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| State of New Jersey | KPMG - Middlesex County Utility Authority |
| Department of Treasury | |
| Integrity Monitor Report | |
| Middlesex County Utility Authority - Pumping Stations Contract # T-2939; EQ2014-004-P2&P3 | |
| For Quarter Ending: 6/30/2015 | |

The reporting period for this report is April 1, 2015 through June 30, 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> | |

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| 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- 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

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| 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>Activities / Accomplishments</p> <p>1) On April 1, 2015, KPMG received and reviewed R3M Engineering's audit of the eighteen Allied Payment Requests.</p> <p>2) On April 1, 2015, KPMG received and reviewed the response letter from Cruz Contractors and Xylem Inc. regarding the per diem and mileage rate invoiced. Per KPMG's recommendation, R3M issued a formal request to Xylem on March 12, 2015 to provide substantiation for their invoiced rates for per diem (\$150.00) and mileage (\$2.50/mile).</p> <ul style="list-style-type: none"> • Regarding the per diem rate of \$150, Xylem indicated that their per diem rate of \$150 is the standard rate charged for projects to cover lodging and meals for employees while providing services. Xylem informed KPMG that the hotel their employees were staying at charged \$97.75 per night and they provide their employees \$30 per day for food. • Regarding the mileage rate of \$2.50 per mile, Xylem indicated that this rate was to cover the cost of the trucks in its fleet including vehicle cost, fuel, insurance, registration fees, tolls and maintenance. <p>3) On April 13, 2015, KPMG had a discussion with R3M Engineering to provide recommendations and next steps for Cruz and Xylem's response provided above. Details of KPMG's recommendations are provided in Question 19 of this Quarterly Report.</p> <p>4) On May 14, 2015, KPMG followed up with R3M Engineering to discuss the recommendations made on April 13, 2015 and also to inquire about the next phase of remediation work for MCUA.</p> <p>5) On June 2, 2015, KPMG reviewed R3M Engineering's letter to Cruz requesting credit to MCUA for Xylem Per Diem and mileage rates charges.</p> <ul style="list-style-type: none"> • Xylem paid a daily lodging rate of \$97.75 and provided their employees with \$30 a day for meals, totaling \$127.75 per day. Xylem charged \$150 per day on their invoices. According to Xylem, the remaining \$22.25 difference is for their fee. Based on the Section 7.10.4.4.b.iii. of the Contract, contractor fees are not permitted for this type of work. Therefore, the letter recommends a credit owed to MCUA of \$22.25 for each per diem charge. R3M also requested in this letter an explanation of how the \$2.50 per mile Xylem billing rate was calculated. <p>6) On June 17, 2015, KPMG had a discussion with MCUA to discuss upcoming mitigation work status. Both Edison and Sayreville Pump Stations are still in the late design phase (80-90%). MCUA expects to put the projects out to bid in late September, with an approximate award timeframe occurring in November. MCUA is going to contact R3M to schedule a meeting to discuss how KPMG can assist with contract language, schedule of values, etc.</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. | |
| 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 quarters, 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 quarters. 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) | |

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| 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 discussion and continued correspondence with Cruz and Allied to provide supporting documentation for invoice analysis • Follow-up discussions with Cruz and Allied regarding supporting documentation for subcontractor invoices • Ongoing discussion 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>Following review of Xylem's response to the inquiry on their per diem and mileage rates, KPMG made the following recommendations to R3M:</p> <p>Recommendation</p> <ul style="list-style-type: none"> • Regarding Xylem's Per Diem response: Since all work was performed on a Time and Materials basis, it is expected to reimburse the contractors for actual expenses and the amount that they paid their employees. In this case, KPMG recommends reimbursing Cruz and Xylem for \$97.75 (lodging) + \$30 (food) = \$127.75 per day. Additionally, there should not be any overhead and profit for these expenses; this should be treated as a straight pass through of actual costs. <p>Recommendation</p> <ul style="list-style-type: none"> • Regarding Xylem's Mileage Response: KPMG recommends reimbursement for actual expenses, provided there is adequate substantiation. KPMG now understands that this rate is for a company vehicle being used each day. KPMG agrees that Xylem should not be held to the IRS mileage rate, however a clear explanation is needed of how the \$2.50 per mile billing rate was calculated. Xylem should provide the build-up of this rate based on their annual spend for these vehicles and the total mileage accrued each year. KPMG would like Xylem to provide a list of the make and model of the vehicles in their fleet. | |

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| 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 | No other items to note this quarter. | |
| 22. | Provide details of any actions taken to remediate waste, fraud and abuse noted in past quarters | In addition to the recommendations made in the previous Quarterly Report issued on July 1, 2015, KPMG has taken the following actions this quarter to remediate waste, fraud, and abuse: <ul style="list-style-type: none"> 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 | |

C. Miscellaneous

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| 23. | Attach a list of hours and expenses incurred to perform your quarterly integrity monitoring review | Attached. See April-June 2015 Time & Expense Summary Tab. | |
| 24. | Add any item, issue or comment not covered in previous sections but deemed pertinent to monitoring program. | None. | |

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| Name of Integrity Monitor: | KPMG |
| Name of Report Preparer: | Timothy Hedley |
| Signature: |  |
| Date: | 10/1/2015 |

| Time Summary | | |
|---------------------|--|---------------------|
| Resource | Hours Incurred (Apr - June) | Total Amount |
| Tim Hedley | 0.5 | \$ 162.50 |
| Raymond Dookhie | 1.0 | \$ 285.00 |
| Ryan Coco | 24.0 | \$ 6,840.00 |
| Nicolas Koniski | 0.0 | \$ - |
| John Christensen | 40.0 | \$ 7,600.00 |
| Emily Wong | 2.5 | \$ 475.00 |
| Grand Total | 68 | \$ 15,362.50 |

| Expense Summary | |
|------------------------|---------------|
| Resource | Amount |
| Tim Hedley | \$0.00 |
| Raymond Dookhie | \$0.00 |
| Ryan Coco | \$0.00 |
| Nicolas Koniski | \$0.00 |
| John Christensen | \$0.00 |
| Emily Wong | \$0.00 |
| Grand Total | \$ - |