

| | |
|--|--|
| State of New Jersey | |
| Department of Treasury | |
| Integrity Monitor Report | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | |
| For Quarter Ending: 12/31/2014 | |

The reporting period for this report is October 1, 2014 through December 31, 2014

Under Section A-60, this report must be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief Appropriations Act.

| No. | Recipient Data Elements | Response | Comments |
|------------------------|---|--|-----------------|
| A. General Info | | | |
| 1. | Recipient of funding | Middlesex County Utility Authority (MCUA) | |
| 2. | Federal Funding Agency? (e.g. HUD, FEMA) | FEMA | |
| 3. | State Funding (if applicable) | Not Applicable | |
| 4. | Award Type | Grant | |
| 5. | Award Amount | Cruz Contractors, LLC (Cruz) - \$9,593,000 Allied Construction Group, Inc. (Allied) - \$8,038,156 Total - \$17,631,156 | |
| 6. | Contract/Program Person/Title | Standby Contract for Forced Mains and Gravity Sewers - Cruz Rehabilitation and Upgrade of the Sayreville Pumping Station - Allied Program Person: Richard Fitamant, Executive Director | |
| 7. | Brief Description, Purpose and Rationale of Project/Program | <p>During the ongoing incident period of Post Super Storm Sandy, beginning on October 26, 2012, the Middlesex County Utilities Authority (MCUA) suffered substantial damage to its Sayreville Pump Station which utilizes six (6)-50 MGD (Million Gallons Daily) pumps and four (4)-40 MGD pumps to pump anywhere from 70 MGD of dry weather sanitary flow to 300 MGD of wet weather sanitary flow from 30 municipalities in Middlesex and Somerset counties to the central treatment plant. The storm surge inundated and damaged its onsite electrical substation and controls. Also, due to salt water intrusion the pumps, pump fittings, and pump motors were compromised and rendered inoperable. These damages prompted the sub-grantee to immediately secure emergency contracts to prevent further damage to the existing infrastructure and prevent raw sewage from being discharged into the waterways.</p> <p>Prior to Super Storm Sandy, Cruz was issued a standby contract for forced mains and gravity sewers which included provisions for dewatering and by-pass pumping. This standby contractor was utilized after Super Storm Sandy to perform emergency clean-up and restoration activities for both the original Sayreville Pumping Station and the Sayreville Relief Pumping Station resulting from storm damage.</p> <p>In June 2011, Allied was contracted to perform the rehabilitation and upgrade of the Sayreville Pumping Station. This contract has a provision for unforeseen circumstances which allows payment for any items that are above and beyond the original contract. In this case, the dewatering of the facility, emergency site preparation, and temporary repairs to electrical systems were not in the original contract but were addressed as change orders following the storm.</p> <p>On March 27, 2013, the Integrity Oversight Monitor Act ("the Act") was enacted for the purpose of authorizing the deployment of Integrity Oversight Monitors for recovery and rebuilding contracts resulting from Super Storm Sandy and subsequent major storms in New Jersey. The Act authorizes the State Treasurer to require integrity oversight monitor services on any State or non-State, federally funded, recovery and rebuilding contract of \$5 million or more.</p> <p>KPMG LLP ("KPMG") was engaged by the Department of Treasury ("DOT") on June 20, 2014 to serve as the Integrity Oversight Monitor ("IM") for MCUA Sayreville Pumping Station given that both Cruz and Allied's contracts which exceeded the \$5 million threshold required by the Act.</p> | |

| State of New Jersey | | | |
|--|--|---|----------|
| Department of Treasury | | | |
| Integrity Monitor Report | | | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | | | |
| For Quarter Ending: 12/31/2014 | | | |
| The reporting period for this report is October 1, 2014 through December 31, 2014 | | | |
| Under Section A-60, this report must be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief Appropriations Act. | | | |
| No. | Recipient Data Elements | Response | Comments |
| 8. | Contract/Program Location | Middlesex County Utility Authority 2571 Main Street Sayreville, NJ 08872 | |
| 9. | Amount Expended to Date | Cruz Contractors, LLC - Task 1 (Bypass Systems to CTP): \$7,498,901.27 Task 2 (HSR Temporary Wet Weather Overflow Facilities): \$1,670,176.15 Allied Construction Group, Inc. - \$8,281,546.39 Total - \$17,450,624 | |
| 10. | Amount Provided to other State or Local Entities | Not Applicable | |
| 11. | Completion Status of Contract or Program | Emergency Work for Sayreville Pumping Station- 97% Complete. | |
| 12. | Expected Contract End Date/Time Period | Cruz Contractors, LLC - 4/30/15 Allied Construction Group, Inc. - 4/30/15 | |

| | |
|---|--|
| State of New Jersey | |
| Department of Treasury | |
| Integrity Monitor Report | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | |
| For Quarter Ending: 12/31/2014 | |

The reporting period for this report is October 1, 2014 through December 31, 2014

Under Section A-60, this report must be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief Appropriations Act.

| No. | Recipient Data Elements | Response | Comments |
|---------------------------------|---|---|----------|
| B. Monitoring Activities | | | |
| 13. | If FEMA funded, brief description of the status of the project worksheet and its support. | <p>A total of five Project Worksheets, in the amount of \$23,635,477 were compiled and submitted to FEMA for both emergency and permanent repairs on the Sayreville Pumping Station. All Project Worksheets were prepared and reviewed by MCUA Executive Director, MCUA's Owner's representative (R3M), and FEMA specialists:</p> <ul style="list-style-type: none"> - PA-02-NJ-4086-PW-0561: Sayreville Pump Station Permanent Repairs, \$12,002,019 - PA-02-NJ-4086-PW-00033: Temporary By-Pass Pumping, \$5,673,000 - PA-02-NJ-4086-PW-05032: Sayreville Pump Station Emergency Repairs, \$2,250,097 - PA-02-NJ-4086-PW-00045: Temporary Deflection Pumps, \$1,736,612 - PA-02-NJ-4086-PW-04905: Acoustic Fiber Optic Monitoring System, \$803,853 <p>Total: \$23,635,477</p> | |
| 14. | Quarterly Activities/Project Description (include number of visits to meet with recipient and sub recipient, including who you met with, and any site visits warranted to where work was completed) | <p>Meetings</p> <p>1) On October 1, 2014, KPMG attended a meeting with R3M to discuss and review their process for reconciling invoiced hours with hours on contractor's Certified Payroll.</p> <p>Meeting attendees included:</p> <ul style="list-style-type: none"> • Sean Walsh - R3M Engineering • Ryan Coco and John Christensen - KPMG <p>2) On October 14, 2014, KPMG had a discussion with Rich Fitamant of MCUA regarding termination of former MCUA Comptroller, and her role in contractor payment review and approval process.</p> <p>3) On October 24, 2014, KPMG performed a site visit to the Sayreville Pump Station with R3M to assess whether a sample of the equipment and material installed in the field aligned with the invoiced quantities and specifications.</p> <p>Meeting attendees included:</p> <ul style="list-style-type: none"> • Sean Walsh - R3M Engineering • Ryan Coco and John Christensen - KPMG <p>4) On December 1, 2014, KPMG had a discussion with Michael Simonovich from Xylem (Temporary Pump Vendor) regarding the lack of supporting documentation for the following:</p> <ul style="list-style-type: none"> • Per diem rate of \$150.00 • Mileage rate of \$2.50/mile • Technician standard rate of \$165.00/Hr. | |

| | |
|---|--|
| State of New Jersey | |
| Department of Treasury | |
| Integrity Monitor Report | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | |
| For Quarter Ending: 12/31/2014 | |

The reporting period for this report is October 1, 2014 through December 31, 2014

Under Section A-60, this report must be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief Appropriations Act.

| No. | Recipient Data Elements | Response | Comments |
|-----|-------------------------|---|----------|
| | | <p>Activities / Accomplishments</p> <p>1) On October 10, 2014, KPMG followed up with Allied on supplemental document request issued on September 10,2014.</p> <p>2) On October 27, 2014, KPMG followed up with Allied on the supplemental document request issued on September 10,2014.</p> <p>3) On November 10, 2014, KPMG performed testing of a sample of invoiced line items to confirm whether material was installed in field following October 24, 2014 Sayreville Pump Station site visit.</p> <p>4) On November 17, 2014, KPMG finalized subcontractor invoice testing on sample basis for Eastern Electric and Scalfo.</p> <p>5) On November 20, 2014, KPMG issued list of outstanding items still requiring further supporting documentation to Allied. Items included:</p> <ul style="list-style-type: none"> • Variance between invoiced hours and Certified Payroll hours • Insurance rate premiums <p>6) On November 20, 2014, KPMG issued list of outstanding items still requiring further supporting documentation to Cruz. Items included:</p> <ul style="list-style-type: none"> • Invoiced hours vs. Certified Payroll hours variances • Xylem (Temporary Pump Vendor) rates <p>7) On December 1, 2014, KPMG issued final list of outstanding items to Allied which included:</p> <ul style="list-style-type: none"> • Invoiced hours vs. Certified Payroll hours variances <p>8) On December 1, 2014, KPMG issued final list of outstanding items to Cruz. Items included:</p> <ul style="list-style-type: none"> • Variance between invoiced hours and Certified Payroll hours • Xylem (Temporary Pump Vendor) rates <p>9) On December 1, 2014, KPMG issued list of all outstanding items to R3M Engineering</p> | |

| | |
|--|--|
| State of New Jersey | |
| Department of Treasury | |
| Integrity Monitor Report | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | |
| For Quarter Ending: 12/31/2014 | |

The reporting period for this report is October 1, 2014 through December 31, 2014

Under Section A-60, this report must be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief Appropriations Act.

| No. | Recipient Data Elements | Response | Comments |
|-----|---|---|----------|
| 15. | Brief Description to confirm appropriate data/information has been provided by recipient and what activities have been taken to review in relation to the project/contract/program. | <p>KPMG issued a detailed document request list on July 10, 2014 which outlined all documentation to be provided to KPMG as part of the review. Throughout this review, KPMG prepared an inventory and assessment of documentation provided by MCUA, R3M, contractors and their subcontractors. In addition, KPMG drafted a detailed project work plan that clearly outlined the areas of our review and included detailed test steps to complete our analysis. Some of the specific areas of focus included:</p> <ul style="list-style-type: none"> - Construction contract and program compliance (e.g., Cruz and Allied) - Assessed whether MCUA's financial and administrative functions adhered to grant/assistance program guidelines and reporting requirements; - Procurement assessment: Allied and Cruz were procured in accordance with program requirements; - Payment applications and change orders - payments were supported, reasonable, disbursed in accordance with applicable directives and that there were no duplication of benefits, process and payment errors, waste, fraud, abuse, malfeasance or mismanagement of funds; and - Ongoing Quality Assurance and Quality Controls Reviews -In order to monitor and assess if MCUA's construction plans, documentation and permits were in compliance with program requirements. <p>Please reference Question #14 above for details on KPMG's request and communication of data/information with the various parties.</p> | |
| 16. | Description of quarterly auditing activities that have been conducted to ensure procurement compliance with terms and conditions of the contracts and agreements. | <p>In the previous quarter, KPMG performed a detailed assessment of the procurement process in order to monitor and assess if contracts with Allied and Cruz were procured in accordance with program requirements. KPMG obtained and reviewed the following procurement documentation:</p> <ul style="list-style-type: none"> - Governing Body Approval Resolutions - FEMA and State Procurement Guidelines - Bid packages for original contracts - Evaluation of bid packages for original Allied and Cruz work <p>KPMG has continued to monitor procurement compliance with the terms and conditions of the contract. Specifically for this quarter, KPMG assessed the following areas:</p> <ul style="list-style-type: none"> - Given that this was considered emergency work that was performed on a time and materials basis, KPMG assessed MCUA's process for ensuring competitive and reasonable pricing. Specifically, KPMG assessed whether MCUA and its general contractors adhered to procurement guidelines and that work was adequately substantiated. - Assessment of payment applications and supporting documents to ensure compliance with contract terms, reasonableness of expenditures, and identification of possible fraud, waste or abuse. | |

| | |
|---|--|
| State of New Jersey | |
| Department of Treasury | |
| Integrity Monitor Report | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | |
| For Quarter Ending: 12/31/2014 | |

The reporting period for this report is October 1, 2014 through December 31, 2014

Under Section A-60, this report must be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief Appropriations Act.

| No. | Recipient Data Elements | Response | Comments |
|-----|--|--|----------|
| 17. | Have payment requisitions in connection with the contract/program been reviewed? Please describe | <p>Yes. Payment requisitions were reviewed during the previous quarter. Specifically, KPMG performed a high-level review of all payment applications for both Cruz and Allied. As part of this high-level review, KPMG assessed whether all payment applications were reviewed and approved by the appropriate personnel, the work performed was within the project scope and billings were compliance with the contract terms and program requirements. In addition, KPMG performed an in depth review of a sample of payment applications. Specifically, the following periods were reviewed by KPMG in more detail:</p> <p>The sample period for Cruz covered the following cycles:</p> <ul style="list-style-type: none"> • December 23, 2012 through December 29, 2012; • January 27, 2013 through February 2, 2013; and • April 14, 2013 through April 20, 2013. <p>The sample period for Allied covered the following cycles:</p> <ul style="list-style-type: none"> • October 31, 2012 through December 1, 2012 • December 2, 2012 through December 31, 2012 • January 1, 2013 through January 31, 2013 • April 1, 2013 through April 30, 2013 <p>KPMG performed the following procedures to verify that payments were disbursed consistent with applicable directives, and that there was no apparent duplication of benefits, process and payment errors, waste, fraud, abuse, malfeasance or mismanagement of funds:</p> <ul style="list-style-type: none"> • MCUA payment application review and approval process; • Authorization of invoices by appropriate individuals; • Billings in accordance with contract terms; • Adequate supporting documentation; • Labor hours aligned with R3M daily inspection reports; • Labor rates were in accordance with contract terms, certified payroll and prevailing wage rates; • Equipment rates were reasonable and aligned with Blue Book rates; and • Confirmation of payment to vendors and individuals. <p>For this quarter, KPMG performed the following:</p> <ul style="list-style-type: none"> - Assessed actual work installed in field and compared to invoices - Reviewed subcontractor invoices for adequate support - Compared Certified Payroll hours by individual to actual hours invoiced - Compared Certified Payroll hourly rates by individual to hourly rates invoiced - Assessed equipment rates vs. Blue Book rates - Reviewed R3M's process for reviewing payment requisitions - Followed-up on outstanding issues identified in initial invoice assessment (Refer to Question #19) | |

| | |
|---|--|
| State of New Jersey | |
| Department of Treasury | |
| Integrity Monitor Report | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | |
| For Quarter Ending: 12/31/2014 | |

The reporting period for this report is October 1, 2014 through December 31, 2014

Under Section A-60, this report must be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief Appropriations Act.

| No. | Recipient Data Elements | Response | Comments |
|-----|---|---|----------|
| 18. | Description of quarterly activity to prevent and detect waste, fraud and abuse. | <p>KPMG continued to perform monitoring of both the Allied and Cruz contracts. Some of the specific activities performed this quarter to prevent and detect waste, fraud and abuse included the following:</p> <ul style="list-style-type: none"> • Ongoing meetings and continued correspondence with Cruz and Allied to provide supporting documentation for invoice and certified payroll analysis • Follow-up discussions with Cruz and Allied regarding supporting documentation for subcontractor invoices • Field visits to verify installation of sample invoiced line items (See Question #14) • Conducted meetings with MCUA and R3M to discuss leading practices and processes that should be implemented on their upcoming mitigation projects | |
| 19. | Provide details of any integrity issues/findings | <p>1) KPMG met with R3M to discuss variances in hours invoiced and hours reflected in the Certified Payroll. Allied and Cruz provided supporting documents and explanations for the vast majority of variances; however, at the close of the current reporting period there were a few open items. KPMG will continue to work with both companies to obtain support for the open items.</p> <p>Recommendation MCUA should develop and implement formal, documented invoice review guidelines that require all hours billed to be reconciled with both daily logs and Certified Payrolls. In instances where there are discrepancies, MCUA should withhold contract payments until open items are resolved. In situations where the discrepancy is substantiated, MCUA should retain the supporting documentation in a central location. Additionally, MCUA should require contractors and subcontractors to complete a daily sign-in/out log to assist in tracking labor and equipment at job sites.</p> <p>2) KPMG identified several invoices where even-numbered linear feet of wiring were invoiced (i.e., 100 linear feet, 500 linear feet, etc.) Given that construction was completed, KPMG could not verify the actual amount of wiring installed.</p> <p>Recommendation: For all time and materials contracts, MCUA should track all material and equipment, including linear feet of wire, installed each day. This information should be tracked in daily reports.</p> <p>3) It appears that Allied did not submit adequate supporting documentation for two items invoiced by their electrical subcontractor, Eastern Electric. Specifically, Eastern Electric did not provide receipts, timesheets, daily logs, contract rates to substantiate the following items:</p> <ul style="list-style-type: none"> • Clean, de-contaminate MCC buckets (\$129,960) • Equipment for accumulators (\$27,594) <p>Recommendation: MCUA should draft detailed guidelines that clearly outline the level of support required to be submitted with each invoice. Some of these items include receipts, invoices, timesheets, daily logs, and site photos. MCUA should reference these guidelines in all future contracts including the upcoming permanent repairs to both the Sayreville and Edison Pumping Stations.</p> | |

| | |
|---|--|
| State of New Jersey | |
| Department of Treasury | |
| Integrity Monitor Report | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | |
| For Quarter Ending: 12/31/2014 | |

The reporting period for this report is October 1, 2014 through December 31, 2014


Under Section A-60, this report must be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief Appropriations Act.

| No. | Recipient Data Elements | Response | Comments |
|-----|---|--|----------|
| | | <p>4) KPMG found that Cruz's subcontractor, Xylem (temporary pump vendor), did not provide adequate support with their invoice for the following line items:</p> <ul style="list-style-type: none"> • Per diem rate of \$150.00 • Mileage rate of \$2.50/mile • Technician standard rate of \$165.00/Hr. <p>Recommendation: While this was emergency work, KPMG found that these rates appear to be above industry standards for mileage and per diem. MCUA and R3M should perform a detailed analysis to quantify the magnitude of the above line items. MCUA should request a credit be paid if sufficient supporting documentation/approval does not exist.</p> | |
| 20. | Provide details of any work quality or safety/environmental/historical preservation issue(s). | No noted issues this quarter. Refer to previous quarterly reports for additional detail. | |
| 21. | Provide details on any other items of note that have occurred in the past quarter | None. | |
| 22. | Provide details of any actions taken to remediate waste, fraud and abuse noted in past quarters | <p>In addition to the recommendations made in the previous Quarterly Report issued on January 1, 2015, KPMG has taken the following actions this quarter to remediate waste, fraud, and abuse:</p> <ul style="list-style-type: none"> - Held meetings with MCUA and R3M to discuss incorporating many of the process recommendations into future contract language where appropriate. Some of these process recommendations include: <ul style="list-style-type: none"> • Formal guidelines surrounding invoice review and approval • Maintaining detailed Field Observation Reports and Equipment Logs • Implementing a process to verify contractors and their subcontractors retain the appropriate levels of insurance and bonding • Implementing a process for tracking non-conformance and punch list on projects • Recommended MCUA and R3M that a detailed analysis be performed on Xylem rates for labor, per diem, and mileage (See Question #19). • Recommended MCUA withhold a portion of payment to all contractors for unsubstantiated subcontractor costs submitted with invoices (See Question #19). | |

| | |
|---|--|
| State of New Jersey | |
| Department of Treasury | |
| Integrity Monitor Report | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | |
| For Quarter Ending: 12/31/2014 | |

The reporting period for this report is October 1, 2014 through December 31, 2014

Under Section A-60, this report must be submitted by Integrity Monitors on the first business day of each calendar quarter to the State Treasurer and will contain detailed information on the projects/contracts/programs funded by the Disaster Relief Appropriations Act.

| No. | Recipient Data Elements | Response | Comments |
|-------------------------|---|---|----------|
| C. Miscellaneous | | | |
| 23. | Attach a list of hours and expenses incurred to perform your quarterly integrity monitoring review | Attached. See Oct-Dec Time & Expense Summary Tab. | |
| 24 | Add any item, issue or comment not covered in previous sections but deemed pertinent to monitoring program. | None. | |
| | | | |
| | Name of Integrity Monitor: | KPMG | |
| | Name of Report Preparer: | Timothy Hedley | |
| | Signature: |  | |
| | Date: | 3/31/2015 | |

