



Objectives

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



Audit Period

January 1, 2021 - December 31, 2023



Why this Audit is Important

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



Conclusions

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

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

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

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

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



Summary of Recommendations

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

What We Found

Compensation

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

Operating Expenses

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

Conflict of Interest

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



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

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