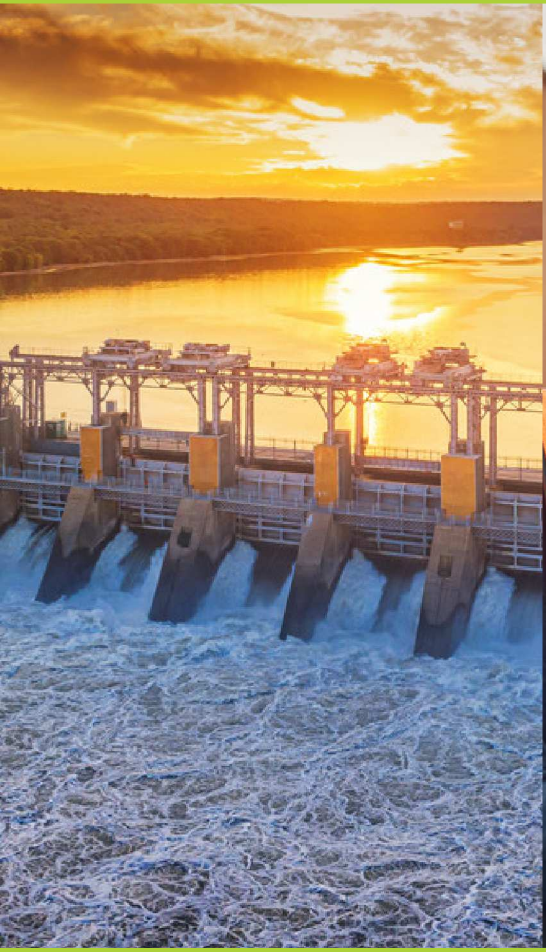
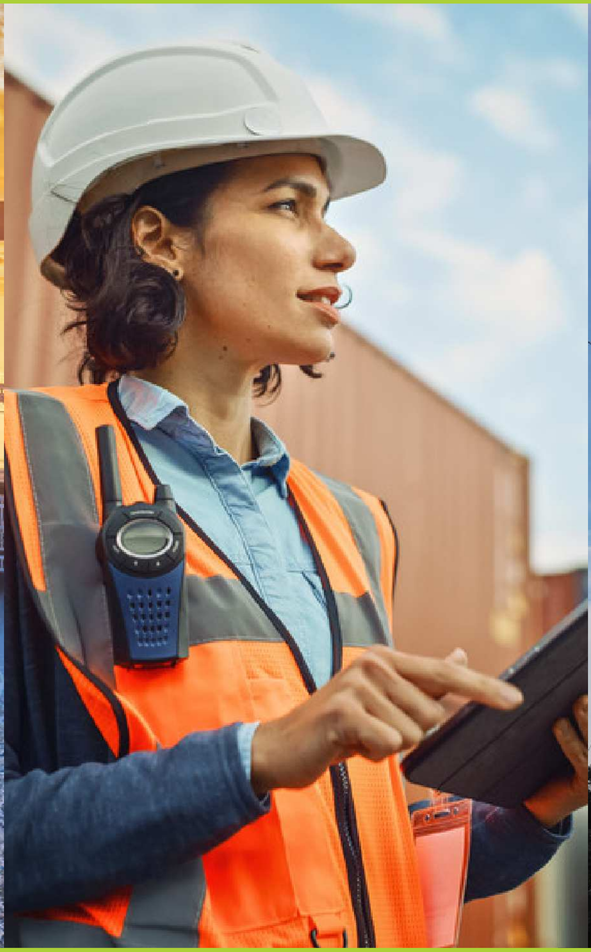
Nalcor Energy

Independent Auditor's Report





October 2022

OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

Audit Overview

OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

Objectives

The objectives of our audit was to ensure Nalcor Energy was:

- Spending responsibly on discretionary expenses;
- Ensuring adherence to appropriate conflict of interest policies, procedures, and legislation; and
- Assessing the cost-effectiveness of using embedded contractors when planning and meeting operational needs.

Audit Period

January 2013 through December 2018.

Why this Audit is Important

- Discretionary expenses by their very nature need to be scrutinized. Oversight is critical to ensuring expenses are necessary, appropriate, and the best use of public money.
- Conflict of interest risks are inherent in any organization's operations. Public sector employees, boards, and contractors need to understand what was expected, and what to do if a conflict happens.
- The use of embedded contractors in project management positions requires assessment for cost-effectiveness, particularly if contracts are not short-term in nature.
- Embedded contractors may have access to confidential information along with the authority to make decisions that, could be perceived as a conflict of interest, generating a personal benefit directly or indirectly.

Conclusions

Nalcor did not always ensure the best possible use of public money, particularly as it related to its management of discretionary expenses and its use of embedded contractors for the management of the Lower Churchill Project. By not aligning policies covering discretionary expenses with government policy whenever possible, Nalcor incurred excess expenses. Nalcor also did not always ensure adherence to appropriate conflict of interest policies, procedures, and related legislation, creating unnecessary risk. Nalcor's policies did not provide guidance or restrictions on accepting a post-employment contract, which is inconsistent with government policy. Nor did Nalcor manage its use of embedded contractors in a cost-effective manner when hiring highly-paid contractors into technical and corporate management positions, without considering the value of such roles being employees.

Summary of Recommendations for Nalcor (NL Hydro)

- Discretionary expense policies should be clearly defined, have spending limits, use approval controls, and must be appropriately managed.
- Discretionary expenses should be managed in a manner that ensures the best possible use of public money.
- Conflict of interest policies need to be clear and comprehensive for employees, board members, and contractors.
- Procedures and controls over embedded contractors, particularly for those in positions of authority, need to be effective to mitigate the risk and likelihood of conflict of interest.
- Project and information processes for the staffing of projects should include cost-effectiveness assessments, have consistent contract terms for allowances, and require the continuous management of cost and staffing mix (contractor or employee).

Audit Overview

OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

What We Found

Discretionary Expenses: Despite having well-defined policies to guide discretionary travel expenses, there were no policies to guide how hospitality, guest relations, honorariums, and various employee-related expenses were spent. There were also policy gaps for relocation, leased vehicles, as well as board member expense claims. Nalcor generally approved expenses appropriately and stayed within its approved budget in most categories of discretionary expenses during the 2013 through 2018 audit period. There were differences in Nalcor's reimbursement rates as compared to provincial government entitlements, leading to friction within the public service where some employees reap benefits others do not. In some cases, Treasury Board would not approve such entitlements. As an example, in 2018, Nalcor's in-province travel reimbursements were 34 per cent higher than what government rates would allow.

Conflict of Interest: While Nalcor's guiding handbook generally reflected the Conflict of Interest Act, Nalcor's policies did not provide guidance on accepting post-employment contracts, which is inconsistent with government's policy. We found that numerous contracts did not contain a conflict of interest section, did not specify termination requirements, had omissions, or ambiguity. We did not find any confirmed incidents of conflict regarding the CEO's employment contract or disclosures.

Use of Embedded Contractors: We found that Nalcor did not have policies or procedures that required officials to evaluate the cost-effectiveness of hiring employees directly versus hiring a contractor. There were also areas of inconsistency with respect to the management of embedded contractors, such as the ability to garner detailed information from databases or the termination clauses of agreements. Nalcor did not appear to have strong protocols for procuring contractors and managing their costs, nor did they have formal benchmarking processes to determine bill rates. There was no apparent rationale for giving contractors general economic increases, usually only given to employees. Our report also includes examples of perceived conflicts of interest which illustrate potential opportunities for embedded contractors to benefit personally from their relationship with Nalcor.

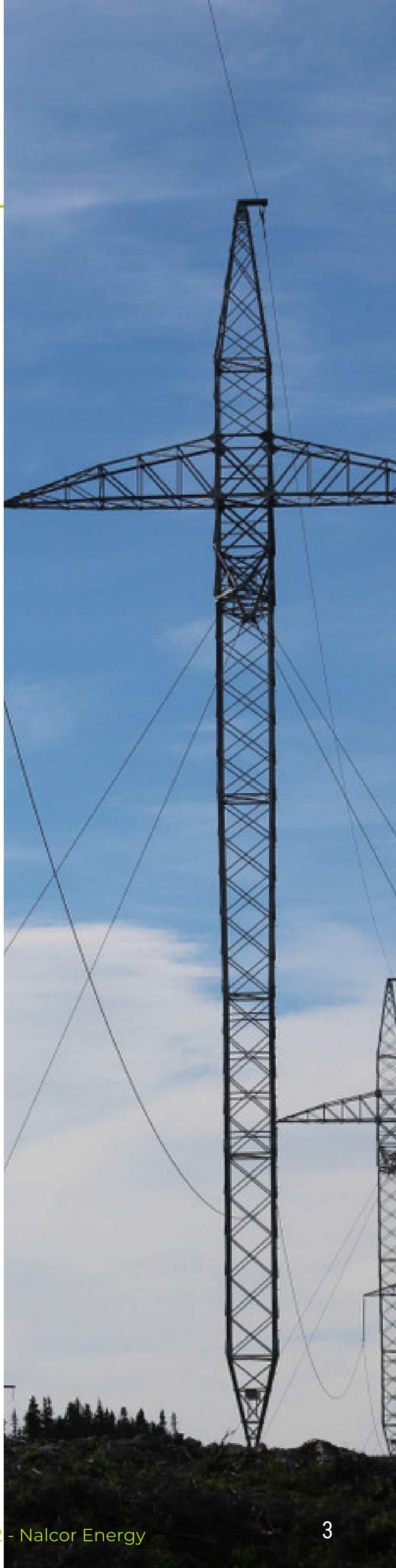
After reading this report, you may want to ask the following questions of government:

1. Are all government entities required to follow Treasury Board policies?

2. How can you ensure conflicts are disclosed, managed and monitored across the public service?

3. How will the findings in this audit influence how government manages embedded contractors?

Table of Contents



Background

Nalcor Energy (Nalcor) was incorporated in 2007 under the Energy Corporation Act as a Crown corporation. Its business lines included the development, generation and sale of electricity; the exploration, development, production and sale of oil and gas; energy marketing; and industrial fabrication site management. On June 23, 2021, the Provincial Government announced that the operations of Nalcor would be moving under Newfoundland and Labrador Hydro (NL Hydro).

Our audit period covers January 2013 to December 2018 and, when appropriate, we have compared our findings to government policy and NL Hydro's operations. Our audit included four lines of inquiry, with this report including three: discretionary expenses, conflict of interest, and the use of embedded contractors. We have determined 11 criteria to assess these three lines of inquiry. The remaining line of inquiry, compensation, will be released in a separate report.

Discretionary Expenses

Government's Treasury Board policies outline its expectations and requirements regarding discretionary expenses within the public service. Government issued an order in council (OC2010-323) that provided Nalcor with an exemption to the application of Treasury Board compensation policies. Some of these policy areas, such as travel, transportation, and relocation, are within our definition of discretionary expenses used in this audit. Discretionary expenses focused on specific corporate expenses and did not include those reimbursed or paid on behalf of embedded contractors working on capital projects.

Conflict of Interest

The Conflict of Interest Act (the 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 Nalcor's policies, procedures, and the CEO's employment contract to this legislation.

Use of Embedded Contractors

Embedded contractors (referred to in our audit as contractors) are defined as members of the Lower Churchill Project management team either directly contracted by Nalcor or indirectly contracted through third-party companies. In February 2011, Nalcor hired an Engineering, Procurement and Construction Management contractor (referred to in our audit as the lead contractor) to provide engineering design and project support. Nalcor's contract with the lead contractor outlined the fees for this role, which included base hourly rates for contractor staff plus bill rate mark-ups, a fixed hourly fee for corporate costs, and other overhead charges. In addition, the lead contractor provided and charged for leased office space and other support services, such as office supplies and computer services. In August 2017, a retroactive amendment was made to the agreement effective April 2012. Specifically, the agreement was amended so that the contractor continued on the project as the engineer of record, but was no longer the primary lead of the project. In effect, Nalcor was the primary project manager of the Lower Churchill Project for the scope of our audit.

Findings - Discretionary Expenses

Criteria 1	**Nalcor's policies and procedures defined allowable travel, hospitality, relocation, guest relations, transportation, board, and miscellaneous expenses, and included spending limits and approval requirements.**
Criteria 2	**Nalcor's travel, hospitality, relocation, guest relations, transportation, board, and miscellaneous expenses were within the spending limits and had the required approvals.**
Criteria 3	**Nalcor's travel, hospitality, relocation, guest relations, transportation, board and miscellaneous expenses were within the approved budget amounts.**

What We Expected

We expected Nalcor's policies and procedures to clearly defined all acceptable discretionary expenses, as well as clearly define spending limits and approval requirements. We expected Nalcor's actual discretionary expenses to be within those stated spending limits and would have the required approvals. It is reasonable to expect that appropriate management oversight happens routinely, ensuring a pressing business need for the expenditure before it is incurred. We expected that expenses would not be incurred beyond their budget allocation without approval and explanation.

What We Learned

We reviewed Nalcor's policies and procedures to assess whether they clearly define all allowable discretionary expenses, spending limits and approval requirements. Table 1 summarizes our findings and our observations about policy gaps.

To assess compliance with policy, we examined a sample of 80 discretionary expenses incurred from January 2013 to December 2018. In general, expenses were approved by Nalcor officials and were within policy spending limits 98 per cent of the time (2 of 80 samples were not). Generally, discretionary expenses were also within the approval and pre-approval requirements set out in Nalcor's policies.

Table 1 - Discretionary Expenses - Policy Assessment

Type of Discretionary Expense	Does the Policy Define the Allowable Expense?	Have Spending Limits been Outlined in the Policy?	Have Approvals been Outlined in the Policy?	Observations
Travel	Yes	Yes	Yes	
Hospitality & Guest Relations	No	No	No	No policy in place to guide hospitality and guest relations costs.
Relocation	Some	No	No	Policy lacks clarity and guidance on household relocation costs, specifically on reimbursement for house sale/purchase fees and the shipping of vehicles.
Transportation	Most	Most	Most	No policy in place to guide the spending on leased vehicles for executive management.
Board	Yes	Yes	No	No policy in place to guide the approval process for board cost claims.
Miscellaneous	No	No	No	No policy in place to guide spending on honorariums, staff recreation, social clubs, cigars, alcohol, personal loss of property, corporate-sponsored events, conferences, Christmas parties, retirement events, and staff house food costs.

Source: Prepared by the Office of the Auditor General.

Nalcor prepared an annual budget that estimated spending across the organization’s lines of business and by type of expense. Nalcor stayed within its approved budget in most main categories of discretionary expenses during the 2013 through 2018 audit period. However, it exceeded its annual budgets in relocation and miscellaneous expenses for two of the six years of our audit period.

Why It Matters

Clearly defined policies and procedures ensure that employees and board members know what spending is acceptable, what expenses can be reimbursed, and what controls are in place for approvals. Management oversight is expected in the approval process to ensure expenses incurred are appropriate, supported by a business purpose and able to be reimbursed. With respect to discretionary expenses, there is a risk that inappropriate spending, lack of internal controls or unacceptable costs being reimbursed could happen due to a lack of policy guidance.

A budgetary process allows an organization to review, anticipate, and manage costs while ensuring guidelines exist for comparing actual costs to budget expectations. If Nalcor's actual expense accounts exceed their budget levels, management attention may be required, since timely corrective actions may control cost escalations. Occasionally, policies may need to be reconsidered in light of changing organizational requirements. By their nature, discretionary expenses require consistent and constant management oversight to ensure they are reasonable and appropriate.

Criteria 4

Nalcor's travel, hospitality, relocation, guest relations, transportation, board, and miscellaneous expenses were incurred with consideration of the cost to taxpayers and ratepayers.

What We Expected

We expected Nalcor to be highly aware of its role and responsibilities as a public sector corporation. It is reasonable to expect that this responsibility would result in the prudent pursuit of the lowest-cost alternatives, particularly for expenses that are considered discretionary. Government's Order in Council OC2010-323 provided Nalcor with an exemption to the application of Treasury Board compensation policies, specifically travel, transportation, and relocation in this audit report. However, we would have expected Nalcor to avail of this exemption with fiscal discretion.

What We Learned

Our audit specifically assessed discretionary expenses, comparing policies with actions and determining if incurred expenses were reasonable. We compared these policies to those imposed by Treasury Board, since their fiscal stewardship responsibilities would be aligned. The discretionary expenses we audited were related to corporate functions and did not include capital projects, such as the Lower Churchill Project and its project management team.

Travel Expenses

With respect to reimbursement rates for travel, there were some differences in Nalcor's policy and practice when compared to government. Individually, they are not particularly material. For example, Nalcor's meal per diems of $54 daily for in-province travel is 24 per cent higher than government's per diems of $43.70. It is fair to note that government's travel reimbursement levels may be outdated since they have not been reviewed or adjusted for many years. However, they are the rates applied to all employees impacted by Treasury Board policy and Nalcor is availing of their exemption via OC2010-323 to have higher rates.

Using the 2018 fiscal year as an example, Nalcor's in-province travel reimbursements for private accommodations, per diems and incidentals, which totalled $430,400 for non-union positions, were approximately $109,000 (34 per cent) higher than what government's reimbursement rate would allow. In our opinion, the extra expenses were avoidable, since they exceed those rates approved by Treasury Board and we found no pressing business rationale for them to be higher.

Hospitality & Guest Relations Expenses

Nalcor's hospitality and guest relations expenses are related to McParland House, their company-owned facility in Churchill Falls. McParland House is used as a conference centre for meetings and social events for Churchill Falls employees, contractors, and guests. During the scope of our audit, Nalcor held on average 27 events per year there, primarily meetings for employees and contractors. The majority of expenses for events at the property fell into two categories: guest relations and food costs, excluding staff salaries such as a cook.

Our audit sampling did identify items related to McParland House events that may be considered unreasonable or excessive in a public sector context. For example, there were purchases of alcohol, tobacco, and a cigar humidor. There was also a significant inventory of alcohol on-hand (282 bottles of 73 different products worth approximately $8,000). Nalcor officials advised that there was no tracking of how much alcohol was purchased and consumed during a year.

In December 2017, a food purchase totalling $20,027 was made and approved by the same individual for a Christmas dinner in Churchill Falls. This amount was more than $10,000 above this individual's approval limit of $10,000 and was not in keeping with the segregation of duties in Nalcor's policies.

Relocation Expenses

As previously stated, Nalcor's policies for relocation expenses outlined just moving household items, but not house sale/purchase fees and vehicle shipping costs. No spending limits were provided in policy and Nalcor did avail of their exemption under OC2010-323 to deviate from Treasury Board policy.

Payment for relocation costs is approved by Nalcor's human resources division on a case-by-case basis and costs are required to be outlined in hiring letters. Nalcor's policy and signed relocation agreements state that if a new employee leaves Nalcor within three years of being hired, Nalcor can attempt to recover the reimbursed moving costs the employee received. However, our samples showed that Nalcor did not always have signed agreements in place in order to enforce this collection policy.

Government restricts the reimbursement of costs for transportation of furniture and household items to $20,000. We observed that in one piece of Nalcor's internal correspondence, a human resources representative felt that "moving expenses are getting out of hand." We sampled six claims for reimbursement of costs to move household items and found that they all included items that would not normally be reimbursed by government.

To illustrate, our audit sample included a claim by one employee for relocation costs in 2014 that totalled $50,000. The claim included the cost of shipping a tractor, a hot tub, two utility trailers and six recreational vehicles. The same employee was also reimbursed for shipping a car at a cost of $5,000, which is 67 per cent higher than the government limit of $3,000. Nalcor explained that the approval of the extra costs for this individual was based on the highly specialized nature of their position.

Transportation Expenses

Our sampling work on transportation expenses, which was largely assessing vehicle lease and rental payments, did not result in any audit findings.

Board Expenses

A board member claimed a year's worth of travel in a single claim totalling $21,124 (for nine round trips from the United States to St. John's from December 2016 to November 2017). This claim was approved by a vice-president, not the CEO as we expected, in December 2017. There was no evidence that the review and approval process had ensured that the trips coincided with board meeting dates; we verified this during our audit.

Miscellaneous Expenses

During the scope of our audit, and in our limited sampling of expenses, we did identify items related to miscellaneous expenses that may be considered unreasonable or excessive in a public sector context. Nalcor spent $240,000 on average annually on employee expenses including, for example, President's awards, social clubs, and service awards. We also found 12 additional invoices from 2014 to 2018 in the miscellaneous general ledger account totalling $15,000 for employee expenses that included Christmas parties, gift cards, and golf fees.

Nalcor annually recognizes employees for their accomplishments in safety, environment, business excellence, people and community categories. Selected employees were given $500 in cash ($1,000 prior to 2018) along with artwork costing $400 ($250 prior to 2018), and a framed certificate. They were also invited, with a guest, to a dinner with the CEO. Government policies do not provide monetary gifts for employee recognition, government demonstrates employee recognition through non-monetary awards and ceremonies.

Nalcor contributed to employee social clubs annually. From 2013 to 2018, they provided $419,788 to 12 clubs. These costs included an annual payment of $65 ($60 in 2018) for each active employee and retiree and an occasional payment of $85 each for social club members who may have had a baby, were hospitalized or got married. Government does not provide funding to employee social clubs; social clubs are normally fully funded by active employees.

Nalcor gives employees gifts for every five years of service up to 45 years. These gifts vary in cost but can be up to $500 in cash or gift equivalent. For example, in 2018, Nalcor paid $11,000 in cash gifts for 30 employees. By comparison, government recognizes 20, 25, 30 and 35 years of service with a certificate; no cash gifts are provided for years of service.

Why It Matters

As a Crown corporation, we would expect that Nalcor would only exceed Treasury Board policies when there was no other fiscally prudent course of action to satisfy a clear business need. Discretionary expenses are by their very nature expenses that need to be managed, reviewed and scrutinized. They are often not mandatory to incur or can be subject to internal corporate policy, which can be changed if costs outweigh benefits. Discretionary 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.

Findings - Conflict of Interest

Criteria 1

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

What We Learned

Nalcor's Business Conduct and Ethics Policy (policy) outlines its code of conduct in a Business Ethics Handbook (handbook). The handbook is the guiding document for how public office holders (employees, the board of directors and contractors) should behave with respect to potential conflicts of interest and reporting non-compliance.

Nalcor's handbook generally reflects the Act. We did note some omissions:

- Selling or transferring holdings to evade the Act (section 11): Nalcor's handbook does not prohibit the sale or transfer of a private interest on terms or conditions that have as their purpose the evasion of a provision of the handbook;
- Disclosure in writing (section 15(1)): the handbook does not require written disclosure of actions that would constitute a violation of the handbook;
- Disciplinary actions other than immediate termination for price-fixing, bid-rigging, or a similar activity related to competitions (section 18): the handbook does not require disciplinary actions, such as suspension, restitution, or reprimand, if an employee fails to comply with the handbook's guidance; and,
- Post-employment (section 19): the handbook does not prohibit a previous employee from entering into a contract with, or receiving a benefit from, Nalcor within a year of ending their employment, and does not provide an exception by granting a waiver.

The guidance in Nalcor’s handbook also had areas of ambiguity. For example, guidance regarding confidential information, and not using it for personal gain, does not define it as information that could be gained as a Nalcor employee. It also does not specify that personal gain may be direct or indirect. Another example of ambiguity relates to an employee’s potential future employment. The handbook states that employees must not let offers of future employment influence their duties or decisions as a Nalcor representative. The handbook did not specify that an employee’s future employment plans must also not influence their existing duties or decisions. We also found that there were potential conflict of interest situations not addressed in the handbook, such as hiring, promoting, or the direct supervision of family members; or having a personal relationship that may conflict with an employee’s responsibilities or compromise Nalcor’s interests.

The handbook includes instructions for employees to annually sign an acknowledgement form, confirming compliance with its guidance and agreeing that potential violations will be reported. Nalcor also has an online business conduct course, which is used to communicate its policies.

We found that the requirement to sign an annual acknowledgment form was not included in Nalcor’s online business conduct course and the practice had been discontinued between July 2016 and the end of 2018. At the end of 2018, six questions were added to this course to ensure that every two years employees and contractors assess if they were in conflict and report it to their supervisor.

Why It Matters

The Conflict of Interest Act ensures that public office holders 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 office holders 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

Nalcor's Chief Executive Officer employment contract adhered to conflict of interest legislation and conflict of interest policies and procedures.

What We Expected

We expected Nalcor to have guidance for incoming staff and established corporate protocols with respect to the requirements of the Conflict of Interest Act. We expected the Chief Executive Officer (CEO) employment agreement would clearly outline expectations and ensure adherence to legislative requirements through appropriate clauses and timely disclosures. We also expected that Nalcor's policies and procedures would ensure that any real or perceived conflict of interest would be identified, mitigated and monitored accordingly.

What We Learned

Nalcor's former CEO was appointed on April 21, 2016. While the Chair of the Board of Directors did not sign the CEO's employment agreement until August 9, 2016, the agreement was back-dated to be effective April 21, 2016.

The agreement did align with the Act, which permits the CEO shareholdings of five per cent or less of a publicly traded company. In July 2016, the former CEO asked the then Minister of Natural Resources about their position on the board of a publicly traded company. On August 11, 2016, the CEO made a full disclosure of their common shareholdings and companies in which they had been, or were currently, on a board.

We reviewed the CEO's shareholding declarations that were submitted to the Nalcor Board for 2016 and 2018; however, Nalcor officials could not provide a declaration for 2017. We did not find any confirmed incidents of conflict of interest as defined in the Act within the declarations we reviewed. The disclosed shareholdings held by the CEO and their family members in the same household confirmed they were below 10 per cent (i.e. five per cent for the CEO and five per cent for family members). This five per cent - ten per cent total - threshold aligns with the Conflict of Interest Act.

Our audit work was limited to information available from Nalcor, therefore we were reliant solely on Nalcor to provide us with the required information. Therefore, we were unable to verify the accuracy of personal individual shareholdings. However, what was reviewed demonstrated compliance with the CEO's disclosure obligations.

Nalcor advised that they did not provide a legal opinion on the CEO's potential conflict of interest at the time of hire. Nalcor also advised they understood that government had reviewed it during the appointment process. It appears that government did not seek a legal opinion until after the CEO was hired.

The provincial government has a Conflict of Interest Advisory Committee that is responsible for ensuring the fair application of the Conflict of Interest Act. The former Department of Natural Resources, in consultation with this committee and the Department of Justice and Public Safety, concluded that the former CEO was not in a conflict of interest due to his shareholdings. The former Department of Natural Resources' review concluded that the CEO's former positions with Fortis Inc. and Newfoundland Power, and their other personal shareholdings in private corporations, did not constitute any conflict of interest under the Act. In the decision, the department advised the CEO:

> "to recuse yourself [CEO] from any strategic, policy or commercial decisions or transactions which directly involve any company for which you [CEO] may have a direct conflict. As there may be a perceived conflict of interest with Fortis Inc. and its subsidiaries, please ensure you [CEO] are removed from the decision making process with the prospect for material effect or benefit to Fortis Inc. or Newfoundland Power generally."

Why It Matters

It is important that any public sector hiring be conducted with conflict of interest considerations incorporated into the process. By being cognizant of requirements, actions can be taken to avoid unintended consequences and ensure public confidence is not eroded. Employment agreements need to adhere to conflict of interest legislation and the organization's policies and procedures to ensure that any real or perceived conflicts are identified, mitigated and monitored.

Criteria 3

Nalcor ensured board members adhered to conflict of interest policies and procedures, and legislation.

What We Expected

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

What We Learned

Nalcor board members must abide by the Conflict of Interest Act, the Corporations Act, and Nalcor's in-house Director's Charter. The Director's Charter generally aligns with the Corporations Act, which includes a section that allows directors and officers two options to disclose conflicts of interest: in writing to the Corporation, or in a request to have the nature and extent of their interest entered into board minutes. The Charter requires disclosure in writing, which also aligns with the Conflict of Interest Act.

While the Charter does not specifically require an annual written declaration, it is Nalcor's practice to have directors disclose and declare on the Director's Declaration of Interest form any significant interests they, or their family, may have. Board members may continue to serve if there is a conflict; however, they must recuse themselves from decisions where they could benefit.

We found that Nalcor's process for the Director's Declaration of Interest forms was not well documented. Nalcor did not provide its board members with a required date to submit their completed forms. In addition, we also found Nalcor did not process some of the forms appropriately, for example:

- Some forms were not signed or dated by the board members confirming there was no conflict;
- Some forms did not have a received date; and
- In later years, some board members did not complete forms and only gave email confirmations.

Our sample included all available Director's Declaration of Interest forms and relevant minutes on disclosed conflicts from 2016 to 2018. We did find instances in which board members recused themselves from specific board discussions and decisions. We did not find any confirmed incidents of conflicts.

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 4

Nalcor ensured employees adhered to conflict of interest policies and procedures, and legislation.

What We Expected

We expected that the employees of Nalcor 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

As previously noted, Nalcor has an online business conduct course which includes conflict of interest training for employees. This course is required for all new employees within their first 17 days of employment and all existing employees every two years. If not completed on time, the course software automatically generates a report and sends reminders to the employee and their supervisor; the system escalates the issue to their manager after six days if unresolved.

We requested two exception reports focused on initial and renewal course completions. While we found the majority of employees completed the course initially when required, four per cent (54 employees) did not, including several executive team members. A greater percentage (18 per cent – 239 employees) did not complete the course renewal when required.

Nalcor's policy did not provide any guidance or restrictions on accepting a post-employment contract. Their handbook does not provide guidance on post-employment restrictions or hiring practices, which is inconsistent with government's policy. Government provides the following guidance to employees:

> "If you are no longer employed by a government department, agency, board or commission, you must not accept a contract with your former department [agency, board or commission] for one year after leaving unless a waiver is issued by the Deputy Minister [or CEO]."

We selected a sample of 13 Nalcor employee/contractor files and identified two former Nalcor employees who became embedded contractors immediately after their employment had ended. For example, Nalcor immediately contracted the services of one retired employee through a recruiting agency after they left their position with Churchill Falls (Labrador) Corporation Limited. In another instance, Nalcor rehired a former employee as an independent contractor within two weeks of their resignation from a similar role with the Lower Churchill Project. While the Act does allow exemption with a waiver, the CEO had not issued a waiver in either of these instances.

Why It Matters

Any public office holder needs to understand the Conflict of Interest Act and the requirements that apply to them. Including these requirements in training is a key component of any organization's compliance and monitoring program. Without close monitoring of employee adherence, 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 5

Nalcor ensured contractors adhered to conflict of interest policies and procedures.

What We Expected

It is reasonable to expect contractors to be knowledgeable of the conflict of interest policies, procedures, and legislation of a public sector entity they serve. We expected Nalcor to apply its conflict of interest policies and procedures to contractors, similar to its application to other public office holders such as board members and employees. We would expect those policies to be robust enough to assist contractors and Nalcor 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 that senior management would have the information and tools to manage contractor compliance on a routine and consistent basis.

What We Learned

Nalcor had various forms of contractual relationships with individuals and organizations to supplement its workforce. These contractors were embedded into new or ongoing operations, either as individuals directly contracted by Nalcor, or indirectly through third-party recruiting agencies.

Nalcor's contracting procedures required that a conflict of interest section is included in the service contract with each contractor. Nalcor's policy and its handbook required contractors to follow the guidance of the Conflict of Interest Act, and to abide by the conflict of interest guidance within the handbook.

We found that not all contracts followed Nalcor's template for the conflict of interest section. Contracts dated during 2014 and later included a clause that specified Nalcor's ability to terminate the contractor if they were found to be in conflict; contracts dated before 2014 did not include this clause. Nalcor officials advised there were no contract terminations resulting from a contractor being in conflict.

In our audit sample of 16 contracts, we found that:

- Three did not contain a conflict of interest section;
- Four contained a conflict of interest section, but did not specifically include the termination clause, even though the contracts were dated after 2014; and
- Nine appropriately contained the conflict of interest sections.

We found a number of factors that increased the risk of conflict of interest violations including:

- Nalcor required some contractors to complete a commercial questionnaire to identify possible conflicts of interest, but not recruitment companies or independent contractor companies; and
- A clause restricting solicitation of employees or other contractors was not included in the contracts of contractors working on the Lower Churchill Project.

The orientation package that Nalcor used with embedded contractors, reviewed during the scope of our audit, included a copy of the Code of Conduct and the Business Ethics Handbook. The handbook required the contractor to sign an acknowledgement form, the same as the one required of employees, confirming they had read the handbook.

We performed testing to determine whether 32 contractors, which were actively employed during the period June 30, 2017 to December 31, 2018, had signed an acknowledgment form at the time of their contract. We also tested whether they continued to sign acknowledgment forms regarding conflict of interest periodically afterwards. We found that 56 per cent (18 of the 32 contractors) had never completed an acknowledgement form with Nalcor. We also determined that Nalcor did not require contractors to complete acknowledgement forms periodically after their contract date and did not require them to participate in any conflict of interest refresher courses. None of the 32 contractors that were included in our testing had completed acknowledgment forms after their initial contract date and only two of the 32 contractors had participated in Nalcor's conflict of interest training.

Why It Matters

Effective business practices reduce the risk of a conflict of interest remaining undetected from an embedded 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 processes create opportunities for perceived or real conflict of interest violations to occur, which can contribute to reputational risks and compromise Nalcor's and government's interests.

Findings - Use of Embedded Contractors

Criteria 1

Nalcor has policies and procedures to assess cost-effectiveness when deciding whether to create a new employee position or to hire an embedded contractor to meet an operational need.

What We Expected

We would expect Nalcor to have clearly defined policies and procedures to determine the human resourcing requirements for its operations. Specifically, once identified, it is reasonable to assume that Nalcor assessed the cost-effectiveness of hiring employees directly or engaging in contractual arrangements to augment their staffing requirements. We would expect that assessment to be documented and to consider the various aspects of hiring, including salary and benefit costs as well as resource availability.

In order for Nalcor to effectively analyze and monitor all of the detailed costs related to embedded contractors, we would have expected there to be detailed information that was easily accessible and reportable for Nalcor management, including contractor hire history and actual costs across the entire time period of the project.

We expected that embedded contractors would operate under existing Nalcor policies and procedures, as per Nalcor's handbook. This expectation also means that they would not have access to, or would not act on, any commercially sensitive or confidential information that could be perceived as, or create a personal gain, as per the conflict of interest guidelines.

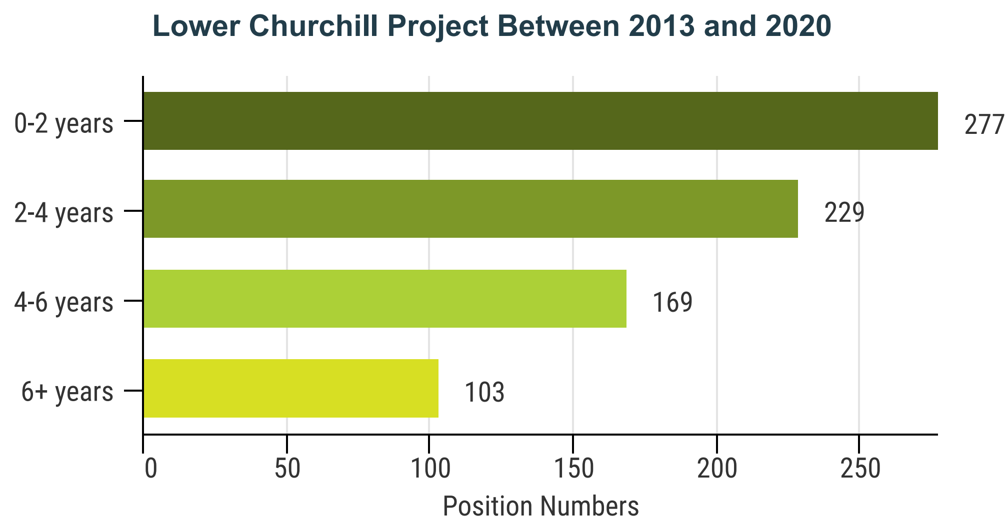
What We Learned

We found that Nalcor did not have policies or procedures that required officials to evaluate the cost-effectiveness of hiring employees directly versus hiring a contractor. It appears hiring was exclusively focused on contractors working for the Lower Churchill Project, with no consideration given to creating additional temporary Nalcor positions. While Nalcor asserted that a market for temporary employees on a mega project does not exist, they could not provide evidence to support this comment. Furthermore, we could not find any rationale or documentation to explain why temporary employees were not explored for some positions, such as long-term staff requirements or corporate roles.

Nalcor advised that they intentionally satisfied the vast majority of their position needs by hiring contractors, either through recruitment agencies, third-party companies, or as independent contractors. Nalcor advised that total 2017 costs of contractors and secondments represented 9.5 per cent of total project costs at that point in time. Nalcor compared this amount to the 2016 industry range for large projects and found it to be within the accepted range (9-11 per cent). We were not able to validate the Nalcor percentage calculation and we did not receive any evidence of cost-effectiveness assessments being completed.

For the Lower Churchill Project, contractors worked full-time alongside seconded Nalcor employees and were embedded in the management and decision-making processes for the project. Of the 778 total contractor positions between 2013 and 2020, more than 500 (64 per cent) lasted for longer than two years as shown in Table 2. Nalcor did confirm that they expected the core project management team, which included approximately 80 contractor positions, to last for at least six years. The remaining 23 contractor positions were for other project management functions and were also in place for more than six years. By 2020, some embedded contractor positions had been maintained on the Lower Churchill Project for much longer than six years, as they had been created and filled prior to sanction in 2012.

Table 2 - Duration of Embedded Contractor Positions



Source: Nalcor Energy (prepared October 2017, unaudited).
Note: Nalcor calculated the total contractor positions (778) from the actual number of contractor positions used from 2013 to 2017 plus the planned number of contractor positions to be used from 2018 to 2020.

For comparison purposes, we also assessed NL Hydro's use of embedded contractors. We found that they did use contractors, particularly for its capital program. As of 2017, 30 contractors were working for NL Hydro - 28 in the capital program and two in operational support. NL Hydro has a policy for the procurement of professional services, which is in compliance with the Public Procurement Act, and the majority of NL Hydro's professional service contracts were established for a single year. As of May 2017, approximately ten per cent of NL Hydro's contracts were expected to extend beyond a one-year term.

We examined records and systems that defined the overall management of embedded contractors and identified other areas of inconsistency:

- Nalcor had not maintained a comprehensive database of embedded contractor hire history with detailed current and historical costs. The databases maintained by Nalcor did not easily provide detailed information. There was a significant effort by Nalcor employees, their embedded contractors, and our audit staff to obtain sufficient information required for our audit. There was manual compiling of significant information from invoices and other sources throughout our audit. In some cases, Nalcor was not able to provide the information we requested at all. For example, Nalcor did not separately track travel, living allowances and reimbursable costs of contractors and, instead, included these costs within the overall contractor labour costs. Nalcor was therefore unable to provide us with a summary or detailed listing of costs for these allowances.

- Nalcor used a master service agreement with recruiting agencies and larger contractors or a consultant contract template for single-employee contractors. The termination notice in the master service agreement required Nalcor to provide termination notice to a contractor. We found that it did not require contractors to give termination notice to Nalcor.

  Nalcor's master service agreement stated that if Nalcor ended a contract before its expiry date, contractors would receive seven days' pay in lieu of a termination notice. However, the length of notice agreed on in contracts actually varied significantly when compared to the seven days outlined in the service agreement. Our audit showed that at least four of the 15 contracts analyzed had a lieu of notice period beyond seven days: one with 10 days, two with 30 days and one with 90 days.

  In comparison, provincial government policy allows a termination notice period of 14 days and only allows payment for work done. Generally, government does not allow payment in lieu of notice to contractors.

- In a three-month period (November 2016 - January 2017), Nalcor paid $175,480 to four contractors that were terminated, with each given 30 days pay in lieu of notice. Two of these individuals had contracts containing the template lieu of notice period of seven days, and the other two had no lieu of notice period in their contracts. Each of these four positions was then filled by promotions of other contractors immediately after the terminations. We could not find any rationale for these terminations, as they appear to have been without cause.

By October 2017, there were 490 individuals in Nalcor's project management team on the Lower Churchill Project, including 440 contractors and 50 seconded employees. The embedded contractors performed technical (334) and corporate functions (106); Table 3 on page 30 provides additional details on these roles.

Technical project management roles included 34 types of positions covering engineering, project management, inspection and telecommunications functions. We could find no evidence of any cost-effectiveness assessment. Specifically, we could not find any rationale for why Nalcor filled 80 technical roles on the core project management team solely with embedded contractors. Given that Nalcor has confirmed they expected to keep this team for the entire length of the project, and given the leadership roles these positions would be responsible for, along with the 50 seconded employees, it is reasonable to expect that some consideration would be given to filling the roles with employees. Not only could it be a lower-cost option, it could also have the potential of building capacity within the organization that could be redeployed post-project to ongoing maintenance and operations.

Corporate project management roles included 14 types of positions covering accounting, human resources, information management, procurement, and administration functions. We could find no evidence of any cost-effectiveness assessment. Specifically, we could not find rationale for why Nalcor filled these roles with embedded contractors rather than employees. It would appear that the corporate skill sets would be available in the provincial workforce and at a significantly lesser cost. Similarly, these roles may have been utilized post-project, since skills and capacity would have been gained during the project.

Connected Audit Objectives - Embedded Contractors and Conflict of Interest

We found examples of perceived conflicts of interest as they related to embedded contractors during our audit. As noted earlier, Nalcor's handbook had policy gaps and ambiguity regarding conflict of interest, as detailed in Criteria 1 and 5 in the Conflict of Interest.

The three examples selected for this audit report indicate possible issues with adherence to the Conflict of Interest Act regarding the use of embedded contractors. It also raises questions about the degree of oversight of embedded contractors by Nalcor management. Generally, the examples illustrate potential opportunities for Nalcor embedded contractors to benefit directly, from having outside business relationships, indirectly through family relationships, or from changing their method of employment to become a contractor, rather than an employee.

Five sections of the Conflict of Interest Act were particularly relevant to our audit of embedded contractors and conflict of interest criteria:

- Section 3 - Statutory duty "...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 an opportunity to benefit himself or herself or a member of his or her family improperly, directly or indirectly."
- Section 4 – Influence "…shall not use his or her position to seek to influence a decision made by another person to benefit, directly or indirectly, a private interest …"
- Section 5 – Insider information "…shall not use or share information that is gained in his or her capacity … [that] is not available to the general public to further or seek to further, directly or indirectly, a private interest …"
- Section 6 – Private interest not furthered "…a decision does not further, directly or indirectly, a private interest where the decision…concerns the remuneration or benefits …provided by or under an Act."
- Section 19 – Post-office employment "A person who within the previous year was a public office holder…shall not enter into a contract with or receive a benefit from…an agency of the Crown with which he or she was employed within the previous year."

Perceived Conflict of Interest - Example # 1

It appears that Nalcor allowed an embedded contractor, who was in a senior project management role, to gain an advantage on future Nalcor contracts through knowledge of privileged and commercially sensitive information. This situation was investigated by Nalcor's internal audit and legal divisions in April 2018 and they concluded there was no conflict of interest. Nalcor continues to assert that the contracts obtained by this embedded contractor were entirely the result of decisions made by Nalcor executive officials. Nalcor advised that executive officials approached this contractor based on prior experience and decided that they should provide the upcoming work to the contractor, rather than put it to tender.

In our opinion, it appears the actions by Nalcor and this contractor did not comply with the Conflict of Interest legislation or the requirements outlined in Nalcor's contract with the embedded contractor. The details of this situation are illustrated in the following timeline graphic:

Perceived Conflict of Interest - Example # 1

October 2016

An independent embedded contractor that had worked on the project for six years as a Project Manager starts a new company (Company A).

The same independent contractor recruits three existing embedded contractors to work for their Company A.

November 2016

The Project Manager is promoted to Project Director. They maintain supervisory authority over the three subordinates that work for their Company A. On the same day, Nalcor signs a $1.8 million contract with Company A for the professional services of four employees for a year.

January 2017

The Project Director signs a one-year contract and a sole source justification on behalf of Nalcor with a contractor (Contractor B) that had significant HVdc experience. The sole-source justification form outlined the expertise Nalcor required.

July 2017

Nalcor signs a second contract with Contractor B covering a two-year period. The Project Director did not sign this contract.

November 2017

The Project Director recruits four more individuals to Company A. These individuals had been senior employees of Contractor B and had been working as HVdc embedded contractors as part of Contractor B's new contracts with Nalcor.

Nalcor awards Company A two sole-source contracts totalling $7.1 million. These contracts were for HVdc related work.

December 2017

A 3rd sole source contract was awarded to Company A with a renewal option of $2.5 million per year for HVdc related work. This contract involved work that was previously signed with Contractor B.

March 2018

As a result of losing four critical HVdc personnel to Company A mid-way through their contract work, Contractor B's contract scope was reduced by Nalcor via a contract amendment effective and dated March 2018.

Perceived Conflict of Interest - Example #2

In 2014, two embedded contractors on the Lower Churchill Project were investigated by Nalcor's internal audit and legal divisions. The investigation concluded there was a conflict of interest, due to the embedded contractors also being directors of a recruiting agency that was in the process of becoming a provider of recruiting services to Nalcor. Nalcor implemented changes and restrictions to the recruiting arrangement to discourage any future conflicts from occurring. Nalcor approved the recruitment services to instead be provided by a related recruitment agency, in which there were common directors with the original recruitment agency, but the embedded contractors themselves were not directors.

Nalcor was not aware of a business relationship that had not been disclosed by the embedded contractors and the newly-approved recruiting agency in 2014. In this business relationship, the embedded contractors and directors of the recruiting agency were all directors in a third non-recruiting company. The approved recruiting agency hired a sibling of one of the embedded contractors in 2017, who had been working on the Lower Churchill Project as part of an unrelated recruiting agency in the division with the embedded contractors. These details appear to be violations of the agreed-upon 2014 restrictions. The second situation was not investigated by Nalcor's internal audit and legal divisions.

Perceived Conflict of Interest - Example #3

There were seconded employees working on the Lower Churchill Project (50 in 2017), who continued to receive their normal salaries and benefits as employees while assigned to the project. We did find examples where employees resigned from employee relationships to immediately begin a contractual relationship. One example is a Nalcor seconded employee in a corporate role who resigned in August 2017 and was immediately hired back as an independent contractor in a newly created position. The job descriptions for both the old and new positions were similar, with the former Lower Churchill Project secondment position subsequently eliminated. The individual performed work that appeared to be the same as the work performed in the seconded role, even working from the same location once they became a contractor. This situation was not investigated by Nalcor's internal audit and Nalcor officials could not provide evidence that the legal division had investigated it. After factoring in an allowance of 30 per cent for benefits and other payroll-related costs, this example alone resulted in additional net costs of $120,000 annually.

Why It Matters

A significant project management responsibility is managing project resources and maintaining control over project costs to ensure the project stays on time and on budget. Contract management would be paramount. Using contractors can give a company flexibility for highly specialized roles and allow for quick downsizing of staff as project phases end. However, using contractors over prolonged periods can be costly, with the hourly rates for contractors often higher than what regular employees cost, even after factoring in benefit costs. Consideration should be given to using temporary employees rather than contractual arrangements, particularly for roles that are generic to any project, will be needed for a long period of time or could provide value post-project through redeployment. By doing so, cost savings could be realized, future costs could be avoided or efficiencies could be gained.

Maintaining a comprehensive database of embedded contractor details can help ensure effective analysis and monitoring. Without this detailed information, there is an increased risk of cost overruns and challenges to understand what decisions were made and why.

Placing contractors in positions of authority may give them access to privileged or commercially sensitive information, where they could gain an unfair advantage when negotiating their own bill rates and submitting proposals for future work. Contractors in management positions that oversee hiring other contractors, approve contracts with other contractors, and/or manage payments made to them, create risk for the organization, particularly as it relates to compliance with company policies, the risk of fraudulent behaviour and an increased likelihood of conflicts of interest. Good corporate governance practices are critical to ensuring public trust is upheld when issues are identified.

Criteria 2

Nalcor had procurement processes that established reasonable bill rates and allowances for embedded contractors.

What We Expected

We would expect Nalcor to have appropriate procurement processes for hiring embedded contractors. We would expect that those processes, and applicable benchmarks, would be used to develop cost estimates at the beginning of the project. As well, estimates would be done for each type of position, based on market analysis and using comparative employee costs inclusive of benefits, as a guide. The very nature of an embedded contractor is that they do not enjoy the security and benefits of being an employee, hence they charge higher rates to compensate for that risk. Given the reliance on contractors, the establishment and consistency of cost controls, protocols for contractor rate changes, and standard contract language would be a reasonable expectation. Furthermore, when the shift from recruiting agencies to independent contractors was occurring, we would have expected a billing rate decrease as a result of Nalcor no longer having to pay a monthly recruiting fee to the recruiting agencies.

What We Learned

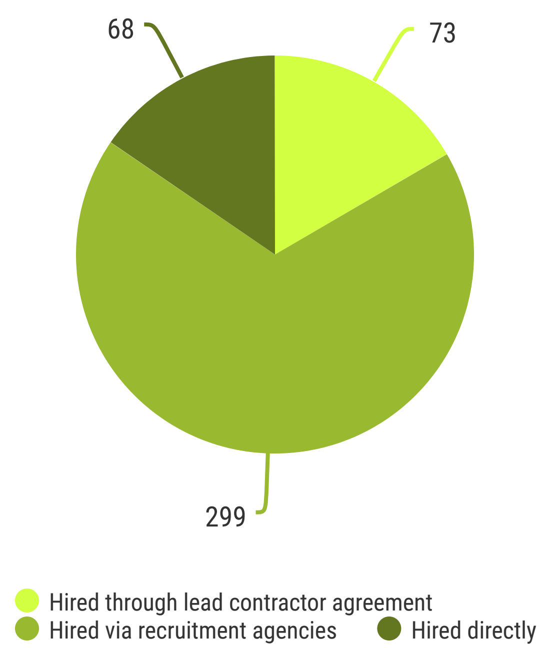
Nalcor did not appear to have robust protocols for procuring contractors and managing their costs, such as a business rationale for rate setting or master bill rate tables for consistency. They also did not use a formal benchmarking process to determine appropriate bill rates to pay contractors. Nalcor did not have a master bill rate table to guide hiring contractors at any point from 2012 through Fall 2017. Throughout the project timeline, Nalcor's bill rate with contractors was determined either by accepting what the contractor proposed, or on an informal and potentially subjective basis, based on a variety of factors:

- original lead contractor stated rates
- recruiting agencies proposed rates
- independent contractors proposed rates
- market conditions - surveys
- previous hires – range of previous rates paid
- rates adjusted for qualifications and experience

In 2017, there were 440 contractors working on project management for the Lower Churchill Project:

- 73 contractors were hired through the lead contractor agreement. Nalcor paid base rates plus bill rate mark-ups, a fixed hourly fee for corporate costs, other overhead charges, and a charge rate to cover office supplies and computer services.
- 299 contractors were hired via recruitment agencies, where Nalcor paid base rates and a percentage per hourly salary rate to cover overhead and recruiting fees. The recruiting fees were up to an additional five per cent above the agency's invoiced hourly cost throughout the entire time that the recruiting agency personnel worked on the Lower Churchill Project.
- 68 contractors were hired directly as independent contractors at stated rates.

Embedded Contractors Working on the Lower Churchill Project in 2017



Nalcor's 2011 contract with the lead contractor outlined agreed-on services and applicable rates; however, in 2012, Nalcor took control as the project's primary lead and removed that contractor from the role. Nalcor did not adjust the contract with respect to the rates charged by the contractor, even though the lead contractor continued in a reduced role, retroactive to 2012. Nalcor appears to have paid the lead project management contractor more than the contractor's services justified when compared to Nalcor's maximum recruiting rate paid to other recruitment agencies from April 2012. Nalcor officials have advised that the fees did not change because the contractor maintained their role as the engineer of record. We felt a change in rates was reasonable to consider since the contractor's responsibilities were modified.

In May 2016, in response to an access to information request, Nalcor officials created a document that outlined the actual bill rate ranges for positions working on the Lower Churchill Project at that time through recruitment agencies. It was updated and expanded to October 2017 for our audit. The document outlined the actual minimum and maximum daily bill rate ranges for each position, with any positions that had ended before October 2017 excluded from the document. Our audit used this document to conduct an assessment of the bill rates and annual costs of embedded contractors. Table 3 outlines this information but does not include any additional costs, per note 3 of the table.

Table 3: Embedded Contractor Bills Rates as of October 2017

Positions	# of positions	Maximum Hourly Rate per Position	Maximum Daily Rate per Position (Note 1)	Maximum Annual Cost per Position (Note 2)
Specialty Labour Relations Advisor	2	$295.00	$2,360	$568,760
HVdc Specialist	1	$251.63	$2,013	$485,133
Lead Engineer	17	$185.47	$1,855	$471,170
Project Director	2	$243.15	$1,945	$468,745
Senior Component/Site Manager	11	$221.88	$1,775	$427,775
Area Construction Manager	5	$166.46	$1,665	$422,910
Area Manager	11	$216.00	$1,728	$416,448
Project Controls Analyst/Lead	11	$159.90	$1,599	$406,146
Component/Site Manager	21	$207.25	$1,658	$399,578
Senior Project Delivery Manager	10	$200.13	$1,601	$385,841
Materials Control Coordinator/Lead/Logistics	6	$146.10	$1,461	$371,094
Senior Inspector	25	$130.02	$1,300	$330,200
Senior Quality Advisor	6	$124.78	$1,248	$316,992
Planner	7	$162.50	$1,300	$313,300
Senior Engineer	23	$161.25	$1,290	$310,890
Telecommunication	6	$153.75	$1,230	$296,430
Construction Coordinator	10	$116.40	$1,164	$295,656
Project Delivery Manager	3	$150.00	$1,200	$289,200
Right of Way Coordinator	6	$111.56	$1,116	$283,464
Senior Construction Monitor	8	$110.54	$1,105	$280,670
Completions Coordinator/Lead	11	$145.43	$1,163	$280,283
Commissioning Specialist/Lead	7	$110.00	$1,100	$279,400
Quality Coordinator	4	$105.20	$1,052	$267,208
Area Construction Coordinator	5	$100.00	$1,000	$254,000
Survey Support/Land Coordinator	12	$127.48	$1,020	$245,820
Quality Lead/Lab Services	4	$120.75	$966	$232,806
Intermediate Engineer	36	$90.00	$900	$228,600

Positions	# of positions	Maximum Hourly Rate per Position	Maximum Daily Rate per Position (Note 1)	Maximum Annual Cost per Position (Note 2)
Technician/Technologist	12	$115.89	$927	$223,407
Environmental Monitor/Coordinator/Lead	16	$87.23	$872	$221,488
Inspector	5	$79.90	$799	$202,946
Project Controls Coordinator	8	$67.50	$675	$171,450
Construction Monitor	7	$65.00	$650	$165,100
Intermediate Quality Advisor	3	$81.25	$650	$156,650
Student Engineer	13	$52.69	$527	$127,007
Total Technical Positions	**334**			
Health & Safety Coordinator/Lead	6	$156.14	$1,561	$396,494
Contract Administration/Lead	15	$152.34	$1,523	$386,842
Human Resources/Labour Relations/Training	9	$112.75	$1,128	$286,512
IT Support	7	$147.34	$1,179	$284,139
Health & Safety Advisor	21	$110.76	$1,108	$281,432
Buyer	6	$126.84	$1,015	$244,615
Senior Cost Controller	3	$118.75	$950	$228,950
Information Management	12	$101.10	$809	$194,969
Intermediate Cost Controller	5	$79.73	$638	$153,758
Senior Administration Assistant	5	$60.31	$603	$153,162
Finance	3	$59.66	$477	$114,957
Contract Coordinator/Technician	3	$56.12	$449	$108,209
Administrative Assistant	6	$39.15	$392	$99,568
Cost Analyst	5	$42.14	$337	$81,217
Total Corporate Positions	**106**			

Source: Prepared by the Office of the Auditor General based on information provided by Nalcor (Unaudited)
Note 1: Daily rate based on either 10 hours or eight hours per day, depending on the contractual arrangement.
Note 2: Annual rates are based on 241 days for those working eight-hour days and 254 days for those working 10-hour days.
Note 3: Excludes additional costs, such as overtime, allowances, bonuses and reimbursable costs.

It is fair to note that Table 3 represents bill rates that were paid for many years, with the quantity of contractors varying based on the stage of the project. Nalcor officials advised that they were unable to provide the actual annual cost information efficiently from their databases. They advised it would take significant manual effort to answer the specific questions we asked about the table and the details on it. The annual costs presented were, therefore, calculated by us as part of our audit, using the maximum daily rates we were provided along with the standard billable days on personnel requisitions. Overtime costs are not reflected in these calculated amounts, and where it could be expected to occur, was not determined as part of our audit evidence.

The actual costs may have been significantly higher than those reflected in Table 3, with some being considered excessive when compared to market or other public sector employee positions. For example, the contracts of embedded contractors also included bonuses. Effective April 1, 2016, Nalcor eliminated completion bonuses for all new hires. However, even though existing contracts were being renegotiated, Nalcor did not eliminate bonuses and continued to pay them at a rate of five to 20 per cent to existing contractors on renewed contracts.

For comparison purposes, we looked at NL Hydro and their use of embedded contractors, which were mainly in engineering positions. While the hourly rates for these contractors were higher than NL Hydro’s salary costs, the rates were significantly lower than what Nalcor paid engineering contractors at the Lower Churchill Project. In 2016 and 2017, NL Hydro completed an internal analysis to compare its overall contractor costs per position with employee salary costs. NL Hydro found that for most engineering positions, it paid contractors between two and 24 per cent more than its full-time salaried employees for both years; the total cost difference was approximately $850,000 per year, or $27,000 per position. In 2017, NL Hydro contractor costs totalled approximately $6.3 million for 30 contractors. The vast majority (90 per cent) of these positions were engineers hired as project managers, project engineers, or other electrical designer professional services, paid between $65 and $175 per hour.

Officials could not provide us with documentation to show any analysis comparing the costs of contracted corporate positions to the expected costs of temporary employees, inclusive of benefits. Nalcor officials were unable to provide overtime or other compensation details, in order to compile the total cost for each contractor. While we do not have the information to determine the additional costs associated with these contracted corporate positions, we expect the total costs were significantly higher than if the positions were filled with temporary employees, even after the cost of benefits were factored in.

Generally, embedded contractor bill rates change based on language in the contract (such as previously agreed to terms about annual cost increases) or due to a contract amendment (such as changes to work and terms of the agreement). We found that approvals to increase contractors' billing amounts did not follow a standardized process. For example, Nalcor applied billing rate increases of up to 20 per cent in some instances, which were inconsistent across contractors’ agreements; and Nalcor paid an extra $153,000 to cover two non-resident contractors' personal taxes in addition to their salaries.

It appears that Nalcor management did not oversee or approve these types of significant contractor approvals or contract agreement adjustments, where one contractor approved another’s costs. This lack of oversight created a situation whereby there is an opportunity for, or the perception of, unethical or fraudulent activity.

It also appears that Nalcor’s embedded contractor rates changed whenever general economic increases were given to Nalcor staff, and sometimes in addition to, or in excess of, contract agreement terms. The language in the contractor’s agreement stated – “At the discretion of Company [Nalcor], day [bill] rates will be subject to consideration of escalation annually in accordance with the percentage of change in the Consumer Price Index….if Company [Nalcor] grants escalation in a given year, it shall in no case be less than 1% or greater than 5%...” In effect, all contractor agreement changes were at the discretion of Nalcor.

The very nature of a contractor is that they do not enjoy the security and benefits of being an employee, hence they charge higher rates to compensate for that risk. From 2012 to 2015, when Nalcor employed the highest number of contractors, it provided a 13 per cent cumulative general economic increase to both contractors and its own employees. The additional 13 per cent for contractors resulted in an average increase of more than four per cent annually, significantly higher annually than the minimum required in the pay escalation clause. During the same period, provincial government employees received a five per cent cumulative general economic increase. Nalcor officials could not provide justification for why they provided any increase, since embedded contractors were not considered employees and they had complete control on whether any cost increases were approved.

In 2016, government directed Nalcor to not approve the provision of general economic increases for its non-bargaining, management, and executive employees. In keeping with government's direction, Nalcor did discontinue bill rate increases related to general economic increases for most new and renewed contracts as of 2016. However, Nalcor continued to approve significant bill rate increases for the lead contractor's staff. For example, in 2018, Nalcor did provide bill rate increases ranging between 12.7 per cent and 16.3 per cent to three of the lead contractor's employees in our sample. While the contract did have an escalation clause, Nalcor had the right to challenge any increases that appeared unreasonable.

Nalcor gradually moved away from recruiting agency contracts to contracts with independent contractors. As of October 2017, Nalcor had 35 independent contractors that had originally been hired through recruiting agencies. However, the change did not result in cost savings as would be expected. Rather, recruitment agencies' fees were replaced by comparable rate mark-ups that independent contractors charged. For example, Nalcor continued to pay an independent contractor approximately $35,000 over three and a half years for their services that had been previously paid by a recruiting agency. Nalcor officials advised that independent contractors were preferred over recruiting agencies for positions of authority. Specifically, they acknowledged that independent contractors were preferred for supervising or hiring other recruitment agency employees, to mitigate the risk of a conflict of interest.

In 2012, Nalcor's lead contractor completed an informal process of benchmarking for allowances, using provincial and national companies as a comparison. They planned to use this benchmark to establish the allowances it would provide to its personnel. It appears there was no oversight or assessment of these recommendations by Nalcor management. Nalcor accepted these allowance rate recommendations and also used them when paying other contractors, even though Nalcor did not seek supporting information to evaluate if the rates were reasonable. Lower Churchill Project management asked the lead contractor for this information in November 2017 on behalf of Nalcor's internal audit division, but was unable to obtain it.

There were a significant number of embedded contractors working on the Lower Churchill Project who were paid allowances in recognition of working away from home. Of the 440 contractors working on the Lower Churchill Project during 2017 and 2018, there were 264 contractors working at the Muskrat Falls worksite:

- 199 were paid location/living allowances;
- 54 stayed at the work site camp and received free board and lodging; and
- 11 were local workers and did not receive an allowance.

We audited documentation for 15 contractors in our audit sample that were part of the Lower Churchill Project team during the period 2013 to 2018. These 15 contractors had assignment conditions approved in their personnel requisitions, therefore entitling them to allowances above their hourly contractor rates. Some of our findings showed inconsistent payments, such as:

- In 2013, Nalcor provided Lower Churchill Project site workers with a $3,500 monthly location/living allowance to commute from Goose Bay for ten months while the site camp was under construction. However, once the camp was ready, Nalcor continued to pay this option for six years to contractors who opted to stay in Goose Bay instead of the work camp. Nalcor also paid for daily transportation from Goose Bay to the Muskrat Falls work site and paid for contractors to travel home after each rotation. This ongoing allowance resulted in an annual cost of approximately $42,000 per contractor. In 2018, Nalcor continued to pay this monthly allowance to 55 contractors, on average, which amounted to an annual cost of approximately $2.3 million. Based on Nalcor's camp cost information, we estimated an annual net savings of approximately $1 million if the contractors stayed at the camp rather than receiving the monthly allowance.

- Nalcor reduced the location/living allowances by $500 per month effective May 1, 2016; however, the lead contractor continued to pay their personnel at the previous rate for a full year beyond Nalcor's reduction date. Nalcor agreed to pay $250 for each of the contractor's personnel for that year, even though allowances had been reduced and an additional cost of $150,000 would be incurred.

Why It Matters

Project procurement controls over labour costs are critical. There are significant risks that must be mitigated when managing project resources and costs, such as contractor demands for rate changes and oversight of hours worked. Without adequate control over and monitoring of embedded contractors, costs can escalate quickly, inconsistencies occur and conflicts can arise. Policies and procedures regarding cost-effectiveness, such as the consideration of the use of employees, the early establishment of standard bill rates and protocols for contractor rate changes, are ways to reduce those risks. Hiring contractors into positions of authority within a project management team also bring significant conflict of interest risks that must be managed and mitigated. To manage project labour resources and costs, there must be effective monitoring in sufficient detail to determine what is driving cost. Consideration of the use of temporary employees, when cost-effective, as well as established processes for assessing, setting and renewing contracts, are two means of managing these project costs.

Subsequent Events

In June 2021, the former CEO left and a new CEO was appointed. At that time, government announced that Nalcor operations were to move under Newfoundland and Labrador Hydro.

Preliminary findings have been discussed with Nalcor numerous times since the end of the audit scope period in December 2018. As a result of these informal discussions, Nalcor made changes to policies and procedures, internal controls and budgets, partially due to our reported audit findings.

Changes to policies, procedures and internal controls regarding discretionary expenditures subsequent to the end of the audit scope period included: updates to Nalcor's corporate relocation guidelines, service awards, social club payments for retirees, improved monitoring of food costs, elimination of liquor related to McParland House, and the elimination of food and prize costs related to in-house Christmas parties.

With respect to our conflict of interest findings, in 2019, Nalcor officials prepared and implemented a post-employment policy that allows a previous employee to enter into a work contract with Nalcor only upon authorization by the Chief Executive Officer, through the use of a waiver. Nalcor officials advised us that this policy has been followed since its implementation. The post-employment waiver process was added to the Code of Conduct training in 2020. Also, in 2019, Nalcor's internal audit division documented and implemented investigation procedures to support their EthicsLine, an online tool and phone number available to all Nalcor employees who have information about the violation of a policy or procedure or illegal activity impacting the organization.

In 2019, Nalcor documented the Lower Churchill Project hiring process for embedded contractors and implemented changes in the process. Nalcor officials advised us that the most significant result of implementing changes in the hiring process was in the composition of the Lower Churchill Project management team. For example, the engineering services division hired some of its embedded contractors as employees as a result of its assessment of cost-saving opportunities.

Conclusions

Overall, our three lines of inquiry showed that Nalcor did not always ensure the best possible use of public money, particularly as it related to its management of discretionary expenses and its use of embedded contractors for the management of the Lower Churchill Project. We also had concerns regarding conflict of interest adherence, particularly as it related to perceived conflicts of interest regarding embedded contractors.

Nalcor did not always manage its discretionary expenses in a manner that ensured the best possible use of public money. By not aligning policies covering discretionary expenses with government policy whenever possible, Nalcor incurred unnecessary expenses. Nalcor contributed to potential friction across the public service by having more generous expense policies, whereby some public sector employees reap benefits that others do not. While many changes have been made subsequent to the audit period, it appears NL Hydro continues to pay for discretionary expenditures or enhanced benefits that would not be considered acceptable under Treasury Board policy.

Nalcor's guidance for its employees, board of directors and contractors was generally in compliance with the Conflict of Interest Act. Nalcor's CEO employment contract did adhere to conflict of interest legislation, policies and procedures and we did not find any confirmed incidents of conflicts for either the CEO or the board members. However, Nalcor's corporate processes could be strengthened and Nalcor did not always ensure adherence to appropriate conflict of interest policies and related legislation. Nalcor's policies did not provide any guidance or restrictions on accepting a post-employment contract, which is inconsistent with government policy. We found that Nalcor did rehire employees as embedded contractors immediately after their employment had ended; the changes Nalcor has made since the end of our audit period addressed this issue.

Nalcor did not manage its use of embedded contractors in a cost-effective manner when planning for and meeting its human resourcing requirements for the management of the Lower Churchill Project. Nalcor hired highly-paid contractors into technical and corporate management positions and kept more than half of them in positions that exceeded two years. More than 100 of them were on the project leadership team, and worked in contracted positions for more than six years. Setting multi-year contracts and renewing contracts across significant periods of time is not in accordance with an expectation of short-term use and is not in line with NL Hydro's professional services contracts. By not maintaining a comprehensive database of embedded contractor hire history with detailed current and historical cost, it was difficult for Nalcor to effectively analyze and monitor all of the detailed costs related to the embedded contractors. It would appear that the use of embedded contractors added significant costs to the total project, as many positions may have been able to be filled by employees for a lower cost or could be redeployed, resulting in future savings compared to continuing to use contractual services. The changes Nalcor made to their hiring processes after our audit period reflect the value of cost-effectiveness assessments.

During our audit, we found several examples of perceived conflicts of interest as they related to embedded contractors. These examples raised concerns about the appropriate utilization and oversight of embedded contractors by Nalcor. Furthermore, they illustrated opportunities for Nalcor's embedded contractors to benefit, directly or indirectly, from their access to confidential and commercially sensitive information and for Nalcor employees to benefit by becoming contractors.

Recommendations

Discretionary Expenses Recommendations

Recommendation
Nalcor should ensure discretionary expense policies and procedures are clearly defined and include clear spending limits and approval requirements.

Entity Response: Hydro agrees with these OAG recommendations regarding discretionary expenses.

Recommendation
Nalcor should ensure discretionary expenditures are appropriately projected, managed and monitored through the budget approval process and internal control processes.

Entity Response: Hydro agrees with these OAG recommendations regarding discretionary expenses.

Recommendation
Nalcor should manage its discretionary expenses in a manner that ensures the best possible use of public money, by aligning discretionary expenses policy with government policy whenever possible.

Entity Response: Hydro agrees that discretionary expenses should be managed in a manner that ensures the best possible use of public money and aligns its policy with sound business and utility practice. As a utility, it is recognized that circumstances may arise related to the exigencies of our operational environment and legal obligation to provide safe least cost electricity that may not align in every instance with government policy.

Conflict of Interest Recommendations

Recommendation
Nalcor should ensure its conflict of interest policies, procedures, training and guidance documents are clear and comprehensive to make certain that conflict of interest considerations are incorporated into all relevant processes and to ensure employees, board members and embedded contractors know the protocols should they find themselves in a conflict of interest situation.

Entity Response: Hydro agrees with the OAG's recommendations regarding Conflict of Interest.

Recommendation
Nalcor should ensure it manages and monitors conflict of interest procedures in a complete and timely manner to ensure the procedures are appropriately followed by employees, board members and embedded contractors.

Entity Response: Hydro agrees with the OAG's recommendations regarding Conflict of Interest.

Recommendations

Use of Embedded Contractors Recommendations

Recommendation
Nalcor should ensure it has complete and adequate information to facilitate assessing and monitoring all aspects of project costs pertaining to embedded contractors.

Entity Response: As part of the management of the Lower Churchill Project, comprehensive job costing and project controls reporting was provided to management as needed. With respect to members of the Lower Churchill Project's Delivery Team, a master list of embedded contractors with detailed hiring information was maintained. The travel costs for those contractors was budgeted and controlled through documented approval and payment authorization processes. While travel costs for embedded contractors are a subject of the audit, the cost associated with the required travel was directly tied to the business requirement for travel rather than whether the travel was associated with a staff person or an embedded contractor. Consequently, management's focus was on the requirement for any travel and overall travel expenditures rather than whether it was incurred by an embedded contractor or staff person. In all cases, documentation of all expenses was provided for approval expenditure and maintained by the project for audit purposes. NL Hydro agrees that project controls reporting should provide management with the information necessary to monitor cost and schedule performance and highlight areas where cost or schedule is deviating from plan.

Recommendation
Nalcor should ensure it has effective procedures and controls over any contractual relationship, including those involving positions of authority, to mitigate the risk and likelihood of conflict of interest.

Entity Response: Hydro agrees with this recommendation and in 2017 implemented EthicsLine, a corporate whistleblower process whereby any employee or contractor can anonymously report violations of the company's Code of Conduct and Business Ethics and any other corporate policy. As part of this process, any conflict of interest allegations are submitted to the Internal Audit group for investigation and the findings are subsequently reported to the company's Board of Directors' Audit Committee. To support this process, Hydro's Internal Audit group have implemented Investigation Procedures to support this function. Hydro will continue to review and refine its practices as it strives for continual improvement in all areas of its operations.

Recommendation
Nalcor should ensure it has processes for the staffing of projects, particularly as it relates to assessing the cost-effectiveness of temporary employees versus contractors; consistent contract terms for allowances; and the continuous management of staffing mix and cost.

Entity Response: NL Hydro agrees with this recommendation and as part of its normal operations employs minimal contractors. Rather, NL Hydro reviews its work scope, from both a capital and operating standpoint, on an annual basis and determines the skill set required to manage its operations. Some specialized project management skill sets are not available in temporary short-term employee arrangements, therefore, a contracted position may be required. As a matter of course, NL Hydro employs minimal contractors on shorter-term projects when the situation warrants. NL Hydro has also undertaken a similar review as recommended and will continue to do so with an aim to supplying least cost, reliable electricity to its customers.

Appendix - About this Audit

Why this Audit is Important

We chose to audit Nalcor Energy because it is the province's largest Crown corporation and its operations have been a significant area of public concern in recent years. Our selection of four lines of enquiry were based on routine areas of audit, such as compensation and discretionary expenses or concerns brought to the Office of the Auditor General, such as conflict of interest and use of embedded contractors.

Discretionary expenses are by their very nature expenses that need to be managed, reviewed and scrutinized. They are often not mandatory to incur or can be subject to internal corporate policy, which can be changed if costs outweigh benefits. The Conflict of Interest Act exists to ensure that public sector employees, boards and embedded contractors know what constitutes a real or perceived conflict, what is expected from them, and what to do if a circumstance arises. All areas of a corporation’s operations have an inherent risk of conflict of interest violations. Gaps in processes create opportunities for potential perceived or real conflict of interest violations to occur, which can contribute to reputational risks and compromise Nalcor’s and government’s interests.

The effective management of project labour costs is an essential component of project management. Policies and procedures regarding contractor costs, such as the consideration of the use of temporary employees, the early establishment of standard bill rates and protocols for contractor rate changes, are important. There must also be effective monitoring of sufficient details to determine what is driving costs. Using contractors over prolonged periods can be costly, so cost-effectiveness is worthy of audit, since the salary and benefit costs of employees versus contractors is relevant.

Objectives

The objective of our audit of Nalcor was to determine whether:

1. Nalcor’s employee compensation is comparable to industry and government.
2. Nalcor is spending responsibly on discretionary expenses.
3. Nalcor ensures adherence to appropriate conflict of interest policies and procedures and related legislation.
4. Nalcor is assessing the cost-effectiveness of using embedded contractors when planning and meeting its operational needs.

The first objective will be a subsequent report.

Criteria

The Office of the Auditor General developed criteria based on discussions with Nalcor management, review of relevant documentation, guidelines, legislation, Nalcor policies and procedures, and reviews of literature including reports of other legislative auditors. The Office of the Auditor General defined 11 criteria regarding the three objectives. The senior management of Nalcor accepted the criteria as suitable.

The Office of the Auditor General assessed whether Nalcor was spending responsibly on discretionary expenses against the following criteria:

1. Nalcor’s policies and procedures define allowable travel, hospitability, relocation, guest relations, transportation, board and miscellaneous expenses and include spending limits and approval requirements.
2. Nalcor’s travel, hospitality, relocation, guest relations, transportation, board and miscellaneous expenses are within the spending limits and have the required approvals.
3. Nalcor’s travel, hospitality, relocation, guest relations, transportation, board and miscellaneous expenses are within the approved budget amounts.
4. Nalcor’s travel, hospitality, relocation, guest relations, transportation, board and miscellaneous expenses are incurred with consideration of the cost to taxpayers and ratepayers.

Appendix - About this Audit

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

1. Nalcor has established appropriate conflict of interest policies and procedures which reflect related legislation.
2. Nalcor CEO's employment contract adheres to conflict of interest legislation and conflict of interest policies and procedures.
3. Nalcor ensures that Board members adhere to conflict of interest policies and procedures and legislation.
4. Nalcor ensures employees adhere to conflict of interest policies and procedures and legislation.
5. Nalcor ensures contractors adhere to conflict of interest policies and procedures.

The Office of the Auditor General assessed whether Nalcor was assessing the cost-effectiveness of using embedded contractors when planning and meeting its operational needs against the following criteria:

1. Nalcor has policies and procedures to access cost effectiveness when deciding whether to create a new employee position or to hire an embedded contractor to meet an operational need.
2. Nalcor has procurement processes that establish reasonable bill rates and allowances for embedded contractors.

Scope and Approach

Our audit planning began in November 2016, the audit plan was finalized in March 2018. The audit period covered January 2013 to December 2018. 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 Nalcor officials and an examination of information and data. Our procedures also included an examination of policies and procedures, correspondence, board meeting minutes, contracts and reports. We conducted a detailed inspection of the information received and analyzed and use the data received to assist with our audit procedures. We performed sampling procedures related to all audit objectives. Sampling selections were non-statistical and selected judgmentally. Discretionary expenses did not include those reimbursed or paid on behalf of embedded contractors working on capital projects. As part of our audit work on embedded contractors, we reviewed relevant information on some embedded contractors 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 Nalcor's discretionary expenses, conflict of interest policies and procedures, and use of embedded contractors. Our responsibility was to independently audit these areas to provide objective information and recommendations. The senior management of Nalcor 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 Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding 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.

Appendix - About this Audit

Management Representation

The Chief Executive Officer of Newfoundland and Labrador Hydro 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 the services of a lawyer specifically to provide assistance regarding the conflict of interest objective and to provide general advice and guidance.

Date Conclusion Reached

We obtained sufficient and appropriate audit evidence on which to base our conclusions on September 7, 2022, in St. John's, Newfoundland and Labrador.

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

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; 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 wishes to thank the diligent audit team who performed their work with independence, credibility, and integrity:
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Tracy Pelley, CPA, CMA – Audit Manager
Jayme Martin, CPA, CA - Audit Manager
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