

Internal Audit Division  
City of Greensboro



April 21, 2011

**TO:** Rashad Young, City Manager  
**FROM:** Internal Audit Division  
**SUBJECT:** Engineering & Inspections ARRA Review (First Quarter)

The Internal Audit Division has completed our review of the ARRA Funds for the first quarter of the 2010-2011 fiscal year administered by the Engineering & Inspections Department. Attached you will find our review report; the departmental response and our replies to their responses. We feel that our concerns have been sufficiently addressed as we move forward. If you have any questions or need additional information, please let us know. Thanks.



Len Lucas  
Internal Audit Director

cc: Bob Morgan, Deputy City Manager  
Denise Turner, Assistant City Manager for Community Affairs & Communications  
Walter Simmons, Director of Engineering & Inspections

Internal Audit Division  
Executive Department  
City of Greensboro



December 23, 2010

**TO:** Walter Simmons, Director of Engineering & Inspections

**FROM:** Internal Audit Division

**SUBJECT:** Engineering & Inspections 1<sup>st</sup> Quarter ARRA Review for FY 2010-2011

The Internal Audit Division has conducted a review of the American Recovery and Reinvestment Act of 2009 (ARRA) expenditures of Engineering & Inspections (E&I). The ARRA funds are for the South Elm Eugene Roadway, Resurfacing of Streets, and the Lake Jeanette Roadway and Sidewalk Improvements. The review period covers the quarter ending September 30<sup>th</sup> of fiscal year 2010-2011. The objectives of our review were to:

- Verify that the monthly reports are complete and accurate.
- Verify that the contractor expenditures were eligible expenses and that there was appropriate documentation within contract and ARRA guidelines.

Funding for the E&I ARRA expenditures comes as a pass-through to the NC Department of Transportation (NCDOT) from the Federal Highway Administration (FHWA). The total award amounts for S. Elm Eugene, Resurfacing, and Lake Jeanette are \$1,485,000, \$1,500,000 and \$4,125,000 respectively.

#### **Monthly Reports**

The department receives certified payrolls from the contractor and subcontractor and uses the information to complete the Monthly Employment Reports, Form FHWA-1589. The information along with Disadvantage Business Enterprise (DBE) information is included on the Monthly Recipient Status Reports, Form NCDOT-1585, that are submitted to NCDOT.

#### *S Elm Eugene Roadway*

We compared the certified payrolls to the 1589s for July, August, and September and reported the discrepancies to Ted Kallam, Chief Design Engineer for Engineering & Inspections. For July, hours and payroll reported for Triangle Grading & Paving were over the supplied payrolls by 538 hours and \$5,145.66. Hours for Cruz Brothers Concrete, Inc were reported at 210.50 versus the 378 from the certified payrolls. For August, Triangle Grading & Paving reported hours of 790.3 versus 790.25 in certified payrolls; totals should not be rounded. Payroll for Wic, Inc was reported at \$1,033.50 versus the \$1,033.51 in certified payrolls. For September, payroll for Cruz Brothers Concrete, Inc was reported at \$8,221.44 versus the \$7,824.94 in certified payrolls, a difference of \$396.50.

We also compared the DBE payments from each month's 1589 report to the 1585 report. The DBE totals from the 1589 reports matched the 1585 reports for July and August. For September the 1585 reported \$35,605.91 for DBE payments versus the \$35,860.16 from the certified payrolls, a difference of \$254.25.

#### *Resurfacing of Streets*

After comparing the certified payrolls to the 1589 reports for July, August, and September, we found and reported the discrepancies. For September, payroll reported for Atlantic Contracting was over the supplied payrolls by \$.10. Hours for Hailey Jr Hauling were reported at 31.50 versus the 37.50 in certified payrolls. Also, hours for Hodgin Trucking were reported at 4, but no payrolls were included.

When comparing the DBE payments to the 1585 reports, we noted differences for both the August and September Reports. For the August report, DBE payments of \$21,925.17 were reported, yet the 1589 total was \$21,234.07. For September, DBE payments of \$40,931.02 were reported, yet the 1589 total was \$38,778.36.

*Lake Jeanette Roadway*

We compared the certified payrolls to the 1589 reports and reported the discrepancies. For July, hours and payroll reported for Triangle Grading & Paving were over the supplied payrolls by 965.50 hours and \$10,494.96. For September, hours reported for Wic, Inc were .5 hours under the supplied payrolls.

After comparing the DBE payments to the 1585 reports, we noted differences for July and September. For July, \$12,468.17 was reported, yet the 1598 total was \$15,228.64. In September, \$20,266.21 was reported, yet the 1589 total was \$28,621.91.

*Recommendation:*

According to the last review, there were plans to institute a two step process with a preliminary and a final report to reflect the changes in payrolls submitted throughout the month. This quarter, differences in payrolls submitted decreased, but there are still differences between the certified payrolls and the submitted reports. The importance for accurate reporting should be stressed to the contractors, so that they can provide the most accurate payrolls and 1589s with information from their subcontractors.

**Contractor Expenditures**

*S Elm Eugene Roadway*

Triangle Grading & Paving received payments for work done on streets and sidewalks. The payments made totaled \$90,149.09 and appeared to contain appropriate payment information from the contractor. In addition, the payment was for contract/ARRA applicable expenditures. Total payments made through September 30, 2010 are \$238,326.56.

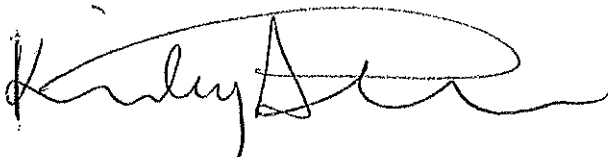
*Resurfacing of Streets*

APAC-Atlantic received payments for resurfacing done to several area streets. The payments made totaled \$272,627.75 and appeared to contain appropriate payment information from the contractor. Additionally, the payment was for contract/ARRA applicable expenditures. Total payments made through September 30, 2010 are \$795,336.67.

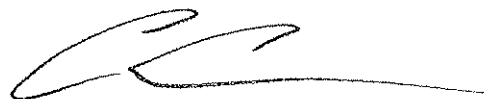
*Lake Jeanette Roadway*

Triangle Grading & Paving received payments for work done on streets. The payments made totaled \$134,637.95 and appeared to contain appropriate payment information from the contractor. The payment was for contract/ARRA eligible expenditures. Total payments made through September 30, 2010 are \$322,507.22.

We would like to thank the staff of Engineering & Inspections for their assistance and cooperation during this review. Please provide a written response by January 7, 2011. If there are any questions concerning the details of this review, please call us at 373-2230.



Kimberly Strickland  
Internal Auditor



Len Lucas  
Internal Audit Director

cc: Bob Morgan, Deputy City Manager  
Denise Turner, Assistant City Manager for Community Affairs & Communications

April 14, 2011

**TO:** Len Lucas -- Internal Audit Director

**FROM:** Walter Simmons -- Director, Engineering & Inspections *WLS*

**SUBJECT:** Response to 1<sup>st</sup> and 2<sup>nd</sup> Quarter ARRA Reviews for FY 2010 – 2011

The review was conducted to verify that the monthly reporting required by the ARRA grant was accurate and that payments to the contractors on the three transportation projects were eligible and had the appropriate documentation. The reviews of the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2010/2011, prepared in December 2010 and February 2011, respectively, will be addressed together in this response. The reviews of the monthly reporting identified ongoing discrepancies in the reports by the contractors on their payrolls. The reviews of the second item, the contractor expenditures, found that the payments to the contractors were all appropriate. We appreciate the thorough review and the work put into the effort. The following responses should address your concerns on the monthly reporting.

#### **Reporting Requirements Discussion**

To summarize our experience, the monthly reports submitted to the NCDOT have included inaccurate and incomplete information. These reports are prepared by different parties. The certified payroll reports are required to be submitted by the three general contractors along with their subcontractors' payrolls. The FHWA-1589 reports, summaries of the certified payroll report data, are prepared and signed by each of the three general contractors and include data from their subcontractors. An NCDOT-1585, a summary of the cumulative data from the FHWA-1589s, is prepared and signed by our Chief Design Engineer, Ted Kallam. All of these reports must be prepared between the end of the last pay period of the calendar month and the 5<sup>th</sup> day of the following month. Ted Kallam assembles all the reports and sends them to the NCDOT on or before the 7<sup>th</sup> of the month.

Based on the history of inaccurate and incomplete reports (see the 4<sup>th</sup> Quarter 2009/2010 Review), Engineering revised the procedure for the payroll reports. To comply with the grant requirements, the initial NCDOT-1585 and FHWA-1589 reports are still sent to NCDOT by the 5<sup>th</sup> of the month. The inaccuracy of the initial reports has been acknowledged by the NCDOT and the general contractors. To achieve the accuracy of reporting required, a second step in the reporting was implemented. A new, updated copy of each report with more accurate information is submitted to NCDOT on the 21<sup>st</sup> of the month. Payment of invoices to the general contractor is suspended if an accurate FHWA-1585 has not been received by Engineering on the 20<sup>th</sup>.

**Reporting Quality and Lack of Accuracy**

The audit identified several errors. The certified payrolls did not consistently agree with the FHWA-1589s, and some payrolls were not submitted for work included in the FHWA-1589 forms. However, since implementation of the two-step reporting process in late October of 2010, we have not found any errors. The experience gained by the contractors, the level of error-checking by our staff and the number of audits – both internal and external – have significantly reduced or eliminated the discrepancies found in earlier periods.

Again, the Engineering & Inspections Department appreciates the help your staff is providing to assure the City's compliance with the grant requirements. The success we have had on the three transportation contracts for the ARRA grants has placed unusual demands on the City's staff.

WS

Cc: Ted Partrick – City Engineer  
Ted Kallam – Chief Design Engineer  
Ute Munro – Manager, Business Center  
Renee Saul – Contract Specialist

Internal Audit Division  
Executive Department  
City of Greensboro



April 15, 2011

**TO:** Walter Simmons, Director of Engineering & Inspections  
**FROM:** Internal Audit Division  
**SUBJECT:** Engineering & Inspections 1<sup>st</sup> & 2<sup>nd</sup> Quarter ARRA Review for FY 2010-2011

The Internal Audit Division has received your response for the 1<sup>st</sup> and 2<sup>nd</sup> Quarter ARRA Reviews for FY 2010-2011. We find your response sufficient and no further response is required.

Thank you for your response. If there are any questions concerning the details of this review, please call us at 373-2230.

Kimberly Strickland  
Internal Auditor

Len Lucas  
Internal Audit Director

cc: Bob Morgan, Deputy City Manager  
Denise Turner, Assistant City Manager for Community Affairs & Communications  
Ute Munro, Manager, Business Center for Engineering & Inspections