' leave entitlements followed the guidelines of government policy, or specific Treasury Board direction stated in employees' offer letters at the time they transitioned from Nalcor.
- OilCo did not classify positions on government scales as intended or directed in a timely manner.
- \$79,821 was spent on alternative classification approaches without the prior approval of the Department of Industry, Energy, and Technology, and without a resultant Treasury Board submission being completed.
- The failure to classify positions impacted the compensation of employees who transitioned from Nalcor.
- All 16 of the transitioned permanent employees were paid higher salaries than would have been paid in government had their positions been classified.
- OilCo often did not act within the intent of Treasury Board direction in filling vacant positions. Instead, OilCo often made use of alternative forms of staffing, including external service providers and secondments; without exception, these resources cost more than hiring employees.
- 14 of the 34 positions (41 per cent) on OilCo's organizational chart were vacant or filled by contractors. Of these 14 positions, only two were ever posted for purposes of hiring.
- Unproductive recruitment efforts were often characterized by a low level of diligence.
- OilCo's failure to classify its positions may have contributed to its recruitment challenges.

## Operating Expenses

- There were no significant differences between OilCo's documented procurement process and government's Public Procurement Policy.
- OilCo's purchasing card policy identified corporate travel usage as a primary objective for purchasing cards. Use for travel that would normally be reimbursed through a travel claim is prohibited under government policy.
- OilCo's travel policy permitted business class travel "where appropriate", subject to approval by the CEO.
- OilCo made regular use of contractors and secondees to fill vacant positions, with little effort to recruit for those positions. This was more expensive than hiring employees to fill those positions.
- OilCo paid a service provider a 265 per cent premium per hour for Controller services, as compared to the top-of-scale annual salary for a comparable government employee.
- OilCo paid a service provider a 208 per cent premium per hour for accountant services, as compared to the top-of-scale annual salary for a comparable government employee.
- The rates charged by the controller and accountant service provider exceeded rates charged by a competitor for the more senior Director, Finance and Commercial position.
- The open bid process was not used for the controller and accountant service provider, as required by government's procurement policy.
- OilCo paid a service provider a 55 per cent premium per hour for Director, Finance and Commercial services, as compared to the top-of-scale annual salary for a comparable government employee. This extra cost was incurred without the position being posted for hiring.
- The open bid process was not used for Director, Finance and Commercial services, as required by government's procurement policy.
- OilCo paid a law firm a 295 per cent premium per hour for legal services, as compared to the top of annual scale salary for a comparable government employee. These costs were incurred without the vacant General Counsel and Corporate Secretary position being posted for hiring throughout our scope period. By way of comparison, government was able to hire 81 lawyers on Treasury Board's solicitors' pay scale during that time.

- Some of the legal services provided were unnecessarily expensive for the type of work performed. For example, OilCo paid \$430 an hour for tasks such as the preparation and review of meeting minutes and agendas.
- OilCo spent \$1,213,972 across our scope period to cover salaries for two employees seconded from Nalcor; its Chief Executive Officer and its Manager, Corporate Services and Communications.
- Nalcor billed OilCo \$12,740 annually for the CEO's vehicle allowance despite Nalcor's elimination of vehicle allowances in 2021.
- OilCo paid a 71 per cent premium for its CEO as compared to government, when vehicle allowance is included.
- OilCo filled its Manager, Corporate Services and Communications position through a secondment from Nalcor, paying an 11 per cent premium as compared to top-of-scale salary for a comparable government position. This extra cost was incurred without the position being advertised for hiring.
- OilCo did not create a purchase order for its secondments from Nalcor, as required by its internal procurement process and as it had for other external professional services.
- OilCo paid excessive rates for the lease of its headquarters.
- OilCo paid over 31 per cent more per square foot than the average rate for office space in St. John's, and over 53 per cent more than the average rate paid by government for office space in St. John's. From 2021 to 2023, these higher rates accounted for approximately \$362,000 in extra cost as compared to the overall St. John's market, and \$531,000 as compared to average rates paid by government.
- OilCo's lessor was required to provide a statement with the details of annual operating costs. We reviewed the statements from 2021 through 2023 and found that no detail was provided about what the costs were comprised of. Despite the absence of detail, OilCo accepted rate changes every year.
- \$50,845 of the annual lease cost was specifically identified for the repayment of "fit-up and furniture" costs, which covered the use of 237 pieces of furniture, artwork, and appliances, as well as the initial preparation to make the interior space move-in ready in 2017. Over our three-year audit scope period, this expenditure amounted to \$152,535. Across the initial five-year lease term and the subsequent five-year renewal term, fit-up and furniture would be expected to cost \$508,455.
- Three of the 16 office supplies and miscellaneous purchase card transactions sampled did not have receipts.
- Items that may be considered unusual, unreasonable, or excessive in a public sector context were noted, including four charitable donations, totalling \$3,490, and four gifts of fruit baskets and bouquets for employees and contractors at a total cost of \$344.
- OilCo did not create purchase orders for its IT support agreement with Nalcor, as required by its documented procurement process.
- OilCo paid \$6,259 more than necessary for cell phone services across our scope period, as a result of failing to switch to the lowest available price for their monthly service package.
- OilCo left two cell phones active unnecessarily for a combined 19 months after employees had left the organization, at a total cost of \$671.
- A geophysicist and an engineer transitioned from Nalcor at OilCo's inception with smartwatches. Data plans for these watches remained active throughout the entire three-year scope period, at a total cost of \$720.
- Of the 12 instances of employee travel, in ten samples three employees did not submit an Official Journey Authorization form before travelling, as required by government policy.
- All 10 of the travel claims we sampled made use of purchasing cards, which is prohibited under government's Purchasing Card Policy Manual. We found travel claim forms, which required full details, receipts, and approval from both the employee's manager and a senior executive, were not submitted by OilCo employees for these purchasing card transactions.
- Meals and incidentals were reimbursed at Federal Treasury Board Travel Directive rates in four of the 10 travel claims we sampled. While this was allowed under OilCo policy, it required specific approval per government policy.
- In one instance, two employees upgraded air travel from economy to business class for a flight to France, paying an extra \$10,268 to change the tickets.
- In another instance, an employee upgraded a flight from economy to premium economy, at an incremental cost of \$1,058.
- OilCo directors did not sign or submit their own expense claims in 11 of the 12 submissions we sampled.
- In one instance, a director was paid \$165 for attending a meeting that never occurred.
- Nine of the 12 directors' fees claims we sampled included meetings for which there was insufficient documentation to assess the formality of the meeting, accounting for \$1,645 of expense.
- Four of the five samples for Board Chairs included preparation time, at a total cost of \$3,180. Under government guidelines preparation time is eligible for reimbursement only where it is a major element in the tasks assigned, and in addition to that which would normally be anticipated.



- In four cases, committee chairs were compensated at the Board Chair rate rather than the board member rate.
- OilCo had no formal or documented processes around expense oversight.
- There were no regularly scheduled meetings with the CEO to review expenses, and there were no reports generated exclusively for management oversight of expenses.
- OilCo's only regular expense reports were in the quarterly package completed for Finance Committee and Board of Directors meetings. These reports lacked depth of analysis.
- There was little evidence that OilCo's Board of Directors utilized expense reporting to provide oversight and corrective action.
- Expenses were not always coded to correct accounts.

### Conflict of Interest

- OilCo's Code of Business Ethics and Conduct generally reflected the Conflict of Interest Act.
- However, in contrast to the Act, the Code does not prohibit a previous employee from entering into a contract with, or receiving a benefit from, OilCo within a year of ending their employment, and does not provide an exception by granting a waiver.
- There were potential conflict of interest situations not specifically addressed in the Code, such as hiring, promoting, or the direct supervision of family members; or having a personal relationship that may conflict with a staff member's responsibilities or compromise OilCo's interests.
- Prior to 2023, none of the board members completed an annual certification as required by the Code.
- OilCo's Board of Directors Mandate did not specifically require an annual written conflict of interest disclosure.
- OilCo did not provide any formal conflict of interest training to board members.
- Prior to 2023, employees did not complete an annual certification as required by the Code.
- Following the updates to the Code in September of 2023, only directors and senior management were required to sign an annual statement of compliance. Other employees were required to do so only upon request.
- OilCo's CEO, a secondee from Nalcor, had no formal employment contract or secondment agreement with OilCo. Therefore, there was nothing in place to address conflict of interest expectations, adherence, and disclosure.
- OilCo did not provide any formal conflict of interest training to employees.
- Prior to September 2023, contractors were not required to sign a form acknowledging that they received, read, understood, and agreed to comply with the Code, and that they had no current or previous conflicts of interest to report.
- Following updates to the Code in September of 2023, directors and senior management were required to sign an annual statement of compliance, but contractors were required to do so only upon request.
- Unlike the form signed by employees and Board of Directors members, the contractors' form did not require disclosure of any current or previous conflicts.
- OilCo did not provide any formal conflict of interest training to contractors.
- The contracts OilCo had with two financial service organizations to supplement its workforce did not include a conflict of interest clause.

# Findings - Compensation

## Objective 1

To determine whether OilCo's employee compensation and benefits are managed in accordance with government direction.

## Criteria 1

OilCo's employee compensation and benefits are in accordance with government approvals and the Oil and Gas Corporation Act.



## What We Expected

We expected OilCo to be highly aware of its roles and responsibilities as a public sector corporation. We expected salaries and benefits to be administered as directed by Treasury Board when the corporation was created. We also expected positions to be classified as directed in a timely manner. Finally, we expected OilCo to maintain adequate personnel, recruiting where necessary based on Treasury Board Secretariat remuneration rates, without resorting to more costly alternative forms of staffing.



## What We Learned

### Transitioned Employees

In early 2019, the Treasury Board Secretariat approved an offer to employees transitioning from Nalcor to OilCo; they would transition at their existing salaries, with no increases until positions were classified on government pay scales. In fall 2019, Treasury Board also approved market adjustments for certain senior employees who had received performance bonuses from Nalcor, and allowances of \$3,000 in year one and \$1,500 in year two for all transitioning employees, in recognition of increased insurance premiums and the loss of benefits and time off. **We found salaries, market adjustments, and allowances of all employees who initially transitioned from Nalcor were paid in accordance with these approvals.**

Government also directed that other terms of service and remuneration would follow Treasury Board policies and guidelines. We reviewed the payroll and deduction history of all OilCo employees and found Treasury Board Policies were followed as directed. Only standard government benefits plans (pension, health, dental, and other types of insurance) were funded, and costs were appropriately shared between employees and the employer.

Similarly, **we found leave entitlements followed the guidelines of government policy, or specific Treasury Board direction stated in employees' offer letters at the time they transitioned from Nalcor.** Government directed that industry work experience would be recognized for leave calculation purposes for certain OilCo employees, as per their terms of service with Nalcor. For eight employees this resulted in up to five days of additional leave as compared to government's Paid Leave Policy which was reflected in offer letters issued to these employees, as indicated in Table 1.

**Table 1 – Comparison of Leave Entitlement for Transitioning Staff**

Position	Years of Service with Nalcor	Leave Transitioned from Nalcor to OilCo (days)	Leave Per GNL Policy Based on Years of Service (days)	Extra Leave Recognized (Days)
Development Geophysicist	4	30	25	5
Geologist	6	30	25	5
Geophysicist	8	30	25	5
Geophysicist	4	27	25	2
Geophysicist	5	30	25	5
Geophysicist	5	30	25	5
Geoscience Technologist	4	30	25	5
Subsurface Team Lead	5	30	25	5

Source: Prepared by the Office of the Auditor General based on information provided by OilCo (unaudited).

While our work focused on leave entitlements, OilCo reported that approval structures had not been well maintained in their leave tracking system as staff turnover occurred. As a result, it was necessary to track and reconcile leave outside the system, and update employees' balances manually. We did not test these manual tracking, reconciling, and adjusting processes, and are unable to conclude on their effectiveness, completeness, or accuracy.

**We found OilCo did not classify positions on government scales as intended or directed in a timely manner.**

As part of the transition of employees from Nalcor to OilCo, government directed positions be classified on government pay scales. OilCo engaged a consultant at a total cost of \$23,805, and began the process in August of 2020. The consultant's analysis determined most OilCo salaries exceeded government comparators. OilCo's Chief Executive Officer indicated that the consultant advised classification would likely result in salaries being frozen indefinitely, or in termination and re-staffing for transitioned positions. Consequently, OilCo management abandoned the classification process.

Rather than completing government classification, OilCo engaged a consulting firm to assist with developing an alternate compensation scheme, similar to NL Hydro. This proposal recommended an exemption from government pay scales, with salaries benchmarked to the oil and gas industry. However, the Department of Industry, Energy, and Technology declined to support the proposal. **We found \$79,821 was spent on alternative classification approaches without the prior approval of the department, and without a resultant Treasury Board submission being completed.**

**We found the failure to classify positions impacted the compensation of transitioned employees.** When positions with incumbent employees are classified, it is government practice to 'red circle' employees whose salaries are above top of the new scale, keeping them at their existing salaries. Red-circled employees are eligible to receive general economic increases. However, because OilCo's positions were not classified, transitioned employees were not red-circled, and therefore not eligible for these increases. Similarly, the offer letters of certain transitioning employees indicated that market adjustments were to be paid annually, in accordance with government's Market Adjustment Policy. However, because the Market Adjustment Policy applies specifically to classified positions, OilCo employees were ineligible after year two.

Sixteen OilCo employees had permanent positions with the organization from its inception in 2020 to December 31, 2023. **We found all 16 of the transitioned permanent employees were paid higher salaries than would have been paid in government had their positions been classified.** With the assistance of a job evaluation consultant, we compared these positions against positions in the provincial government that had comparable assessments for accountability, problem-solving, and know-how. We used salaries and salary scales that were in effect on September 30, 2023, within government. Given the assessments of accountability, problem-solving, and know-how were the same, the comparable government positions were equivalent from a classification point of view, yet salaries varied significantly, as outlined in Table 2.

It should be noted that a number of the job titles and descriptions provided by OilCo for our analysis have been updated since the organization’s inception in 2020. These updates were never submitted to Treasury Board for approval.

**Table 2 - Annual Salary Comparison  
As At September 2023**

Position	OilCo Salary (at time of transition)	Government Salary (top of scale)	Above	Additional %
Director, Development and Operations	\$216,420	\$126,077	\$90,343	72%
Manager, Subsurface	\$173,000	\$102,479	\$70,521	69%
Geophysicist	\$152,350	\$102,479	\$49,871	49%
Geophysicist	\$152,350	\$102,479	\$49,871	49%
Geophysicist	\$149,910	\$102,479	\$47,431	46%
Development Geophysicist	\$144,157	\$102,479	\$41,678	41%
Geophysicist	\$142,650	\$102,479	\$40,171	39%
Joint Venture Accountant	\$111,480	\$76,739	\$34,741	45%
Senior Financial Analyst	\$107,900	\$76,739	\$31,161	41%
Geoscience Technologist	\$107,200	\$76,739	\$30,461	40%
Geoscience Tech Lead	\$130,000	\$102,479	\$27,521	27%
Manager, Bull Arm Operations	\$124,800	\$102,479	\$22,321	22%
Reservoir Engineer	\$97,410	\$76,739	\$20,671	27%
Geologist	\$119,088	\$102,479	\$16,609	16%
Site Engineer	\$92,014	\$76,739	\$15,275	20%
Application Support Specialist	\$80,309	\$76,739	\$3,570	5%

Source: Prepared by the Office of the Auditor General based upon information provided by OilCo and the Treasury Board Secretariat (unaudited) and job analysis work completed by our consultant.

Note 1: All government compensation amounts reflect maximum rates for the positions based on entity policies and practices. Top of scale for government is step 25.

Note 2: These position salaries may differ from public information disclosures depending on an employee's time in the role.

## Recruitment

The Oil and Gas Corporation Act empowered OilCo to appoint staff, with terms of service and remuneration set according to Treasury Board policies and guidelines. **We found OilCo often did not act within the intent of this direction in filling vacant positions. Instead, OilCo often made use of alternative forms of staffing, including external service providers and secondments; without exception, these resources cost more than hiring employees.** More details are outlined in the operating expenses section of this report.

**We found 14 of the 34 positions (41 per cent) on OilCo's organizational chart were vacant or filled by contractors:**

- Chief Geologist
- Chief Geophysicist
- Controller
- Director, Exploration
- Director, Finance and Commercial
- Formation Evaluation Analyst
- General Counsel & Corporate Secretary
- Geologist
- Manager, Business and Commercial
- Manager, Leads and Prospects
- Office Administrator
- Office Manager
- Project Engineer
- Site Superintendent, Bull Arm

**Of these 14 positions, only two were ever posted for purposes of hiring.** Three were filled or partially filled by external service providers, with the remaining 11 being vacant for an average of 26 months since January 2020, when OilCo was founded.

On several occasions, OilCo's management and Board of Directors advised us that they attributed recruitment difficulties to government pay scales. However, **we found unproductive recruitment efforts were often characterized by a low level of diligence.** For example, a vacant Director, Finance and Commercial position was filled by a contractor without being advertised. Similarly, the General Counsel and Corporate Secretary role was vacant and not advertised throughout the scope; for context, government hired 81 lawyers on Treasury Board's solicitors' pay scale during that time.

**We found OilCo's failure to classify its positions may have also contributed to its recruitment challenges.** In spring 2021, government advised OilCo that further recruitment would not be permitted unless all positions were classified. While some recruitment was subsequently undertaken on an exception basis, OilCo was not permitted to make permanent hires and positions were advertised as temporary for one year.



## Why It Matters

As leader of the province's oil and gas activities, OilCo has a responsibility to manage its financial and human resources effectively and efficiently. Compensation costs were OilCo's largest operating expense, comprising 30 per cent of its 2023 annual operating costs. As a public sector corporation, OilCo had a responsibility of fiscal stewardship on behalf of taxpayers.

The Financial Administration Act empowers Treasury Board to direct the classification of positions and determine pay for public service employees. Treasury Board decisions are expected to be implemented in a timely manner. By committing to government's consistent compensation methodology, OilCo would join the public service's alignment of positions, to correctly determine the level and value of compensation provided to an employee.

When positions remain persistently vacant, it calls into question both the value of the positions and the organization's capacity to fulfill its mandate. Using costly alternative forms of staffing creates disparity in the public service and reduces trust that public money is being managed appropriately.



# Findings - Operating Expenses

## Objective 2

To determine whether OilCo manages operating expenses in a manner that ensures the best use of public money.

## Criteria 1

OilCo operating expenses are incurred in accordance with government and Treasury Board policies and guidelines and with consideration of the cost to taxpayers.



## What We Expected

We expected OilCo to manage procurement and expenses in accordance with government policies and procedures. Where OilCo developed policies of its own, we expected these policies to comply with the terms and conditions established by government. We further expected OilCo to be highly aware of its roles and responsibilities as a public sector corporation. It is reasonable to expect this responsibility would result in the prudent pursuit of best-value alternatives.



## What We Learned

### Policies and Procedures

OilCo was required to incur expenses in accordance with government and Treasury Board policies and guidelines. We found OilCo had three customized policies relevant to expense management:

- a Procurement Process,
- a Purchasing Card Policy Manual, and
- a Travel Policy.

We compared these documents to government policy.

### *Procurement Process*

**We found there were no significant differences between OilCo's documented procurement process and government's Public Procurement Policy.** Government has a documented Public Procurement Policy, which is intended to provide direction to all public bodies on the procurement of goods, services, public works, and lease of space. It supplements the Public Procurement Act and the Public Procurement Regulations. The policy is intended, in part, to ensure that public bodies obtain the best value for money.

### *Purchasing Cards Policy Manual*

We compared OilCo's Purchasing Card Policy to government and found the following differences:

- **OilCo's policy identified corporate travel usage as a primary objective for purchasing cards. Use for travel that would normally be reimbursed through a travel claim is prohibited under government policy.** Travel claims required submission of a form with full details, receipts, and approval from both the employee's manager and a senior executive prior to payment. In contrast, purchasing card transactions are reviewed and approved subsequent to payment being made. We found all 10 of the travel claims we sampled made use of purchasing cards.
- In addition to travel, the following uses are prohibited by government policy, but not stated in OilCo's policy; goods or services covered under Standing Offer Agreements (unless identified as eligible), training that is a taxable benefit to employees, printing (unless prior authorization is obtained from the King's Printer), items with special handling requirements, and fuel presently acquired using the vehicle fleet card.

**Travel Policy**

We compared OilCo’s travel policy to government and found the following differences:

- OilCo’s policy did not require an Official Journey Authorization form to facilitate the approval process for provincial travel, whereas government policy does; instead, OilCo’s employee provincial travel was approved verbally or by email.
- Treasury Board policy restricted air travel to economy class, except with the approval of the Minister, where business class was the only seat available, and a delay was not acceptable. In addition to these conditions, **OilCo’s travel policy permitted business class travel “where appropriate,” subject to approval by the CEO.**

**Table 3 – Travel Approval Comparison**

	Approval Required OilCo	Approval Required Government
Provincial Travel	Immediate supervisor	Assistant Deputy Minister or designate
National Travel	Department head (or authorized designate)	Deputy Minister and Minister
International Travel	CEO (or authorized designate)	Deputy Minister and Minister

Source: Prepared by the Office of the Auditor General based on information provided by OilCo.

- Government policy required the approval of a Deputy Minister to use Federal Treasury Board Travel Directive rates for meals and incidentals when travelling internationally. OilCo policy directed travellers to use these higher rates without additional approval.
- Government travel policy generally required the approval of more senior management than OilCo’s policy, as outlined in Table 3.

**Operations**

Our audit specifically assessed seven expense categories, which were selected based on a review of OilCo’s financial records across the scope period. We selected a total of 95 samples, reviewed them for compliance to policies, guidelines, and procedures, and assessed them for reasonability and consideration of cost to taxpayers.

**Professional Services**

**OilCo made regular use of contractors and secondees to fill vacant positions with little effort to recruit for those positions. We found this to be more expensive than hiring employees to fill those positions.**

In addition, OilCo made use of hourly accounting and legal service providers while it had vacant accounting and legal positions, with little effort made to fill the vacancies. While these service providers were not engaged for full-time hours, the costs per hour of work were higher than those of similar government employees.

**Table 4 – Professional Services Costs Comparison**

Position	Approximate Annual cost of full-time hours at 2023 rates	Annual Salary for a Similar GNL position, top of Scale	Difference (\$)	Difference (%)
<b>Contractors and Secondees filling Vacancies</b>				
Controller	\$418,513	\$114,663	\$303,850	265%
Chief Executive Officer	\$312,740	\$182,789	\$129,951	71%
Director, Finance and Commercial	\$212,850	\$137,491	\$75,359	55%
Manager, Corporate Services & Communications	\$127,300	\$114,663	\$12,637	11%
<b>Other Selected Professional Services Provided by Vendors</b>				
Legal Services	\$709,500	\$179,510	\$529,990	295%
Accountant Services	\$236,127	\$76,739	\$159,388	208%

Source: Prepared by the Office of the Auditor General based on information provided by OilCo and the Treasury Board Secretariat (Unaudited) and job analysis work completed by our Consultant. Note 1: All government compensation amounts reflect maximum rates for the positions based on entity policies and practices. Top of scale for government is step 25. Note 2: Approximate annual cost of full-time hours calculated using 44 work weeks per year.

**Financial Services**

We found OilCo engaged a financial services vendor, spending almost \$1 million across our scope period, for controller, accountant, and various advisory services.

**We found OilCo paid a 265 per cent premium per hour for Controller services, as compared to the top-of-scale annual salary for a comparable government employee.** The vacant Controller position was filled by a contractor starting in June 2021. In 2023, OilCo paid \$294,925 for 70 per cent of a full-time Controller, which equated to \$418,513 for full-time hours. The top of the salary scale for a comparable government position would have been \$114,663 - a difference of \$303,850.

**We found OilCo paid a 208 per cent premium per hour for accountant services, as compared to the top-of-scale annual salary for a comparable government employee.** External accountant services were utilized throughout our scope period. In 2023, OilCo paid \$55,082 for 23 per cent of a full-time person which equated to \$236,127 for a full-time position. The top of the salary scale for a comparable government position would have been \$76,739, a difference of \$159,388.

**We also found the rates charged by the controller and accountant service provider exceeded rates charged by a competitor for the more senior Director, Finance and Commercial position.** In 2023, the Controller's hourly rate was almost twice the Director's, and the Financial Accountant's was 11 per cent higher. In 2023, OilCo's Director, Finance and Commercial recognized these rates were not competitive and renegotiated a discounted rate for monthly billable hours after the first 20 hours.

**We found transactions with the controller and accountant service provider were not in accordance with government's procurement policy.** Expenditures with this service provider exceeded \$264,200 in 2022 and 2023 and required the solicitation of open bids based on OilCo and government policy. **We found the open bid process was not used in either year.** We also noted the vendor increased rates for both services across the scope period. The rate for accountants increased by an average of nine dollars per hour (eight per cent) annually, and the rate for the Controller by \$14 per hour (six per cent) annually.

The other significant finance vacancy filled by an external service provider was the Director, Finance and Commercial position. In April 2023, OilCo filled this position with a contractor. **We found OilCo paid a 55 per cent premium per hour for Director, Finance and Commercial services, as compared to the top-of-scale annual salary for a comparable government employee.** OilCo paid \$150,930 for eight months of service, equating to \$212,850 for a full year at full-time hours. The top of the salary scale for a comparable government position would have been \$137,491 a year, a difference of \$75,359. **We found this extra cost was incurred without the position being posted for hiring.**

**Again, we found the proper procurement process was not followed in engaging this service provider.** In 2023 OilCo created a purchase order for \$264,200 for this service using the limited Request for Proposal process. According to government and OilCo policy, the limited proposal process is permissible for purchases of \$264,200 or greater only following an open call that results in no suitable bids. **We found OilCo did not issue an open call in this instance.**

**Legal Services**

OilCo spent \$1,000,055 during our scope period on one law firm for a wide range of corporate governance, general, and issue specific services. At the same time, OilCo had a vacant General Counsel and Corporate Secretary position throughout our scope period. **We found OilCo paid a 295 per cent premium per hour for legal services, as compared to the top of annual scale salary for a comparable government employee.** In 2023 OilCo paid \$332,745 for approximately 47 per cent of a full-time position's hours, equating to \$709,500 for a full-time position. The top of the salary scale on government's solicitors' pay plan was \$179,510, a difference of \$529,990. **We found these costs were incurred without the vacant General Counsel and Corporate Secretary position being posted for hiring throughout our scope period. As stated earlier, government was able to hire 81 lawyers on Treasury Board's solicitors' pay scale during that time.**

**We also found some of these legal services were unnecessarily expensive for the type of work performed. As of December 31, 2023, the lawyer who served as Corporate Secretary charged \$430 per hour.** We found \$169,714 was billed across the scope period specifically for board meetings and corporate secretary services. **These services included tasks such as the preparation and review of meeting minutes and meeting agendas** for which legal expertise may not have been required.

**Secondments from Nalcor**

Another costly alternative form of staffing was OilCo's use of seconded resources from Nalcor. **We found OilCo spent \$1,213,972 across our scope period to cover salaries for two employees seconded from Nalcor; its Chief Executive Officer and its Manager, Corporate Services and Communications.**

The CEO was seconded throughout the scope period, at an annual salary of \$300,000. **We found Nalcor also billed OilCo \$12,740 annually for the CEO's vehicle allowance despite the fact that Nalcor had eliminated vehicle allowances in 2021.** Government generally does not provide car allowances to executive staff, instead offering mileage reimbursement for work-related travel. The top-of-scale salary for a comparable government deputy minister position was \$182,789, meaning **OilCo paid a 71 per cent premium for its CEO as compared to government, when vehicle allowance is included.**

Along similar lines, **OilCo filled its Manager, Corporate Services and Communications position through a secondment from Nalcor** in June of 2021, with an annual salary of \$124,800. A two per cent raise was granted by Nalcor in 2023 to bring the annual salary to \$127,300. The top-of-scale salary for a comparable government position was \$114,663, **meaning OilCo paid an 11 per cent premium. We found this extra cost was incurred without the position being advertised for hiring.**

**We also found OilCo did not create a purchase order for its secondments from Nalcor, as required by its internal procurement process and as it had for other external professional services.**

**Lease Expenses**

**We found OilCo paid excessive rates for the lease of its headquarters.** OilCo's corporate headquarters' lease accounted for over 98 per cent of building expenses reported during our scope period. Nalcor Oil and Gas had signed a five-year lease for this building in 2017, with a five-year renewal option that was exercised by OilCo in 2022.

We found OilCo paid higher rates per square foot, as compared to market and government. **OilCo paid over 31 per cent more per square foot than the average rate for office space in St. John's, and over 53 per cent more than the average rate paid by government for office space in St. John's. From 2021 to 2023, these higher rates accounted for approximately \$362,000 in extra cost as compared to the overall St. John's market, and \$531,000 as compared to average rates paid by government.** OilCo noted that rental rates were higher than average because the office was a Class A premises, boasting "high-end tenant improvements and high-quality, first-class finishes, high-tech security, the latest in elevator and HVAC systems, and state-of-the-art technological capabilities."

Additionally, we had concerns about OilCo's management of some of the components of its lease costs. According to the terms of the lease, approximately one-third of its rent was intended to cover its proportionate share of operating costs. **The lessor was to provide a statement with details of these costs. We reviewed the statements from 2021 through 2023 and found that no detail was provided about what comprised operating costs. Despite the absence of detail, OilCo accepted rate changes every year.**

**Another \$50,845 of the annual lease cost was specifically identified for the repayment of "fit-up and furniture" costs, which covered the use of 237 pieces of furniture, artwork, and appliances, as well as the initial preparation to make the interior space move-in ready in 2017.** The lease entitled OilCo the use of the furniture, with the landlord retaining ownership. This annual amount was applicable throughout the initial term of the lease and for any renewal terms. **We found over our three-year audit scope period, this expenditure amounted to \$152,535. Across the initial five-year lease term and the subsequent five-year renewal term, fit-up and furniture would be expected to cost \$508,455.**

### ***Office Supplies and Miscellaneous***

OilCo's formal procurement process dictated that purchasing cardholders were responsible for ensuring detailed receipts were kept. **We found three of the 16 office supplies and miscellaneous purchase card transactions sampled did not have receipts**, including one staff Christmas meal and two Christmas donations made by OilCo.

In our sampling of office supplies and miscellaneous expenses, **we also found items that may be considered unusual, unreasonable, or excessive in a public sector context, including four charitable donations, totalling \$3,490, and four gifts of fruit baskets and bouquets for employees and contractors at a total cost of \$344.**

### ***Software Maintenance and Licenses***

OilCo spent \$548,412 between 2021 and 2023 under an IT support agreement with Nalcor. **We found OilCo did not create purchase orders for this agreement, as required by its documented procurement process.**

### ***Telecommunications***

**We found OilCo paid \$6,259 more than necessary for cell phone services across our scope period, as a result of failing to switch to the lowest available price for their monthly service package in use.**

Similarly, over our scope period, **we found two cell phones were left unnecessarily active for a combined 19 months after employees had left the organization, at a total cost of \$671. Finally, we found that a geophysicist and an engineer transitioned from Nalcor at OilCo's inception with smartwatches. Data plans for these watches remained active throughout the entire three-year scope period, at a total cost of \$720.** Government does not normally pay for smartwatch data plans.

### ***Training and Travel***

We found employee travel was not always in accordance with policy. **Of the 12 instances of employee travel, in ten samples we found three employees did not submit an Official Journey Authorization form before travelling, as required by government policy.** The first two employees made international trips in 2022; while this was approved in writing by the CEO before OilCo finalized its travel policy in June of 2022, government policy required completion of an Official Journey Authorization form.

A third employee travelled to the United States in 2023, with only email approval from the CEO, despite both OilCo's and government's policies requiring an Official Journey Authorization form to be completed before travel occurred.

As previously mentioned, **we also found all 10 of the travel claims we sampled made use of purchasing cards, which is prohibited under government's Purchasing Card Policy Manual. We found travel claim forms, which required full details, receipts, and approval from both the employee's manager and a senior executive, were not submitted by OilCo employees for these purchasing card transactions.**

**We found meals and incidentals were reimbursed at Federal Treasury Board Travel Directive rates in four of the 10 travel claims we sampled. While this was allowed under OilCo policy, it required specific approval per government policy.**

**We found one instance where two employees upgraded air travel from economy to business class for a flight to France, paying an extra \$10,268 to change the tickets.** The upgrade was approved by OilCo's CEO, in accordance with OilCo's travel policy. Government policy states that air travel must be economy class except where, with the approval of a Minister, business class is the only seat available and a delay in travel is not acceptable.

**We found another instance where an employee upgraded a flight from economy to premium economy, at an incremental cost of \$1,058.** There was no record of anyone approving the upgrade before it was booked. While neither OilCo nor government policy provided explicit direction around premium economy airfares, government policy required departments to "ensure that the most economical mode of transportation is used."

### ***Directors' Fees***

We sampled 12 directors' fee claims throughout our scope period and found various issues in the claims process. **We found in 11 of the 12 samples directors did not sign or submit their own expense claims.** OilCo employees signed and submitted claims on their behalf. At times, errors were observed; for example, **we found one instance of a director being paid \$165 for attending a meeting that never occurred.**

According to government guidelines, only formal directors' meetings are eligible for remuneration. **Nine of the 12 claims we sampled included meetings for which there was insufficient documentation to assess the formality of the meeting, accounting for \$1,645 of expense. Similarly, 4 of the 5 samples for Board Chairs included preparation time, at a total cost of \$3,180. Under government guidelines, preparation time is eligible for reimbursement only where it is a major element in the tasks assigned and in addition to what would normally be anticipated.**

There were also issues surrounding compensation related to the meetings themselves. The Oil and Gas Corporation Act states that "there shall be a chairperson of the board to be appointed by the Lieutenant-Governor in Council from among the directors." Government guidelines further outline the remuneration rates for the Chair and other board members. **In four cases, we found committee chairs, other than the Lieutenant-Governor appointed Board Chair, were compensated at the Chair rate rather than the board member rate.**



## Why It Matters

As a Crown corporation, we would expect OilCo to follow Treasury Board expense policies, which flow from the Board's legislation and are intended to ensure value for money and transparency. Government procurement policy, in particular, helps ensure public bodies obtain the best value for money. By complying with the language and spirit of the policy in soliciting competitive bids, public bodies provide assurance that goods and services are acquired at the best possible price.

Public sector operating expenses represent a cost to the taxpayer. It is vital they are incurred prudently, and in accordance with the policies and controls instituted by government to ensure value for money and transparency. Expense policies that are not consistent across the public sector environment can lead to disparity in the service and the development of corporate cultures that may allow excessive or unreasonable expenses to occur.



## Criteria 2

OilCo is effectively monitoring operating expenses.



### What We Expected

We expected OilCo would have clear guidance to monitor operating expenses across all areas of the organization. We expected OilCo would perform regular and detailed variance analysis between budgeted and actual expenditures for all expense categories and that this analysis would occur consistently. We also expected information to be completed and provided to the board of directors and senior management in a timely manner and in sufficient detail for appropriate oversight, and corrective action to be performed, if necessary.



### What We Learned

**We found OilCo had no formal or documented processes around expense oversight.** Instead, management was reliant on the quarterly reporting cycle to identify budget variances, unless incidentally identified by staff during the regular course of business. **We found there were no regularly scheduled meetings with the CEO to review expenses, and there were no reports generated exclusively for management oversight of expenses.**

**OilCo's only regular expense reports were in the quarterly package completed for Finance Committee and Board of Directors meetings. We found these reports lacked depth of analysis.** We reviewed each report produced between 2021 and 2023 and found that while variances between budgeted and actual expenditures were included, variance explanation were high-level, with little detail. Similarly, we found eight of the 11 reports contained no discussion or analysis of budget to forecast variances. Analysis in the remaining three was high-level with little detail.

**We also found little evidence that OilCo's Board of Directors utilized expense reporting to provide oversight and corrective action.** Reports were presented to the Finance Committee and Board of Directors at quarterly meetings, providing the opportunity for discussion and inquiry. However, we reviewed the minutes of these meetings and found few substantial questions or comments from board members. We also found inquiries outside of these meetings were rare.

In the absence of detailed expense reporting and oversight, we found instances where OilCo paid more than necessary. For example, it was previously noted that an extra \$6,259 was paid across our scope period, as a result of failing to select the lowest available price for a given package of cell phone services.

**We found expenses were not always coded to the correct accounts.** During the summer of 2023, purchase card transactions were coded to a single expense account, to expedite payment of the cards. As a result, expenses were not necessarily categorized correctly in the Finance Committee and Board of Directors reports for a period of time, which was corrected by an employee in the fall of 2023, following which a new process was introduced to address the improper coding of transactions.



## Why It Matters

Operating expenses require consistent and constant management oversight to ensure they are reasonable and appropriate. Monitoring expenses and budgetary processes facilitate this while ensuring adherence to policies and guidelines. If actual expenses exceed their policy limits, management attention may be required to ensure corrective action is taken and cost escalation is controlled. Occasionally, policies may require review given changing organizational requirements.

Information on monitoring must be provided in sufficient detail to those overseeing operations to ensure they are aware of the activity and can respond to issues in a manner that allows them to be addressed. Oversight allows for strategically focused efficiencies, identifying areas where spending should be reduced and allowing for better decision-making for future expenditures. Accurate expense coding is also critical. As the leadership of the organization, executive and board members need to be appropriately and comprehensively informed on all aspects of the organization's operating expenses in order to perform their due diligence and oversight.



# Findings - Conflict of Interest

## Objective 3

To determine whether OilCo ensures adherence to appropriate conflict of interest policies, procedures and legislation.

## Criteria 1

OilCo has established appropriate conflict of interest policies and procedures, which reflect related legislation.



### What We Expected

The Conflict of Interest Act applies to all government departments, Crown agencies, boards, and commissions, and the Act sets out terms and situations where there may be a conflict between an individual's self-interest and the interest of the public or government. Section three of the Act clearly states: "...a public office holder shall not make or participate in making a decision in his or her capacity as a public office holder where the public office holder knows or ought to reasonably know that in the making of the decision there is the opportunity to benefit himself or herself or a member of his or her family improperly, directly or indirectly."

As a Crown corporation, OilCo and its employees are required to comply with the Act. We would have expected OilCo to have defined conflict of interest policies that adequately reflected legislation. We expected policies that provided clarity and guidance for employees, board members, and contractors with respect to perceived or real conflicts of interest.



### What We Learned

OilCo's Code of Business Ethics and Conduct (the Code) is intended to document the principles of conduct and ethics to be followed by staff (directors, officers, senior managers, employees, interns, consultants, contractors, or subcontractors). It outlines the basic principles and procedures with which staff are expected to comply, such as conflict of interest and reporting non-compliance.

OilCo's Board of Directors approved updates to the Code in September of 2023, during the course of our audit, with the most significant update requiring all staff to confirm their compliance with the Code. Directors and senior management were required to confirm compliance on an annual basis, whereas other staff members, including contractors, were required to confirm compliance upon request.

We found that while **the updated Code generally reflects the Act**, we did note some omissions, the most significant of which covered post-office employment. **The Code does not prohibit a previous employee from entering into a contract with or receiving a benefit from OilCo within a year of ending their employment, and does not provide an exception by granting a waiver.**

Similarly, we found one difference between the updated Code and the Act, regarding the acceptance of extra benefits. The Code states that when accepting any gift of meal, entertainment or other favour, the value of the gift should not exceed \$150. The Act permits gifts only when received as part of protocol or social obligations, but does not provide a dollar value.

**We also found there were potential conflict of interest situations not specifically addressed in the Code, such as hiring, promoting, or the direct supervision of family members; or having a personal relationship that may conflict with a staff member's responsibilities or compromise OilCo's interests.**



## Why It Matters

The Conflict of Interest Act ensures public officeholders know what constitutes a real or perceived conflict, what is expected from them, and what to do if a circumstance arises. Public confidence is undermined when policies are incomplete or ambiguous. Those omissions, particularly if they are not aligned with the spirit and intent of the Act, create risks for government. Without clear and specific guidance, public officeholders may inadvertently or purposely participate in an activity that is a real or perceived conflict of interest. That action could result in a benefit individually or to their family, thereby compromising government's interests.



## Criteria 2

OilCo ensures board members adhered to conflict of interest policies, procedures and legislation.



### What We Expected

We expected OilCo's Board of Directors would follow best practices in corporate governance. It is reasonable to expect board members to be fully briefed and appreciative of conflict of interest policies, procedures, and public sector entity legislation. We expected board members to fulfill disclosure requirements, for any real or perceived conflict of interest. We also expected board management processes would include protocols to assist the board with compliance on a routine and consistent basis.



### What We Learned

Prior to September 2023, OilCo's Code of Business Ethics and Conduct Policy required directors to annually certify their understanding and compliance to the code. **We found none of the board members completed an annual certification as required by the Code prior to 2023.**

In September 2023, during the course of our audit, the OilCo Board approved updates to the Code. The updated version also required annual certification for directors, and a form was provided to certify that they had received, read, understood, and agreed to comply with OilCo's Code of Business Ethics and Conduct Policy, and that they had no current or previous conflicts of interest to report. We found all directors subsequently signed the annual acknowledgement form.

OilCo also had a formal Board of Directors Mandate, which specified that directors must continually monitor and report actual or potential conflicts of interest. **The Mandate did not specifically require an annual written conflict of interest disclosure.** While our audit work was limited to information reported by directors to OilCo, and by OilCo to our Office, no conflicts or potential conflicts of interest involving board members were reported during our scope period.

**We found OilCo did not provide any formal conflict of interest training to board members.** An orientation manual was developed for board members in August 2020 which contained a copy of the Code and was meant to be discussed at a Board Member orientation meeting. OilCo provided a copy of the agenda for the August 2020 orientation meeting, but the Code was not listed as a topic for discussion and no minutes were taken. Therefore, we could not confirm whether the Code was discussed with board members.



### Why It Matters

Effective board management processes are needed to support and manage members' statutory and fiduciary responsibilities. There is an ever-present risk that board members may receive information as a board member that they should not, particularly if there are no established processes to monitor adherence to policies and legislation. Declaration of Interest forms are one means of monitoring adherence and facilitating effective board management. Ensuring that the board members understand and follow guidance regarding real or perceived conflicts of interest is critical to ensure public confidence in the board and their oversight role.

## Criteria 3

OilCo ensures employees adhered to conflict of interest policies, procedures and legislation.



### What We Expected

We expected OilCo employees would follow best practices with respect to conflict of interest protocols. It is reasonable to expect employees to fully understand the policies, procedures, and legislation of a public sector entity as it relates to their employment, duties, and responsibilities. We expected employees to fulfill disclosure requirements, for any real or perceived conflict of interest. We also expected that senior management would have the information and tools to manage employee compliance on a routine and consistent basis.



### What We Learned

Prior to September 2023, OilCo's Code of Business Ethics and Conduct Policy required employees to annually certify their understanding and compliance to the Code as a condition of continued employment. **We found employees did not complete an annual certification as required by the Code prior to 2023.**

The September 2023 updates also required employees to confirm their acceptance to comply to the Code. However, **while directors and senior management were required to sign an annual statement of compliance, other employees were required to do so only upon request.** To date, we found all senior managers and the CEO had signed the annual statement of compliance and all other staff had signed the confirmation of acceptance upon receipt of the updated Code, except for one employee who was on leave.

**We also found OilCo's CEO, a secondee from Nalcor, had no formal employment contract or secondment agreement with OilCo. Therefore, there was nothing in place to address conflict of interest expectations, adherence, and disclosure.** However, there was a formal agreement in place for the Manager, Corporate Services and Communications, also seconded by Nalcor, which included the requirement to comply with OilCo's conflict of interest policies.

**We found OilCo did not provide any formal conflict of interest training to employees.** Managers provided employees with a copy of the policy for review and discussion.

We found no conflicts of interest and potential conflicts involving employees had been reported to OilCo during our scope period.



### Why It Matters

Any public office holder needs to understand the Conflict of Interest Act and the requirements that apply to them. Employee training is a key component of any organization's compliance and monitoring program. Without regularly ensuring and documenting that employees understand and agree to adhere to conflict of interest policies, there is an increased risk of a real or perceived conflict of interest from employee actions. There is also a risk that potential issues or violations will go undetected or not be appropriately addressed in a timely manner. Timely and effective management of potential employee conflicts of interest ensures public confidence in management oversight.

## Criteria 4

OilCo ensures contractors adhered to conflict of interest policies, procedures and legislation.



### What We Expected

It is reasonable to expect contractors to be knowledgeable of conflict of interest policies, procedures, and legislation of the public sector entity where they work. We expected OilCo to apply its conflict of interest policies and procedures to contractors, similar to its application to public office holders such as board members and employees. We would expect those policies to be robust enough to assist contractors and OilCo management in assessing real or perceived conflicts. We expected contractors to fulfill disclosure requirements, for any real or perceived conflict of interest. We also expected senior management would have the information and tools to manage contractor compliance on a routine and consistent basis.



### What We Learned

OilCo engaged contractors to carry out functions associated with vacant positions within the organization such as Controller, Financial Accountants, and Director, Finance and Commercial.

In September 2023, the OilCo Board approved updates to OilCo's Code of Business Ethics and Conduct Policy. **Prior to September 2023, contractors were not required to sign a form acknowledging that they received, read, understood, and agreed to comply with the Code, and that they had no current or previous conflicts of interest to report.** The September 2023 updates to the Code required staff members, including contractors where appropriate, to confirm their acceptance to comply. However, **while directors and senior management were required to sign an annual statement of compliance, contractors were required to do so only upon request.**

We found, following the updates to the Code in September 2023, the Controller and Director of Finance and Commercial contractors signed a Code of Business Ethics and Conduct form. **Unlike the form signed by employees and Board of Directors members, the contractors' form did not require disclosure of any current or previous conflicts.**

**We also found OilCo did not provide any formal conflict of interest training to contractors.**

OilCo had contractual relationships with two financial services organizations to supplement its workforce. **We found these contracts did not include a conflict of interest clause.** One contained a clause which stated they would establish and maintain appropriate business standards, procedures, and controls to avoid any impropriety, while the other stated they would continue to be bound by the terms of the Confidentiality Agreement.



### Why It Matters

Effective business practices reduce the risk of a conflict of interest remaining undetected from a contractor's work. Conflict of Interest policies, including contractual language and declarations, need to be clear, complete and regularly monitored to ensure contractor compliance. Gaps in the language or execution of processes create opportunities for perceived or real conflict of interest violations to occur, which can contribute to reputational risks and compromise OilCo's and government's interests.

# Subsequent Events

In December 2021, government announced the engagement of a consulting company to review the business, operational, and financial condition of provincial assets, to inform how government might optimize their potential benefit. The consultants delivered a report in spring 2022, and in March 2023 government announced Phase II of the effort, focusing specifically on potential transactions for provincial oil and gas assets.

In January 2024, government announced that it was proceeding with Phase III of the review. As part of this phase, the province's portfolio of oil and gas assets will be presented to potential buyers.

Preliminary findings have been shared with OilCo since the end of the audit scope period in December 2023, and the following subsequent events noted:

- OilCo has initiated process changes regarding remuneration for the Board of Directors.
- OilCo has implemented an updated budget and quarterly review processes for 2024.
- OilCo has updated the authorization process, and now requires the CEO to approve and sign OilCo's Travel Authorization Form prior to employee travel.

# Conclusions

We had concerns with elements of OilCo's operations based on our three lines of inquiry. OilCo did not always manage employee compensation and benefits in accordance with government direction, nor did OilCo always ensure the best possible use of public money. We also had concerns regarding adherence to conflict of interest practices, particularly with respect to the inconsistent application of policy prior to September of 2023.

Nalcor employees who transitioned to OilCo retained their salaries, at a significant premium to other government employees. OilCo's failure to follow government's direction on position classification was concerning. In the absence of properly classified positions, appropriate recruitment efforts were not evident, and vacancies were widespread. Consequently, OilCo resorted to more costly alternate forms of staffing which did not always reflect best use of public money. For example, over \$1.1 million was spent on external financial services between 2021 and 2023 on work that potentially could have been performed by OilCo employees.

The continuing pattern of refusal on the classification issue was particularly troubling. There were several instances of government directing OilCo to classify its positions, and OilCo refusing to do so. Most recently OilCo effectively rejected our audit recommendation on this matter, indicating they they were pursuing a market-based compensation scheme instead. It should be noted that OilCo already proposed a market based scheme in 2021, which the Department of Industry, Energy, and Technology did not support, directing them again to classify all positions on government pay scales. To date, OilCo has spent over \$100,000 on compensation consultants, without completing the required position classifications.

There were also concerns around operating expense and oversight processes. For instance, failure to solicit open bids was noted for costly financial services contracts. With respect to monitoring expenses, OilCo lacked formal processes and management reporting, making issues and inefficiencies difficult to identify.

OilCo's Code of Business Ethics and Conduct Policy was generally in compliance with the Conflict of Interest Act. However, prior to September 2023 updates, employees and board members did not consistently provide the required annual certification of understanding and compliance. There were also shortcomings in the updated Code. The new policy did not require contactors to disclosure current or previous conflicts, and only directors and senior managers were required to certify understanding and compliance annually, with other employees and contractors required only upon request.

# Recommendations

## **Recommendation 1**

OilCo should classify its positions on government scales, as directed by government.

**Response:** OilCo does not accept the recommendation to classify its positions on government scales. OilCo has begun to classify positions for the purposes to proceed to a market-based compensation system similar to NL Hydro. Any positions similar to core government will be identified as placed on government scales. OilCo commenced this process in January 2024 but has suspended the process pending the outcome of the divestment process.

## **Recommendation 2**

OilCo should fill necessary vacant positions as per government processes, using alternate forms of staffing only as a last resort and on a temporary basis.

**Response:** OilCo accepts this recommendation. While the divestment process is ongoing through 2024, retention and the recruitment of employees to work at OilCo will be very challenging due to the uncertainty of the future of OilCo.

## **Recommendation 3**

OilCo should ensure expenses are incurred in accordance with government policies, guidelines, and procurement rules.

**Response:** OilCo accepts this recommendation. OilCo continues to work with Government Public Procurement Agency (PPA) to ensure all expenditures incurred are in accordance with policy. OilCo has asked for and is working with PPA to avail of Government “in house” training of procurement and procurement policies.

## **Recommendation 4**

OilCo should develop monitoring and reporting processes to ensure expenses are effectively managed and controlled, to ensure the best possible use of public resources.

**Response:** OilCo accepts this recommendation. While OilCo has monitoring and reporting processes and internal control measures in place, OilCo will formalize its reporting, monitoring and oversight processes to ensure the continued effective management and control of expenses.

## **Recommendation 5**

OilCo should ensure that all board members, employees, and certain contractors are trained in conflict of interest policies and that certification of understanding and compliance, and disclosure of any conflicts is done annually.

**Response:** OilCo accepts this recommendation.

# Appendix - About This Audit

## Why this Audit is Important

This audit follows two performance audit reports of Nalcor Energy, issued by the Office of the Auditor General in 2022. The first of these reports focused on discretionary expenses, conflict of interest, and embedded contractors, while the second focused on employee compensation. The reports found Nalcor paid higher salaries than government, and did not always make the best use of public money, particularly as it related to its management of discretionary expenses and its use of embedded contractors.

In March 2019 the Provincial Government introduced legislation to establish a new corporation focused on the province's offshore oil and gas industry, and in January of 2020 OilCo was created from its legacy company; Nalcor Energy-Oil and Gas. As a new and separate organization, OilCo had not been independently assessed as part of the Nalcor audits, and was not subject to the recommendations of these audits. As such, this audit was performed with lines of inquiry similar to those of Nalcor, covering compensation, expenses, and conflict of interest. Given OilCo's limited use of contractors, the topic was included in the expenses line of inquiry.

## Objectives

The objectives of our audit of OilCo were to determine whether:

1. OilCo's employee compensation and benefits were managed in accordance with government direction.
2. OilCo managed operating expenses in a manner that ensured the best use of public money.
3. OilCo ensured adherence to appropriate conflict of interest policies, procedures and legislation.

## Criteria

The Office of the Auditor General developed criteria based on discussions with OilCo management, review of relevant documentation, guidelines, legislation, OilCo and government policies and procedures, and reviews of literature including reports of other legislative auditors. The Office of the Auditor General defined seven criteria regarding the three objectives. The senior management of OilCo accepted the criteria as suitable.

The Office of the Auditor General assessed whether OilCo's employee compensation and benefits were managed in accordance with government direction against the following criteria:

1. OilCo's employee compensation and benefits are in accordance with government approvals and the Oil and Gas Corporation Act.

The Office of the Auditor General assessed whether OilCo managed operating expenses in a manner that ensured the best use of public money against the following criteria:

1. OilCo operating expenses are incurred in accordance with government and Treasury Board policies and guidelines and with consideration of the cost to taxpayers.
2. OilCo is effectively monitoring operating expenses.

The Office of the Auditor General assessed whether OilCo ensured adherence to appropriate conflict of interest policies, procedures and legislation against the following criteria:

1. OilCo has established appropriate conflict of interest policies and procedures, which reflect related legislation.
2. OilCo ensures board members adhered to conflict of interest policies, procedures and legislation.
3. OilCo ensures employees adhered to conflict of interest policies, procedures and legislation.
4. OilCo ensures contractors adhered to conflict of interest policies, procedures and legislation.

## Scope and Approach

The audit began in December 2022 and covered the period from January 1, 2021, to December 31, 2023. We conducted our audit using a risk-based approach based on our understanding of the entity.

Our audit procedures included informal interviews and discussions with select OilCo officials and an examination of information and data. Our procedures also included an examination of policies and procedures and legislation, correspondence, board meeting minutes, contracts, and reports. We conducted a detailed inspection of the information received and analyzed and used the data to assist with our audit procedures. We performed sampling procedures related to our audit objectives. Sampling selections were non-statistical and selected judgmentally. As part of our audit work on compensation, we reviewed relevant information on the transition of employees from Nalcor that extended to periods prior to the scope period.

## Audit Standards

This independent assurance report was prepared by the Office of the Auditor General of Newfoundland and Labrador on OilCo's employee compensation, operating expenses, and conflict of interest policies and procedures. Our responsibility was to independently audit these areas to provide objective information and recommendations. The senior management of OilCo acknowledged their responsibility for the audit subject matter and the terms of the audit, including audit objectives, scope, and approach.

This audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada and under the authority of the Auditor General Act, 2021.

The Office applies Canadian Standard on Quality Management 1. This standard requires our Office to design, implement, and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of the Association of Chartered Professional Accountants of Newfoundland and Labrador.

## Management Representations

The Chief Executive Officer of OilCo confirmed that senior management had provided the Office of the Auditor General with all the information they were aware of that had been requested or that could significantly affect the findings or conclusions of the audit report.

### Use of Expert

During this audit, the Office of the Auditor General used a compensation benchmarking and evaluation consultant. The Office also used the services of a lawyer specifically to provide assistance regarding the conflict of interest objective.

## Date Conclusion Reached

We obtained sufficient and appropriate audit evidence on which to base our conclusions on May 24, 2024, in St. John's, Newfoundland and Labrador.



DENISE HANRAHAN, CPA, CMA, MBA, ICD.D  
Auditor General

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# About Us

## Vision

Promoting positive change and accountability in the public sector through impactful audits.

## Mission

To promote accountability in government's management and use of public resources and encourage positive change in its delivery of programs and services.

## Values

Above all else, the Office of the Auditor General must have independence, credibility and integrity. These are essential to everything we do; and critical to our success. The Office of the Auditor General complies with professional and office standards to produce relevant and reliable audit reports. The Office of the Auditor General's independence of government, in fact, and in appearance, provides objective conclusions, opinions and recommendations on the operations of government and crown agencies. Our staff work in a professional and ethical manner, ensuring respect, objectivity, trust, honesty and fairness.

## Audit Team

The Auditor General and Deputy Auditor General wish to thank the diligent audit team who performed their work with independence, credibility and integrity:

Lindy Stanley, CPA, CA - Assistant Auditor General  
Jennifer Tuttle, CPA, CGA - Audit Principal  
Brad Brown, CPA, CMA - Audit Manager  
Chad Russell, CPA - Audit Manager  
Erica O'Brien - Audit Senior  
Juan Grillo, CPA - Audit Senior  
Dianna McGrath, CPA, CA - Engagement Quality Reviewer

The Auditor General also would like to thank Chrysta Collins, Manager of Communications and Stakeholder Engagement, for report editing and design, as well as stakeholder management.

*Independence. Credibility. Integrity.*

# Contact Us

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