

Town of Fairfield

Fairfield, Connecticut 06824

INTERNAL AUDIT

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To: Robert Mayer, Chief Fiscal Officer
From: Connie M. Nolfi, Internal Auditor
Subject: Audit: Bid #2013-73 – Construction Material Processing Facility
Date: October 13, 2016
Cc: Gerald Foley, Director of Purchasing
Joe Michelangelo, Director of Public Works

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The Internal Audit Division has completed an examination of Bid #2013-73 awarded to Julian Development for the Construction Material Processing Facility.

The primary purpose of the audit was to review bid award specifications and associated Contractor compliance. This encompassed:

- Reviewing invoices paid to the Contractor for conformance with prices supplied in bid award documents.
- Reviewing annual facility operation revenue received by Town as supplied by the Contractor in bid award documents.
- Reviewing Certificates of Insurance as required by the Town bid award.
- Reviewing Contractor Performance Bond as required by the Town bid award.
- Identifying and disclosing all weaknesses among the internal accounting control structure.



STATEMENT OF AUDITING STANDARDS

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed in order to afford a reasonable basis for judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives.



INTERNAL CONTROL DEFINED

Internal control encompasses all the steps and actions developed by management to ensure efficient and effective organizational operations. It consists of all methods used within an organization to safeguard assets, promote the accuracy and reliability of its accounting data and records, promote operational efficiency and encourage compliance with all policies and procedures prescribed by management.



AUDIT FINDING #1

THE CONTRACT IS EXPIRED

Bid #2013-73 was awarded to Julian Development (hereafter referred to as Contractor) on May 2, 2013 for the Construction Material Processing Facility. The bid award stipulates a three year term starting May 23, 2013. Internal Audit determined that the three year term would terminate on May 23, 2016 and that the Contractor has been operating the Facility under an expired contract for approximately three months.

AUDIT RECOMMENDATION #1

The Purchasing Department should prepare a new bid for the Construction Material Processing Facility immediately.

NOTE: PURCHASING AND PUBLIC WORKS DEPARTMENT HAVE DECIDED TO EXTEND THE CONTRACT TERM TO DECEMBER 31, 2016. THE CONSTRUCTION MATERIAL PROCESSING FACILITY OPERATION WILL BE BID AFTER THAT DATE. RENT IN THE AMOUNT OF \$3,000 FOR THE FIRST TERM OF 2013 WAS WAIVED SINCE THE OPERATION COMMENCED AT THE END OF MAY 2013 DURING THE MIDDLE OF THE FIRST RENT TERM.



AUDIT FINDINGS #2 & 3

COST OF LIVING ADJUSTMENT NEVER MADE

Bid #2013-73 states:

“The contract shall be for an initial (3) year term with an agreed upon cost of living allowance (COLA) applied every (12) months. A refundable surety deposit is required to accompany all proposals.”

A cost of living allowance was never made during the term of the contract nor has a surety deposit been collected.

NOT ALL QUARTERLY OPERATIONS PAYMENTS RECEIVED

Bid #2013-73 requires the Contractor to make quarterly payments to the Town for a total of \$9,000 per year for three years plus cost of living adjustment. Internal Audit noted that required revenue payments had not been received from the Contractor to date.

Inquiries with Public Works Operations revealed that credit memos on invoices were obtained from the Contractor in lieu of quarterly rental payments.

Internal Audit reviewed bills paid to Julian and noted that only one credit memo in the amount of \$6,000 was applied toward a bill paid to the Contractor in May 2014. (The credit memo was one year late.) Internal Audit did not note any other invoices with credit memos from the Contractor entered into the MUNIS accounting system nor were any revenue payments received by the Town.

Further inquiries with Public Works Operations revealed that the Department would obtain goods and services from the Contractor and then a credit memo would be applied toward the total amount of goods and services rendered, resulting in a zero balance. However, many of these invoices were submitted to Finance and paid without credit memos applied to them. Other invoices and associated credit memos were maintained internally at the Public Works Garage.

The total due as of 10/5/2016 is \$13,836.08 for Operation of the Facility:

6/15/2013-9/14/2013 – Rent	\$3,000.00	
9/15/2013-12/15/2013 – Rent	<u>\$3,000.00</u>	\$6,000.00
3/15/2014-6/14/2014 – Rent	\$3,000.00	
6/15/2014-9/14/2014 – Rent	\$3,000.00	
9/15/2014-12/15/2014 – Rent	<u>\$3,000.00</u>	\$9,000.00
3/15/2015-6/14/2015 – Rent	\$3,000.00	
6/15/2015-9/14/2015 – Rent	\$3,000.00	
9/15/2015-12/15/2015 – Rent	<u>\$3,000.00</u>	\$9,000.00
3/15/2016-6/14/2016 – Rent	\$3,000.00	
6/15/2016-9/14/2016 – Rent	\$3,000.00	
9/15/2016-12/15/2016 – Rent	<u>\$3,000.00</u>	\$9,000.00
TOTAL OWED BY JULIAN FOR OPERATION OF FACILITY:		<u><u>\$33,000.00</u></u>
 MUNIS CREDIT MEMO - APPLIED TOWARD INVOICES:		 -\$6,000.00
 CREDIT MEMO'S - APPLIED TOWARD INVOICES INTERNALLY THROUGH PW GARAGE & JULIAN :		 -\$13,163.92 **
		<u><u>-\$19,163.92.00</u></u>
 GRAND TOTAL PAST DUE BY JULIAN:		 <u><u>\$13,836.08</u></u>

****Invoices/credit memo's for this amount were not submitted to Finance for processing. At the initial 8/18/2016 audit review – Internal Audit told PW Operations not to apply credit memos for rent toward invoices but to collect actual rent checks from Julian and to submit invoices to Finance for payment.**

NO PHYSICAL RENT CHECKS HAVE BEEN RECEIVED TO DATE FROM JULIAN.



AUDIT RECOMMENDATION #2 & 3

The Public Works Operations must comply with Town policies and procedures regarding requisitioning, receiving, approving and maintaining invoices and credit memos for goods and services. The current manner of keeping invoices and associated credit memos solely by Public Works Garage creates a significant deficiency in internal accounting controls.

Internal Audit recommends that the following process be established immediately:

1. Quarterly revenue payments will be submitted by the Contractor via check payable to the Finance Department.
2. Public Works will follow the purchase requisition/review & approval/payment process in MUNIS.



AUDIT FINDING #4

WATER USAGE NOT CHARGED

Bid #2013-73 states:

“Water will be metered and usage charged to the Contractor on a quarterly basis.”

Internal Audit requested the meter number located at the Facility used by the Contractor through Public Works Administration on August 12, 2016. However, they were not familiar with the meter at that location. Water usage was never billed to the Contractor.

Inquiries with the Sewer Department revealed that the water meter at 295 One Rod Highway is shared with Public Works and Julian. Total amount paid by the Town for this meter during FY16 was \$11,603.55.

AUDIT RECOMMENDATION #4

Public Works should calculate the amount of water used by the Contractor during that time period and demand payment along with the delinquent annual rent.



AUDIT FINDING #5

SIZE AND VOLUME OF STOCKPILE NOT REDUCED

Bid #2013-73 states:

“The Operator is required to reduce the total height and volume of the current stockpile of the existing material on the site.”

Conversations with the Town Attorney revealed that the height of the stockpile has not been reduced.

AUDIT RECOMMENDATION #5

It is recommended that the Contractor be notified that he is not in compliance with the requirements of Bid #2013-73 and that he should remedy the situation immediately or cease operations. If the Contractor does not comply, the Performance Bond should be utilized to defray costs.

NOTE: A MEMO FROM PUBLIC WORKS DIRECTOR, RICH WHITE STATED THAT THE TOWN COST FOR REDUCING THE FILL PILE FOR \$100,000 PER YEAR OVER THREE YEARS (FY16-18) WAS ELIMINATED FROM THE DPW CAPITAL PLAN BASED UPON THE ASSUMPTION THAT A CONTRACTOR WOULD PROCESS THE MATERIAL INTO SELLABLE PRODUCTS.



AUDIT FINDING #6

Bid #2013-73 states:

“Standard hours of operation for the Contractor are from 7:00am to 3:30pm, Monday through Friday. Hours may be extended in the future where permissible by DPW in writing, and if determined to be non-obtrusive to local residents.”

Discussions with the Director of Solid Waste and Recycling revealed that the Contractor’s trucks were still entering and exiting the Facility on Saturday’s. A video tape of the site on Saturday, October 1, 2016 was reviewed by both Internal Audit and the Director of Solid Waste and Julian Trucks were observed driving through the Facility on that day.

AUDIT RECOMMENDATION #6

DPW should provide permission in writing for Contractor trucks to operate on Saturday’s only if it is deemed non-obtrusive to local residents. If deemed obtrusive, then permission to operate of Saturday’s should be denied, especially since required rent payments have not been made.



AUDIT FINDING #7 - REMEDIED

**CONTRACTOR CERTIFICATE OF INSURANCE AND
PERFORMANCE BOND EXPIRED - NOW UPDATED**

Internal Audit requested a copy of the Contractor’s Certificate of Insurance and Performance Bond as required by Bid #2013-73 however, only expired documents were found in the file. Internal Audit requested that these documents be updated by Purchasing in August 2016. Updated copies of these documents were finally produced by the Contractor almost two months later.



CLOSING REMARKS

Internal Audit welcomes the opportunity to assist with the implementation of any of the recommendations included within this report. It is my hope that we can remedy the existing issues at the Construction Material Processing Facility so it may operate as efficiently and effectively as possible for the Town of Fairfield in the future.

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