

DEKALB COUNTY, GEORGIA



WATERSHED MANAGEMENT DEPARTMENT

AUDIT REPORT

**SNAPPINGER ADVANCED WASTEWATER
TREATMENT FACILITIES EXPANSION- PHASE I**

**PREPARED BY
FINANCE- INTERNAL AUDIT DIVISION**

DEKALB COUNTY, GEORGIA

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FINANCIAL STATEMENTS
PREPARED BY



Finance Department
Internal Audit & Licensing

TRANSMITTAL MEMORANDUM

**Interim Chief
Executive Officer**

Lee May

**Board of
Commissioners**

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Sharon Barnes Sutton

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District 6
Kathie Gannon

District 7
Stan Watson

DATE: August 13, 2014
TO: Morris Williams, Deputy Chief Operating Officer for Infrastructure
FROM: Cornelia Louis, Deputy Director of Finance-Internal Audit and Licensing
SUBJECT: Contract Compliance Audit-Watershed Management Department
Re: Snapfinger Advanced Wastewater Treatment Facilities Expansion- Phase I Project

Attached is the report of the Snapfinger Advanced Wastewater Treatment Facilities Expansion-Phase I Review, which you requested. The issues raised in the report were discussed with you, James M. Chansler, and Margaret Britton during the Exit Conference on August 5, 2014. Also, the report was discussed with Kenneth Saunders and Wendell Brown on August 13, 2014.

As is customary with our audit work, we do not include the auditee's comments in our report. However, you may consider sending your comments or response directly to the Gwen Brown-Patterson, Interim Chief Financial Officer/Finance Director.

We appreciate the cooperation and assistance we received from Watershed Management and Purchasing & Contracting staff during the course of this review. If you have any questions about the audit or this report, please feel free to contact me at extension 404-371-2639.

Sincerely,

Cornelia Louis

cc: Zachary Williams, Chief Operating Officer/Executive Assistant
Gwen Brown-Patterson, Interim Chief Financial Officer/Finance Director
James M. Chansler, Director of Watershed Management Department
Scott M. Callan, Interim Director of Purchasing & Contracting
Kenneth Saunders, Assistant Director – CIP of Watershed Management Department
Claudette Leak, Administrative Project Manager

cl/mw

**SNAPPINGER ADVANCED WASTEWATER
TREATMENT FACILITIES EXPANSION- PHASE I
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GENERAL INFORMATION

DeKalb County and Desmear Systems, Inc. (DSI) have a contractual agreement (contract # 12-902437) to “carry out and complete in a good, firm, substantial and workmanlike manner, the work and construction in strict conformity with the drawings and specifications entitled Snapfinger Advance Wastewater Treatment Facilities Expansion-Phase I” bid package. Snapfinger Advance Wastewater Treatment Facilities Expansion-Phase I include “clearing and grubbing of the site, excavating existing rock and soil, compacting, grading and stock/piling suitable soils on site, and disposing of unsuitable soils.” Phase I will “prepare the site for later construction and of (1) 30 inch storm water pipeline (2) storm water inlets (3) temporary sediment pond with an outfall to South River, and (4) a retaining wall.”

In response to the Request for Proposal (RFP) # 10-500141 to provide professional engineering services for various Watershed Management Department projects, the Board of Commissioners (BOC) approved contracts for eight (8) engineering firms for a total not to exceed \$4,000,000 (\$500,000 each firm) on June 22, 2010.

DeKalb Water Partners (DWP), a Joint Venture, was one of the eight firms awarded a contract (contract# 10-902029) to provide engineering services. The Joint Venture is between Jacobs Engineering Group Inc. (65% - Steven Paquette) and Cardozo Engineering, Inc. (35% - Rosanne Cardozo).

On January 13, 2012, DWP was given Work Order # 12-001 to provide construction management services for the Snapfinger Advanced Wastewater Treatment Facilities Expansion – Phase I project under the Professional Services Contract # 10-902029. The work was to be performed on a Time & Materials basis, not to exceed \$249,150. The construction management services were associated with DSI contract # 12-902437.

Definitions

Contractor (*Desmear Systems, Inc.*): the firm/corporation “undertaking the execution of the Work as an independent contractor under the terms of the Contract.”

Construction Manager (*DeKalb Water Partners Joint Venture*): firm/organization appointed by the owner to work as the owner’s agent in the construction work; managing the contractor(s) so that “all work on the project is completed on time and within budget, in accordance with contractual agreements.”

Owner (*DeKalb County, Georgia*): “means the state, any county, municipal corporation, authority, board of education, or other public board, public body, department, agency, instrumentality, or political subdivision of the state.”

Owner’s Authorized Contract Representative (*Watershed Management Engineer*): “means the Engineer or Engineer in charge of the project for the owner or such other contract representative or officer as designated in the contract documents as the party representing the owner’s interest regarding administration and oversight of the project.”

Designer (*Parsons Water & Infrastructure Inc.*): “individual, partnership, or corporation performing professional Architectural service for the County as an independent contractor.”

Swell factor: “The ratio of the weight or volume of loose excavation material to the weight or volume of the same material in place.”

Weep Hole: “a small opening left in the outer wall of masonry construction as an outlet for water inside a building to move outside the wall and evaporate.”

Geocomposite Sheet Drains: “moves water quickly to weep holes to relieve hydrostatic pressure. Loads on the wall are reduced. Freeze expansion is eliminated. Lighter and lower cost structures are possible.”

Mirror Drain/Drain Panel: “used to relieve hydrostatic pressure in retaining walls.”

Earth Dike: “a ridge or ridge and channel combination used to protect work areas from upslope runoff and to divert sediment-laden water to appropriate traps or stable outlets. The dike consists of compacted soil and stone, riprap, or vegetation to stabilize the channel.”

Silt Fence: “also called a ‘filter fence,’ is a temporary measure for sedimentation control. It usually consists of posts with filter fabric stretched across the posts and sometimes with a wire support fence.”

Sediment Trap: “formed by excavating a pond or by placing an earthen embankment across a low area or drainage swale. An outlet or spillway is constructed using large stones or aggregate to slow the release of runoff. The trap retains the runoff long enough to allow most of the silt to settle out.”

Check Dam: “a small, temporary or permanent dam constructed across a drainage ditch, swale, or channel to lower the speed of concentrated flows. Reduced runoff speed reduces erosion and gullyng in the channel and allows sediments to settle out.”

PURPOSE AND SCOPE

The purpose of our audit was to determine if DSI and DeKalb County were in compliance with the terms and conditions of Contract 12-902437; and DWPs' compliance for providing construction management services as specified in the terms of the abovementioned contract.

Our review was conducted in accordance with Generally Accepted Auditing Standards. We examined records pertaining to the Snapfinger Advanced Wastewater Treatment Facilities Expansion- Phase I project such as contracts, task orders, invoices, drawings, pictures, Certificate of Insurance, Performance and Payment Bonds, schedule of values, etc. We conducted such audit tests and procedures as were deemed necessary under the circumstances.

We did not test compliance with all contract requirements, laws, and regulations applicable to the Snapfinger Advance Wastewater Treatment Facilities Expansion-Phase I project. We limited our tests of compliance to certain contract requirements, laws, and regulations that have a direct and material effect on the overall outcome of the project.

Due to the non-responsiveness of DWP personnel, Internal Audit was unable to obtain pertinent documentation that exhibits DWP's exhaustive involvement in the management of contract# 12-902437.

OPINION

In our opinion, neither DSI nor DeKalb County complied with the terms of Contract 12-902437 dated July 13, 2012, or amendments thereto as outlined in the findings below. In addition, DWP failed to adequately perform the duties of construction management services as outlined in the contract (12-902437) between DSI and DeKalb County.

FINDINGS AND RECOMMENDATIONS

We reviewed Part I, II, and III of Contract 12-902437 to obtain understanding of the DSI, DeKalb County, and DWP's role for executing the contract requirements. We interviewed the DeKalb County personnel and performed an onsite visit of the Snapfinger Advanced Wastewater Treatment Facilities project site.

DESMEAR SYSTEMS, INC. COMPLIANCE

We reviewed invoices, emails, memos, permits, inspection reports, deficiency reports, and Request for Assistance Forms filed with Purchasing and Contracting-Contract Compliance Division. In addition, we performed a site visit to gain further knowledge of the retaining wall deficiencies.

Issues

I. Inaccurate Invoices

During a meeting in September, 2013, it was revealed that the completed percentage of Soil and Rock Excavation/Hauling reported on the Periodic Estimate for Partial Payment attached to DSI's invoices were inaccurate. Documents suggest remaining work to be performed was understated and blasted rock swell factor was not considered when percentages were calculated for Soil and Rock Excavation/Hauling. This inaccuracy was not discovered by DWP, but brought to their attention by Watershed Management personnel. As a result, the County overpaid DSI.

Traditional survey techniques should have been performed before blasting to ensure accurate measurement of excavated materials. Internal Audit found no evidence that surveys were performed by DSI or its subcontractors.

Recommendation

The appropriate documents should be accompanied with the Periodic Estimate for Partial Payment schedule to ensure accuracy of numbers before payment was released to the vendor. The County should recoup overpayments remitted to the DSI. The County has hired an independent engineer to determine the value of the overpayment.

II. Failure to Complete Work Timely

DSI requested a 60-day non-compensatory time extension, which would make the new proposed contract completion date August 30, 2013. The request was denied by the County on May 15, 2013. Although the new proposed date by DSI was August 30, 2013, the detailed schedule drafted by DSI shows the Soil Nail Retaining Wall is scheduled to be completed on December 30, 2013. DSI failed to complete the work within the contract period. As stated per the contract, "If said Work is not completed within the time stated..., the Contractor shall be liable and hereby agrees to pay the County as liquidated damages and not as a penalty, the sum of One Thousand dollars (\$1,000) per calendar day for each and every day or part of a day thereafter that said Work remains uncompleted."

Recommendation

We recommend that the County seek liquidated damages from the Contractor at \$1,000 per day for each day the work remains uncompleted. Days should be calculated from the revised date, June 30, 2013, of the change order until the date of Stop Work Order.

III. Failure to Adhere to Safety and Environmental Compliance Standards

The "contractor shall do whatever work necessary to assure safety and shall be solely and completely responsible for the conditions of the jobsite." In addition, the site safety requirements must agree with Federal and State Departments of Labor Occupational Safety and Health Act (OSHA) and other federal, state, and local laws, ordinances, or codes. There were seven (7) site incidents that occurred between September 2012 through September 2013; and numerous safety violations by the DSI or its subcontractors. The incidents occurred on site are as follows:

1. Windshield damage to project vehicle.
2. Hauling Company struck an overhead power line at the County landfill.
3. Keypad/intercom panel was struck; mounting pole and pad was damaged.
4. Damaged the power pole along temporary access road.
5. Worker stung by unidentified insect; resulted in reaction and mild shock.
6. Dump truck backing tipped on its side.
7. During blasting rock was thrown from blast to location of crew members in the safe zone.

Some of the safety and environmental compliance violations were, but not limited to the following: *(Based site visit performed by Watershed Management Inspector)*

1. Eighty percent (80%) of the workers onsite were not wearing hard hats.
2. A safety officer was not assigned to the project.
3. A safety officer was not present during blasting.
4. Silt migration from the construction site to the South River.

The aforementioned accidents and safety and environmental compliance violations revealed DSI's failure to adhere to "Security and Safety" guidelines as listed in Section 01512 of the Snapfinger Advanced Wastewater Treatment Facility Expansion Phase I contract document.

Furthermore, listed in an inspection report presented by DWP, dated September 12, 2013, it was noted that the workers lack training on safety signals and use of products; onsite construction activity displayed incoordination and lack of communication existed between DSI and subcontractors; and blasting plan "appear to be complete but parts of it could not be verified."

Recommendation

To assure safety and environmental policies/standards are implemented effectively, there must be coordination, communication, and cooperation among DSI and its subcontractors. Other factors that contribute to safety on the construction site should include extensive training for personnel and insuring conformance to design and safety plans. Due to the nature of the project, we recommend guidelines be established by the County limiting the number of safety incidents and/or severity of safety incidents before terminating the contract or suspending work.

IV. Workmanship

The Secure and Safeguard Site Inspections Report prepared by Parsons Water & Infrastructure Inc. dated April 2014 stated the following:

- "Soil nail wall was improperly constructed. Exposed areas of unfinished wall show missing geocomposite sheet drains behind the wall for drainage, missing weep holes used for draining the collected water, missing wire mesh reinforcement, and missing nelson heads to connect the cast-in-place (CIP) concrete facing."
- "Three visible soil nails show signs of being installed improperly. Nails are not centered in grout holes. There are no visible signs that centralizers were used during installation."

In addition, Hayward Baker, Inc. performed a verification test on the three (3) visible soil nails; two (2) of the three (3) soil nails failed the pressure test.

Inadequate wall drainage and other retaining wall deficiencies provide evidence of poor workmanship. Internal Audit believes this resulted in DSI's lack of experience with Soil Nail Retaining Wall construction.

Recommendation

The County should take the necessary steps to make certain qualified bidders are selected during the bid process.

V. Failure to Secure Blasting Permit for Contract Period

Internal Audit obtained a copy of a blasting permit issued by DeKalb County Fire Rescue/ Marshall Division to Controlled Blasting, Inc., DSI's subcontractor, for the period October 25, 2012 through November 24, 2012. Based on the invoice submitted to the County, Blasting was 12% complete when the blasting permit expired.

As stated in Permits and Inspection Fees section of the contract document, "Permits shall be secured by the Contractor and inspections will be required, but the County will not charge the Contractor for such permits and inspections obtained from the County." In addition, "bidders are required to familiarize themselves with the provisions of the Contract Documents and make available to prospective suppliers and subcontractors such information derived there from that

applies to suppliers and subcontractors.” Therefore, it was DSI’s responsibility to ensure Controlled Blasting, Inc. obtain another permit to cover the duration of blasting. No further documentation was provided to support coverage of blasting period.

Recommendation

We recommend the County cease blasting activity for contractors or its subcontractors that fail to secure the appropriate blasting permit.

VI. Untimely Subcontractor Payments

Purchasing and Contracting-Contract Compliance Division provides assistance to subcontractors in securing past due payment(s) from their prime contractor. DSI’s subcontractors requested assistance from Contract Compliance Division personnel due to invoices that were two to three months past due. The first Request for Assistance was dated October 2012.

DSI’s inability to pay subcontractors in a timely manner suggests that DSI’s may be financially unstable. Financially unstable contractors present construction project risks: failure to complete the project, construction delays, and failure to pay subcontractors.

Recommendation

The County may consider suspending progress payment to the prime contractor’s outstanding invoices until they’ve satisfied their legal financial obligation to their subcontractors. Also, a prime contractor who consistently has unjustified untimely payments to its subcontractors should receive a negative performance evaluation.

Assessing the financial stability in advance minimizes risk and increases the confidence in project completion. Before awarding construction contracts, the financial stability of bidder should be assessed. Reviewing current or prior year’s financial statements would provide insight to the bidder’s financial position.

Comment

The contract states, if the Contractor, “repeatedly fails to supply sufficient skilled workers or suitable material or equipment, payments to Subcontractors or for labor, material or equipment...then the County without prejudice to any other right or remedy and after giving the Contractor and his surety a maximum of seven days from delivery of written notice, declare the Contract in default, take possession of the Project and of all materials, equipment, tools construction equipment and machinery thereon owned by the Contractor, and call upon the surety to finish the Work by whatever method deemed expedient.” DSI did not conform to the many aspects of the contract, as mentioned above in the issues. We recommend that the contract with DSI be terminated; and DSI should not be allowed to complete the remaining tasks as it relates to the Snapfinger Advanced Wastewater Treatment Facilities Expansion-Phase I project.

DEKALB COUNTY COMPLIANCE

We interviewed the DeKalb County personnel and performed an onsite visit of the Snapfinger Advanced Wastewater Treatment Facilities project site.

Issues

I. Vendor Selection

The Bid package specifies the following qualifications for the awardee:

1. The specifications in Section 2830 - Soil Nail Retaining Walls (SNRW) of the bid package states “the Soil Nail (SN) contractor shall have completed at least 3 permanent SNRWs during the past 3 years totaling at least 10,000 ft. of wall face area and at least 500 permanent SNs. The contractor shall provide a Registered Professional Engineer, on-site supervisors, and drills operators with experience in the construction of permanent SNRWs on at least 3 completed projects over the past 3 years.”
2. In addition, the Contractor should have on staff a full-time person with a minimum of five (5) years of experience in critical path scheduling on projects of similar size and scope of the Snapfinger Advanced Wastewater Treatment Facilities Expansion-Phase I project.
3. The Contractor may “furnish the services of an experienced, qualified, and equipped, and Dewatering Subcontractor to design and operate the dewatering systems required for the Work. In lieu of the above, the Contractor may do the dewatering in accordance with a system approved by The Engineer and designed and sealed by a Civil Engineer who is registered in the State of Georgia and who has proven experience in this type of work.”

Internal Audit did not find evidence that the County performed their due diligence in selecting the appropriate vendor with the abovementioned qualifications during the bid selection; soil nail retaining wall experience was not listed on the bid abstract as a qualifying requirement. The bid abstract showed verification of all vendors with a Utility Systems Contractor (UC) License.

The awarded bidder, DSI, has an extensive engineering background, but minimal construction experience, no experience in construction of the soil nail retaining wall, and no experience in dewatering.

Contracting with companies that lack the specialized skills to perform the pertinent tasks presents a high level of risk in receiving substandard work, which can result in the misuse of time and County resources.

Recommendation

The County should take the necessary steps to ascertain that an experience qualified bidder is selected, primarily when the bid specifies a specialized trade or experience. The appropriate steps should ensure qualifications are captured during the bid process. Soil Nail Retaining Walls, Critical Path Scheduling, and Dewatering experience should also be listed as documentation presented by the bidder.

II. Scope of Services

The County solicited services from DWP to perform Construction Management Services under the existing contract for professional engineering services. The scope of services was defined by DWP.

Recommendation

Services for Construction Management were solicited by the County. Since the County solicited the services and the three (3) part bid package/contract requires specific duties to be performed by the Construction Management Company, the County should have defined the scopes of service to be performed pertaining to the contract with DSI.

III. Adherence to County Policies/Procedures

A change order must be submitted for approval by the Board of Commissioners (BOC) to authorize any additions, deletions, or revisions to the general scope of the contract documents; or adjustment to the contract price or contract time. The County did not seek BOC approval for the contract extension from March 30, 2013 to June 30, 2013. The contract extension was a result of DSI's inability to furnish the appropriate Performance and Payment Bond.

Recommendation

Lack of adherence to County protocol regarding change orders can be perceived as an effort to circumvent County policies. An agenda item put forth to the BOC may have brought to the forefront, the issues with the DSI's Performance and Payment Bonds. We recommend that DeKalb Watershed Management personnel comply with the contract change order requirements.

IV. Lack of Sufficient Information from the County

After 30 days of Notice of Award the Contractor must submit to the Engineer for approval a Contractor Quality Control (CQC) plan. Subsequent to the approval of the plan, the Construction Manager and the Owner should meet with the Contractor and the CQC Representative to discuss the quality control requirement.

As stated in Submittals, Section 01300-9, DSI is required to provide color interior/exterior photographs, date stamped, showing preconstruction treatment plant site, construction progress, and the post-construction treatment plant site. A minimum of 200 photos should be taken monthly showing progress of construction. "The location of these photographs shall be determined by the Construction Manager."

The Contract Manager "will coordinate the Project Document Tracking and Control System (DTCS)." "This system will 1) Facilitate communication among the Owner, Designer, Construction Manager, and Contractor; 2) Facilitate turn-around time with regard to responses and approvals; 3) Provide a central location for all Project information to facilitate all Project participants in performing their tasks based on the latest Project data; 4) Provide a standard system Project reporting and administration with accountability." Project documents and monthly status reports should be stored in the system for the Owner, Contractor, Designer, and Construction Manager to utilize.

The CQC plan and photographs are examples of documents that should be in the possession of the Construction Manager, but Project DTCS specifications demonstrates the County was not precluded from utilizing the system to gain access to project documents and knowledge of Snapfinger Phase I project progress. Contractor's daily reports, Construction Manager's and Engineer's reports, Request for Information and Answers (RFIs), Change Orders, drawings, plans ("detail procedures, instructions, and reports used to assure compliance with the Contract"), photographs, etc. should be documents in the custody of the Owner's Authorized Contract (OAC) Representative. County personnel were unable to provide Internal Audit with project documents

predated to March 2013. The lack of documentation exhibits the OAC Representative's minimal involvement in the project.

Recommendation

Considering the contractor's minimal experience, the bond issues, and safety and environmental issues mentioned above, the OAC Representative should have utilized the available tools to assure project satisfaction and adequate safety and environmental control over the jobsite. Sufficient internal resources should be allocated by Watershed Management to effectively supervise the contract.

V. Approval of Invoices

Desmear Systems, Inc.

Prior to approving the invoices submitted by DSI, invoices were "reviewed for form" by the OAC. "Reviewed for form" means ensuring the appropriate signatures are on the "Periodic Estimate for Partial Payment" form (Invoice), page 1 of 2 and "Net Amount Earned to Date" does not exceed the contract price. Attached to the Invoice# SNP010, dated June 30, 2013, totaling \$401,726.75, "Periodic Estimate for Partial Payment" form, page 1 of 2 lists "Soil Excavation/Hauling" completed to date at 100%. A Monthly Updated Construction Schedule - Snapfinger Schedule Revised 7 was attached to the invoice. This document outlines the start and finish dates of project tasks. Excavation and Hauling is listed as work to be completed from Monday, July 1, 2013 through Friday, July 26, 2013 and Thursday, August 1, 2013 through Wednesday, August 28, 2013. The detail schedule proves the invoice is inaccurate in the percentage completed for Excavation/Hauling. Internal Audit received no further information at the time the invoices were approved that County personnel questioned the conflict between the billed amount and the work remaining to be completed in the Monthly Updated Construction Schedule. The County did not perform a thorough review of DSI's invoices and the supporting documentation prior to approving and submitting them for payment.

DeKalb Water Partners

The invoices submitted by DWP, to the County, list the title (Construction Inspector, Clerical, etc.) of the personnel, hours, rate, and amount due. In addition, a Progress Report summary was attached to each invoice. Eleven (11) invoices were submitted, totaling \$293,057.50.

The summary lists Activities Completed This Period and Activities Anticipated Next Period. The activities under the Activities Completed This Period were similar amongst most invoices with a few variations; and activities listed under Activities Anticipated Next Period were the same on most Progress Reports. No other supporting documents such as daily inspection reports or labor records to match the billed hours were attached to the invoices. The similarities in the Progress Reports do not provide assurance that DWP performed the tasks necessary to ensure the Contractor's adherence to the contract requirements. Further documentation should have been requested from the DWP by County personnel.

Recommendation

We recommend invoices be reviewed thoroughly before approving them. Furthermore, back-up documentation attached to the invoice must readily verify successful performance of each event or line item billed on the invoice. Back-up documentation should commensurate with the value of the performance which should include, but not limited to, pictures, employee names, dates and hours worked, description of work performed, the agreed upon hourly wages as submitted on the Wage Rate Summary Sheet, and inspection reports.

VI. Contract Document Requirement

Within ten (10) days from the date of Notice of Award, the Contractor should provide Performance and Payment Bonds by a surety company listed in the Federal Register and licensed to write surety insurance in the State of Georgia, each in the amount of \$7,587,000. The contract between DeKalb County and DSI was executed on July 13, 2012. DSI submitted the Performance and Payment Bonds on October 5, 2012 to Purchasing and Contracting. A 3-month prolonged waiting period to obtain necessary contract documents from the awardee is lengthy. The "Failure to Execute Contract" clause in the contract states that if the successful bidder fail to provide required contract documents, then the Bid Bond "shall be paid to over to the County as liquidated damages as costs of the bidding procedure." This was not enforced by Purchasing and Contracting personnel.

Purchasing and Contracting Department personnel informed Internal Audit some vendors may take roughly six (6) months to furnish contract documents. During the duration of time, Purchasing and Contracting Department personnel contacts the awardee, periodically, to obtain a status on the pending contract documents. This process is inefficient, ineffective, and waste of resources spent on contacting the successful bidder. Time can be utilized on other procurement projects.

Recommendation

We strongly recommend that the "failure to execute contract" clause be utilize when the awardee fails provide the County with the appropriate contract and/or documents within a reasonable time. Purchasing procedures should contain a plan of action when a bidder fails to furnish contract documents in a timely manner. If the project requires Performance and Payment bonds, bidders should be encouraged to apply for and secure bonds prior to bidding on a construction project.

VII. Inconsistences with Performance and Payment Bonds Requirement

The County accepted the Performance and Payment Bonds from Universal Construction, as the Principal, and Great Northern Bonding Company, as the Surety, for the contract between DeKalb County and DSI. Per Purchasing and Contracting personnel, the Performance and Payment Bond, submitted on October 5, 2012, was unacceptable because the contract was between the DeKalb County and DSI not Universal Construction. The Performance and Payment bonds from Universal Construction were ultimately not used for the Snapfinger Phase I project.

Consequently, DSI submitted another bond by Pacific Indemnity Bonds as surety which was deemed fraudulent. Afterwards, DSI provided a Corporate Promissory Note and Collateral Deed/Irrevocable Letter of Credit for \$7,686,264 in lieu of the Performance and Payment bonds required by the County for construction contracts. The County accepted the Promissory Note/Irrevocable Letter of Credit.

"A letter of credit promises to cover payments for a project, up to the stated credit amount, on an approved project." "A bond puts up a specified amount of money to ensure contractual work will be performed to the contract standards. If the work is not completed, or is substandard when compared to the contract terms, the recipient can request bond funding be released to hire someone to satisfactorily complete the work."

In addition, accepting a promissory note/letter of credit put the County at an unacceptable degree of risk and potential liability; risk of non-completion of contractual work and liability of potential liens filed by the subcontractors due to non-payment by the Contractor.

DSI's various bond issues and inability to provide the County with the adequate and acceptable Performance and Payment Bonds are signs that DSI may lack creditworthiness or financial strength to successfully complete the project.

Recommendation

Waiving bond requirements is contrary to sound public policy. We recommend that Purchasing and Contracting personnel adhere to their guidelines as it relates to the acceptance of Performance and Payment bonds. Conformity with Performance and Payment Bonds policies mitigates risk, should the contractor fail to perform.

When a successful bidder fails to furnish the appropriate Performance and Payment Bonds or obtain pre-qualification by sureties, the County personnel should assess the creditworthiness of the successful bidder.

Furthermore, bond verification by Purchasing and Contracting personnel will limit the risk of accepting fraudulent bonds. "The Surety and Fidelity Association of America (SFAA) maintains a list of surety companies that will assist in verifying the authenticity of a surety bond and the fact that the surety authorized the execution of the bond."

VIII. Lowest Bidder

In reviewing the bid abstract prepared by Purchasing and Contracting personnel, DSI's bid was approximately \$1.6 million to \$3 million lower than the other seven bidders; and \$3 million below designer's estimate. DSI's bid is an obvious anomaly. This is an indication that the lower-priced bidder may not meet the contract requirements or specifications.

Recommendation

DSI's bid should have been considered a questionable bid and a Cost Breakdown, as specified in Section GC-19 of the contract, should be requested from the bidder immediately after opening of Bids. The lowest bid may not necessary mean that improprieties exist, but additional measures should be taken to ensure that the final agreed-to price is fair and reasonable. The Purchasing and Contracting Officer is responsible for evaluating the reasonableness of the offered prices by performing a Price Analysis. Any action taken with respect to the bid and pricing should be fully documented.

DEKALB WATER PARTNERS COMPLIANCE

On December 13, 2013, Internal Audit visited the Snapfinger site with the County's Chief Inspector to view the construction site deficiencies. Although Internal Audit was unable to obtain documents from DWP that indicated their exhaustive involvement in managing the contract between DSI and DeKalb County, we compared the invoices and progress schedules submitted by DWP with the condition of the construction site. The conditions of the site were outlined in the inspection report submitted to the County on September 12, 2013 by DWP.

Issue

Contract Management

The DSI's Blasting Program reviewed and approved by DWP, states that "The purpose of this blasting plan is to blast rock in the safest and efficient manner, as to reduce the risk to surrounding structures and eliminate fly rock." Per the Watershed Management inspector, during blasting, blasting mats were not used to prevent fly rock. "Blasting mats are heavy mats of steel rope, rubber, or heavy rope. The mats are placed over the loaded holes just before firing to contain the blast and help prevent fly rock." Mentioned above in the "Failure to Adhere to Safety and Environmental Compliance Standards" of this report, there was an incident of fly rock in the safe zone.

As outlined by Environmental Protection Agency (EPA), "Soil erosion and sediment controls are measures which are used to reduce the amount of soil particles that are carried off of a land area and deposited in receiving water."

Most of the Snapfinger construction site contains disturbed soil with the exception of small area which showed evidence of vegetation. "Vegetation is the most effective way to control erosion. Vegetative covers reduce erosion by: (1) shielding the soil surface from the impact of falling rain and thus reducing runoff; (2) dispersing and decreasing the velocity of surface flow; (3) physically restraining soil movement; (4) increasing infiltration rates by improving the soil's structure and porosity through the incorporation of roots and plant residues; and (5) conducting transpiration, which decreases soil moisture content and increases soil moisture storage capacity."

"Structural practices used in sediment and erosion control divert storm water flows away from exposed areas, convey runoff, prevent sediments from moving offsite, and can also reduce the erosive forces of runoff waters." The following are some controls that can either be used as permanent or temporary measures:

- | | |
|---------------|------------------|
| 1) Earth Dike | 3) Silt Fence |
| 2) Check Dam | 4) Sediment Trap |

These control measures should have been installed before commencing work or during construction of the Snapfinger Advanced Wastewater Treatment Facilities Expansion-Phase I project. Prior to the September 12, 2013 inspection report submitted by DWP, we found no evidence that DWP informed the County of DSI's noncompliance of erosion control measures. Per Drawing Index by Parsons Water & Infrastructure Inc., "Failure to install, operate or maintain all erosion control measures will result in all construction being stopped on the job site until such measures are corrected back to DeKalb County standards." After the County inspector discovered the violations, the County issued a stop work order as result of construction site erosion control violations and requested DSI be in compliance with EPA and Environmental Protection Division (EPD) laws and regulations; control measures were installed in September 2013. Prior to installation of the soil erosion and sediment controls measures, the County was at risk of being fined for noncompliance of EPA and EPD standards.

DSI's safety issues, lack of soil erosion and sediment control measures, and poor workmanship of the retaining wall reveal DWP's oversight of the construction project was inadequate.

Recommendation

Good project managers ensure that the job is done right the first time and that no major accidents occur on the project. Quality control in construction typically involves insuring compliance with minimum standards of material and workmanship in order to insure the performance of the facility according to the design. Due to the DWP's unsatisfactory performance in construction management services, we recommend that the County do not utilize DWP's services in future Snapfinger projects. The County may consider suspending this vendor from obtaining contracts for 2 to 3 years.

Comment

Listed in most Progress Reports attached to the invoices submitted by DWP were the following bullet points:

- Prepared written communications to the Contractor and provided recommendations to DWM for written communications between DWM and the Contractor.
- Conducted coordination meetings with the Contractor to ensure that the Contractor is operating within the requirements of the contract for construction.
- Conduct daily observations of the Contractor's work and prepare daily inspection reports.
- Review the Contractor detailed construction schedule and verify that it is consistent with the requirements of the contract for construction.

** DWM – DeKalb Watershed Management*

Also, listed in the Project Scope submitted to the County from DWP, it states "Based on the site development nature of Package 1 and knowledge of this project gained from previous work during the design phase, we are confident that our proposed combination of the full-time inspector and field project administrator combined with an onsite construction manager for 2-3 days a week is sufficient to successfully deliver this work."

Despite DWP's stated abovementioned project progress, which justifies their billed hours, and their knowledge from previous work performed during the design phase, the condition of the Snapfinger construction site clearly provides a contradiction in sufficient management of the Snapfinger Phase I project.

VENDOR EVALUATION

Comment

Performance evaluations are required from the user department and suppliers/vendors. The evaluations are submitted to Purchasing and Contracting department. Once the information is received, the data should be stored in a tracking system to aid Purchasing and Contracting personnel in reducing risk associated with the contract award process. The purpose of the system is to identify vendors with exceptional performance, protect the County from vendors with unethical business practices, and determine the best value based on past vendor performance.

