

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: 3/31/2015			
The reporting period for this report is January 1, 2015 through March 31, 2015			
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>	
8.	Contract/Program Location	Middlesex County Utility Authority 2571 Main Street Sayreville, NJ 08872	

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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- 98% Complete.	
12.	Expected Contract End Date/Time Period	Cruz Contractors, LLC - 4/30/15 Allied Construction Group, Inc. - 4/30/15	
B. Monitoring Activities			
13.	If FEMA funded, brief description of the status of the project worksheet and its support.	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: - 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 Total: \$23,635,477	

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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 January 20, 2015, KPMG had a discussion with R3M Engineering to discuss the next phase of oversight activities for MCUA.</p> <p>2) On February 10, 2015, KPMG attended a meeting at MCUA to:</p> <ul style="list-style-type: none"> • Recap observations and recommendations issued in Tasks B & C Report • Discuss MCUA’s plan to implement these recommendations on future projects/contracts • Discuss all outstanding items from KPMG’s sample of Cruz and Allied invoice testing • Discuss timing of the next phase of the Sayreville Pump Station and Edison Pump Station projects <p>Meeting attendees included:</p> <ul style="list-style-type: none"> • Executive Director, MCUA • Principal In Charge - R3M Engineering • Engineer - R3M Engineering • Director - KPMG • Associate - KPMG <p>3) On March 26, 2015, KPMG had a discussion with R3M to discuss total amount expended to date by Cruz and Allied, expected contract end dates, status of payment from FEMA for each PW, and timeframe of next phase of project.</p> <p>Activities / Accomplishments</p> <p>1) On February 23, 2015, KPMG followed up with Cruz on their outstanding items:</p> <ul style="list-style-type: none"> • Reconciliation of Certified Payroll hours vs. Invoiced hours on certain individuals <p>2) On February 23, 2015, KPMG followed up with Allied on their outstanding items:</p> <ul style="list-style-type: none"> • Reconciliation of Certified Payroll hours vs. Invoiced hours on certain individuals <p>3) On February 25, 2015, KPMG received supporting documentation and explanation from Cruz on discrepancies in Certified Payroll hours vs. Invoiced hours</p> <p>4) On February 26, 2015, KPMG received supporting documentation and explanation from Allied on discrepancies in Certified Payroll hours vs. Invoiced hours.</p> <p>5) On March 12, 2015, KPMG reviewed letter R3M issued to Allied summarizing their recent audit of the eighteen payment requests submitted by contractor.</p> <p>6) On March 12 2015, Based on KPMG’s review, R3M issued a letter to Cruz requesting substantiation of Xylem Inc. mileage rates and per diem rates.</p>	

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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. 	

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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"> - Followed-up on outstanding issues identified in initial invoice assessment (Refer to Question #19) 	
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 • Conducted meetings with MCUA and R3M to discuss leading practices and processes that should be implemented on their upcoming mitigation projects 	

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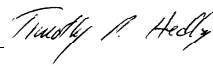
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19.	Provide details of any integrity issues/findings	<p>1) Previously, KPMG found discrepancies in hours for the week of 12/23/12. This discrepancy was due to the holiday period and Cruz's payroll department entering in some hours on the following week's Certified Payroll (1/5/13). KPMG did not include this week in its initial sample, therefore did not account these hours in its analysis. KPMG has verified that the hours were in fact entered on week ending 1/5/13 Certified Payroll.</p> <p>2) Previously, KPMG identified discrepancies in Allied certified payroll versus their hours invoiced. The rationale behind this variance was because double time was not calculating correctly in QuickBooks, their project accounting program. Manual adjustments were made to straight hours (annotations made on paychecks were provided as support). Manual adjustments do not transfer to Certified Payroll. Supporting documentation provided by Allied supports this explanation for variances in hours.</p> <p>Recommendation R3M should perform a reconciliation of Invoiced hours vs. Certified Payroll hours as a part of each payment application review. MCUA should include this in all future contract language to ensure variances do not exist.</p> <p>3) Following KPMG's analysis and observations, R3M performed an independent audit of each Allied payment request. It was determined that an additional credit of \$66,427.30 is due to MCUA.</p>	
20.	Provide details of any work quality or safety/environmental/historical preservation issue(s).	No noted issues this quarter.	
21.	Provide details on any other items of note that have occurred in the past quarter	<p>R3M is in the process of following up on any outstanding issues which require further clarification and support. Specifically, items that still require supporting documentation include:</p> <ul style="list-style-type: none"> • Xylem (Temporary Pump Vendor) mileage rate of \$2.50 • Xylem (Temporary Pump Vendor) per diem rate of \$150.00 • Xylem (Temporary Pump Vendor) Technician standard rate of \$165.00/hr. <p>Recommendation As a result of KPMG's review, R3M issued a letter to Cruz formally requesting all necessary information relating to Xylem, Inc. rates including:</p> <ul style="list-style-type: none"> • Any written description of what is included and excluded from the per diem rates • Any demonstrated cost basis for the rates • Any supporting costs or receipts that substantiate the daily rates (e.g. invoices from hotels that housed out of state technicians) 	
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 April 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 • Recommended MCUA and R3M that a detailed analysis be performed on Xylem rates for labor, per diem, and mileage (See Question #21) • Recommended MCUA withhold a portion of payment to all contractors for unsubstantiated subcontractor costs submitted with invoices (See Question #21). 	

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C. Miscellaneous

23.	Attach a list of hours and expenses incurred to perform your quarterly integrity monitoring review	Attached. See Jan-March 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:	7/1/2015

Time Summary		
Resource	Hours Incurred (Jan -March)	Total Amount
Grand Total	67	\$ 15,900

Expense Summary	
Resource	Amount
Grand Total	\$ 247.59