Department of the Treasury
Office of Design and Construction

July 1, 1996 to June 17, 1998
The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services  

Enclosed is our report on the audit of the Department of the Treasury, Office of Design and Construction for the period July 1, 1996 to June 17, 1998.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
July 17, 1998
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>2</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Prequalification and Classification Systems</td>
<td>3</td>
</tr>
<tr>
<td>Performance Evaluations</td>
<td>5</td>
</tr>
<tr>
<td>Contractor Classification Period</td>
<td>6</td>
</tr>
</tbody>
</table>
Department of the Treasury  
Office of Design and Construction

**Scope**

We have completed an audit of the Department of the Treasury, Office of Design and Construction (ODC) for the period July 1, 1996 through June 17, 1998. Our audit included capital construction activities accounted for in the state’s General Fund, capital projects funds, and special revenue funds. We also included projects for the New Jersey Building Authority and some state colleges which are not accounted for on the New Jersey Comprehensive Financial System. It should be noted that administrative expenditures including payroll were not within our scope as these activities were examined as part of our Department of the Treasury, Division of Administration audit.

Total construction expenditures processed by the agency were approximately $180 million during fiscal year 1997 and $150 million during fiscal year 1998 as of June 17, 1998. The prime responsibility of the Department of the Treasury, Office of Design and Construction is to plan, program, design and supervise the construction, renovation and rehabilitation of buildings and facilities for various state agencies, authorities and other funding sources. Revenues of the agency totaled approximately $8.3 million during fiscal year 1997 and $3.7 million during fiscal year 1998 as of June 17, 1998. The major components of revenue were the fees collected from the client agencies to support the administrative costs of the Office of Design and Construction. As of June 4, 1998 there were 959 open projects, of which 570 were initiated during our audit period.

**Objectives**

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.
Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and internal control.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected. Our audit reviewed the architect/engineer consultant prequalification system, contractor classification system, and the management of construction projects.

Conclusions

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.
Local governments and school districts could achieve cost savings by using the ODC prequalification and classification systems.

Prequalification and Classification Systems

The ODC contractor classification system currently classifies approximately 1,600 contractors throughout the state in 86 specific construction trades. Prospective bidders submit information which summarizes their financial ability, responsibility, licensing, plant and equipment, organization, ownership, relationships, and prior experience. Based on this information, the ODC determines the total dollar amount of projects that a contractor is capable of managing at one time. Once classified, contractors are eligible to bid on projects at all levels of government.

The ODC architect/engineer consultant prequalification system has approximately 600 consultants currently prequalified. Prospective bidders submit a form which includes information regarding the firm’s background, licensing, and the number, size, and types of jobs they have performed. Once prequalified, each firm is assigned a classification level which is the maximum estimated cost of a project upon which the consultant is eligible to bid.

Municipalities and counties, which initiated more than $130 million in construction during calendar year 1997, are not using the ODC architect/engineer consultant prequalification system or contractor classification system. The school districts, which initiated more than $175 million in construction during calendar year 1997, are required by the State Board of Education to use the contractor classification system but are not using the architect/engineer consultant prequalification system. By not using the state systems, local governments and school districts must perform their own contractor/consultant applications and evaluations or risk hiring substandard contractors and consultants.

Municipalities, counties, and school districts using these systems could achieve the following benefits:

• cost savings due to a reduction in construction contracting costs.
• confidence that qualified architects, engineers, and contractors will be bidding on their projects.

• improvement in the prevention of delays and cost overruns caused by hiring substandard architects, engineers, and contractors.

In addition, implementing a centralized prequalification and classification process would be business friendly. Consultants and contractors could submit a single application which would make them eligible to bid on projects in all 21 counties, 566 municipalities, and 581 operating school districts rather than having to submit qualification information to each governmental entity with whom they would like to be considered for projects.

**Recommendation**

We recommend that municipalities, counties, and school districts be made aware and take advantage of the architect/engineer consultant prequalification system and contractor classification system administered by the ODC. In addition, the ODC should explore the possible use of internet technology in making their information more easily accessible to the municipalities, counties, and school districts.

Although we recommend that the local governments and school districts use the architect/engineer consultant prequalification system and contractor classification system, we did identify elements of these systems which should be improved in order to strengthen their effectiveness. These weaknesses are discussed in the following findings.

**Auditee’s Response**

ODC is in full agreement that local governments should be made aware of the State’s prequalification and classification ratings for Consultants and Contractors. Implementation of this recommendation would provide local governments with a greater level of assurance that potential consultants and contractors are both financially and professionally capable of performing the type and level of work contemplated.
The completion of performance evaluations would strengthen the contractor and architect/engineer consultant selection process.

Performance Evaluations

The Office of Design and Construction (ODC) has established policies and procedures which require the submission of periodic and final performance evaluations for both contractors and architect/engineer consultants. In addition, N.J.S.A. 18A:18A-15 requires that school boards report to the ODC as to a contractor’s performance for any project whose cost exceeds $20,000. Performance evaluations play an important role in both the contractor and consultant selection process. Higher performance evaluations increase the chances of a consultant being selected to submit bids on projects. Evaluations can also have a significant effect on a contractor’s Aggregate Rating Limit which represents the total dollar value of projects that a contractor may perform at any given time.

Even though evaluations play an important role in the rating of contractors and consultants, we found that project managers were not routinely completing required evaluations. Reviews of 28 construction and 71 consulting projects found that evaluations had not been prepared for approximately 50 percent of the projects. We were further informed by the ODC that only two of the state’s 581 school districts submit required evaluations.

Evaluations document the quality of a contractor or a consultant’s work, help to ensure that contractors and
consultants with the best past performance are more likely to be awarded projects, and reduce the possibility of an inferior contractor or consultant being selected. The lack of evaluations can only adversely affect the quality of the ODC’s prequalification and classification systems.

**Recommendation**

We recommend that project managers complete contractor and architect/engineer consultant performance evaluations as required by the ODC policies and procedures. In addition, we recommend that the ODC strengthen the contractor performance evaluation process by having evaluations prepared by project consultants. We also recommend that the ODC stress the importance of performance evaluations to the school boards and take a more active role in obtaining those evaluations required by N.J.S.A. 18A:18A-15.

**Auditee’s Response**

ODC agrees and realizes that an effective and up to date rating system is necessary. This matter will be addressed by the above referenced committee and any recommendations from this committee on the rating system will be given strong consideration.
The Classification Section would have more time to perform its primary functions by extending the classification period.

Contractor Classification Period

N.J.A.C. 17:19-2.7 requires that contractors become classified for a seven-month period by submitting a Request for Classification package that includes year-end financial statements. To extend the classification an additional seven months, the contractor may apply for a seven-month extension by submitting a signed affidavit stating that their financial and bonding status has not substantially changed. For example, a contractor with a fiscal year that ends on December 31, 1997 must apply for an extension by July 31, 1997 which will allow its classification to continue through February 28, 1998. The ODC processes approximately 2,000 of these extensions annually.

This extension requirement appears to be unnecessary as it does not require any additional financial review and, according to the Contracts and Procurement Unit, Classification Section, the denial of an extension is an unusual occurrence. Since processing the essentially automatic extension is a time consuming process, the elimination of this extension requirement would provide more time to examine classification requests in greater detail and monitor contractor performance evaluations. Elimination of the seven-month extension would not prevent the Contracts and Procurement Unit, Classification Section from revoking a contractor’s classification at any time since N.J.A.C. 17:19-3 et seq. gives the ODC the authority to debar, suspend, or disqualify contractors for various reasons.

Recommendation

We recommend that the Contracts and Procurement Unit, Classification Section streamline the classification process by eliminating the seven-month extension requirement and extending the classification period to a year plus sufficient time to prepare and submit the Request for Classification package.

Auditee’s Response

The ODC has been an advocate of this recommendation for quite some time. As a matter of fact Legislation was introduced during the 1997-1998 Legislative Session which would have extended the classification period from the current seven months to eighteen months. However, the proposed Legislation did not
make it out of Committee. The ODC will pursue having this Legislation re-introduced and will incorporated any comments or recommendations made by the “Blue Ribbon” committee referenced above.