New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of the Treasury
Division of Property Management and Construction

July 1, 2011 to July 31, 2013

Stephen M. Eells
State Auditor
The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Sheila Y. Oliver  
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, Division of Property Management and Construction for the period of July 1, 2011 to July 31, 2013. If you would like a personal briefing, please call me at (609) 847-3470.
Table of Contents

Scope ................................................................................................................................. 1
Objectives ......................................................................................................................... 1
Methodology ..................................................................................................................... 1
Conclusions ....................................................................................................................... 2

Findings and Recommendations
  Prequalification and Classification ............................................................................. 3
  Consultant Selection Procedures ................................................................................. 4
Auditee Response ............................................................................................................. 5
Scope

We have completed an audit of the Department of the Treasury, Division of Property Management and Construction (DPMC) for the period July 1, 2011 to July 31, 2013. Our audit included activities in the state’s General Fund. The DPMC is responsible for the procurement and project administration of all professional and construction services for state-owned facilities, for the operation and maintenance of state-owned facilities in the Capitol Complex, the leasing of office and warehouse space, and the sale and acquisition of state-owned real property.

Our audit was limited to construction projects currently in progress or completed during the audit period. Processes included in our scope were prequalification and classification, bid evaluation and contract award, and contract management. Total construction and related expenditures for the audit period were approximately $152 million.

Objectives

The objectives of our audit were to determine whether General Fund transactions were related to construction projects, were reasonable, and were recorded properly in the accounting system. In addition, our objective was to determine the adequacy of the prequalification and classification process, the bid evaluation and contract award process, and contract management.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section I, 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, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the DPMC. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about our audit objectives, as well as internal control and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.
Conclusions

We found the General Fund transactions included in our testing were related to construction projects, were reasonable, and were recorded properly in the accounting system. We also found the prequalification and classification process, the bid evaluation and contract award process, and contract management were adequate. In making these determinations, we found certain internal control weaknesses and inefficiencies meriting management's attention.
Prequalification and Classification

Financial documents used in the prequalification or classification of firms may not be genuine.

Firms desiring to bid on design work with the DPMC are required to submit a prequalification form, which provides comprehensive information on management of the firm, their financial history, the type and value of their past project work, profiles of licensed and technical staff, and other factors deemed relevant by the DPMC. This information is used to assist in the evaluation of firms for DPMC work and to establish the maximum construction cost estimate dollar level and professional disciplines for which the firm is qualified. The result of the evaluation is the firm’s “prequalification” which is valid for a 24-month period, beginning with the date shown on the prequalification notice issued by the DPMC. A review of a firm’s application must be completed within 30 calendar days of the receipt of fully completed forms.

We sampled prequalification applications to analyze the length of time firms used to complete the application package. We found the division was timely in processing applications from the receipt of the fully completed forms to firm notification. However, we found 15 of 255 approved applications took longer than 90 days for the firms to provide all required documentation. This time delay increases the risk of dated, unnotarized, and incorrect information being used by the DPMC to issue a prequalification.

Contractor classification is the process and product of assigning specific construction categories or trades and the aggregate ratings that define the eligibility of firms to engage in public work as determined by the DPMC. A form is completed by a firm seeking classification as a contractor. This form provides information on the firm’s financial position, organization, prior experience, and bonding capacity.

Currently, the DPMC allows firms to directly submit their financial statements which are audited, reviewed, or compiled by independent accountants. With today’s technology, a firm may submit altered or forged documents, without detection by DPMC. The information would be more reliable if received from an independent source and decrease the risk of an unqualified vendor being awarded contracts. We sampled 35 vendors and found one instance where it appeared the financial information compiled by the independent accountant was altered prior to being submitted to the DPMC. This matter was referred to the Division of Criminal Justice.

Recommendation

We recommend the DPMC require firms to submit all prequalification documentation on a timely basis. We also recommend the DPMC require firms to have the preparer of financial documents submit them directly to the DPMC.
Consultant Selection Procedures

Consultant selection evaluations may not contain sufficient information for unsuccessful bidders.

Prequalified firms desiring to perform consultant services for the DPMC or its client agencies may submit proposals for routine, term, and major projects. The DPMC creates a selection committee which predetermines the evaluation criteria to be used in determining a ranking. A bid coordinator forwards the technical proposals to the selection committee members for their review. One evaluation sheet is prepared for each firm by each member of the committee. Evaluators review the proposals and assign numerical grades and comments for support. The evaluation sheet has space for a numerical grade as well as an area for comments to justify the grade. Evaluations are returned to the bid coordinator who summarizes and computes technical rank scores. The highest technically ranked firm is contacted, and fee negotiations are conducted. Evaluations are confidential until the notice of award is announced and evaluations become public record.

We sampled 15 of 87 projects awarded during the audit period and found 4 projects contained at least one evaluation that did not include comments to justify the evaluator’s grade.

The DPMC does not have a policy and procedure in place to give evaluators directions as to how to complete the forms. Unsuccessful bidders are not able to determine where their bid was flawed or areas for improvement for future bids based on a numerical grade only. In addition, when an evaluator does not leave comments with their score, it can cause confusion as to why a firm received their score, especially when scores vary significantly between evaluators for the same firm. This may put unsuccessful bidders at a disadvantage for future bidding opportunities, since they could not determine why their submission was inadequate.

Recommendation

The DPMC should implement a policy and procedure requiring evaluators to provide detailed comments supporting their numeric grades on each evaluation.
November 25, 2013

MEMORANDUM

TO: John J. Termyna, Assistant State Auditor
Office of Legislative Services

FROM: David Ridolfino, Associate Deputy State Treasurer

SUBJECT: FY2014 AUDIT REPORT RESPONSE
Division of Property Management and Construction
Construction Projects July 1, 2011 to July 31, 2013

On behalf of State Treasurer Andrew P. Sidamon-Eristoff, please accept this memorandum in response to your office’s audit of the Department of the Treasury, Division of Property Management and Construction (DPMC) for the period of July 1, 2011 to July 31, 2013. DPMC’s management confirms, to the best of its knowledge and belief, that the representations made to you during your review are correct. DPMC agrees with the audit and has provided responses to each of the audit’s observations/recommendations, which are summarized below:

Prequalification and Classification

OLS: Financial document used in the prequalification or classification of firms may not be genuine.

We sampled prequalification applications to analyze the length of time firms used to complete the application package. We found the division was timely in processing applications from the receipt of fully completed forms to firm notification. However, we found 15 of 255 approved applications took longer than 90 days for the firms to provide all required documentation. This time delay increases the risk of dated, unnotarized, and incorrect information being used by DPMC to issue a prequalification.

OLS Recommendation

We recommend the DPMC require firms to submit all prequalification documentation on a timely basis.

Division of Property Management and Construction Response

DPMC will require all firms to submit all prequalification documentation on a timely basis.
Prequalification and Classification

OLS: Currently, the DPMC allows firms to directly submit their financial statements which are audited, reviewed, or compiled by independent accountants.

With today’s technology, a firm may submit altered or forged documents, without detection by DPMC. The information would be more reliable if received from an independent source and decrease the risk of an unqualified vendor being awarded contracts. We sampled 35 vendors and found one instance where it appeared the financial information compiled by the independent accountant was altered prior to submittance to the DPMC. This matter was referred to the Division of Criminal Justice.

OLS Recommendation

We recommend the DPMC require firms to have the preparer of financial documents submit them directly to the DPMC.

Division of Property Management and Construction Response

The recommendation to have the preparer submit the financial documents directly could potentially delay the submission and approval process since additional outreach to multiple parties would be required. Instead we plan to take the following actions: 1 - Add to DPMC website a statement that all financial and other information submitted on a form or application is subject to verification. Any false statement subjects the contractor/professional organization to possible civil, criminal, and disbarment from future work; and 2 - DPMC will verify a sampling of significant applicant’s materials received and if results disclose problems consider moving to a verification process in the future. Treasury Internal Audit will perform follow-up audit(s) to verify that the process and controls we implement are in place and effective.

Consultant Selection Procedures

OLS: Consultant selection evaluations may not contain sufficient information for unsuccessful bidders.

The DPMC does not have a policy and procedure in place to give evaluators directions as to how to complete the forms. Unsuccessful bidders are not able to determine where their bid was flawed or areas for improvement for future bids based on a numerical grade only. In addition, when an evaluator does not leave comments with their score, it can cause confusion as to why a firm received their score, especially when scores vary significantly between evaluators for the same firm. This may put unsuccessful bidders at a disadvantage for future bidding opportunities, since they could not determine why their submission was inadequate.

OLS Recommendation

The DPMC should implement a policy and procedure requiring evaluators to provide detailed comments supporting their numeric grades on each evaluation.
Division of Property Management and Construction Response

DPMC will implement the recommended policy.

c: Andrew P. Sidamon-Eristoff, State Treasurer
Robert Romano, Deputy State Treasurer
Jim Leonard, Chief of Staff
Steven Sutkin, DPMC