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**DEPARTMENT OF PUBLIC WORKS  
ROAD OPERATIONS DIVISION**

**REVIEW OF CONTRACT (A/B-118)  
ASPHALT RECYCLING, INC.**

**APRIL 2000**

Prepared by:  
Internal Audit Division  
Clerk of the Circuit Court

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April 24, 2000

The Honorable Carlton Henley  
Chairman  
The Board of County Commissioners  
Seminole County, Florida  
1101 East First Street  
Sanford, FL 32771

Dear Mr. Chairman:

I am very pleased to present you with the attached audit of the administration of contractual agreement with Asphalt Recycling, Inc.

The audit was performed from October 30, 1999 to December 30, 1999. Management's responses have been incorporated into the final report.

With warmest personal regards, I am

Most cordially,

Maryanne Morse  
Clerk of the Circuit Court  
Seminole County

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**Seminole County  
Department of Public Works  
Road Operations Division**

**Review of Contract (A/B-118)  
Asphalt Recycling, Inc.**

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed an audit of the administration of the contractual agreement between Seminole County and Asphalt Recycling, Inc.

**Purpose**

The purpose of the audit was to determine if the administrative controls over the contract were adequate and operated as intended in compliance with applicable laws, regulations, and other Seminole County policies and procedures. Specifically, the purpose of the audit was to ensure that all payments to the contractor were made in accordance with established terms, conditions, laws, and regulations.

**Background**

On August 27, 1996, the Seminole County Board of County Commissioners (BCC) selected Asphalt Recycling, Inc., as the primary contractor for asphalt base stabilization on county road resurfacing projects. The Purchasing Division reported to the BCC that twenty-four (24) invitations to bid had been mailed to potential vendors with only two (2) companies electing to respond. The contract award was for a one (1) year period with a two (2) year option to renew at the current terms, conditions, and prices. The total estimated annual value of the agreement was \$229,000.00. The initial contract period was from August 28, 1996 through August 27, 1997; with a two-year option to renew. Subsequently, the BCC extended the contract with Asphalt Recycling, Inc., through August 27, 1999.

The contract called for the contractor to prepare an asphalt stabilized base course composed of a mixture of the existing bituminous concrete pavement, existing base course material and a new substance asphalt emulsion. Further, the contractor was responsible for in-place crushing and blending of the existing pavement, base materials and asphalt emulsion. The invitation to bid stated that

“...the existing pavement and base material shall be crushed and blended to a total minimum depth specified and the gradation shall be two-and-one-half (2 1/2) inches and under so that the entire

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mass of material dispersed throughout the processed base minimum depth and shall be the bottom of existing base material.”

It was also the contractor’s (Asphalt Recycling, Inc.) responsibility to obtain the services of a certified testing laboratory to ensure that the contractor had thoroughly compacted the stabilized base of not less than ninety-eight (98%) of the maximum dry density. Payments to Asphalt Recycling, Inc., were to be made for services rendered; and only after the County has received copies of the test results performed.

### **Scope**

The scope of this audit included a review of the billings provided by Asphalt Recycling, Inc., from the period October 1, 1997 to September 30, 1999. During that time, Asphalt Recycling, Inc., submitted invoices to the County for \$2,128,514.35. All source documents related to these invoices were subject to review.

The audit included:

- Review of procedures used to ensure compliance with established purchasing policies and procedures, Florida Statutes and other applicable regulations;
- Review of internal controls to ensure that all payments to the contractor were in accordance with established terms, conditions, laws and regulations;
- Review of Asphalt Recycling, Inc.’s invoices for accuracy, completeness, and timeliness;
- Review of the bidding process used by the county to ensure that competition is fair, consistent and provides for the most economical and efficient service to the community;
- Review of the process used by the Road Operations Division to estimate the quantities to be used by companies to bid on the contract;
- Review of the process used by the Road Operations Division in determining the actual scope of the work to be performed by Asphalt Recycling, Inc.;

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- Review of the process used by the Road Operations Division to evaluate and rank roads to be resurfaced;
- Review of the special terms and conditions contained in the contract; and,
- Any other procedures considered necessary under the circumstances.

Fieldwork began on October 30, 1999, and was completed on December 30, 1999. The audit was performed by Bill Carroll, Pat Tindel, and Gail Joubran.

### **Overall Evaluation**

It is our opinion that the internal controls over the contract are inadequate. The following conditions warrant management's attention:

- The county paid for work that might or might not have been performed;
- The division's business processes are not documented in the form of written policies and procedures; the documentation regarding the roads to be resurfaced was not available at the time the audit was conducted;
- Bid estimates are not revised nor re-evaluated;
- Compaction test results were not available at the time the audit was conducted;
- Commodity code assignments are not accurate; and,
- Some invoices submitted by the contractor did not have a description as to the type of service performed.

Our detailed findings and recommendations are included in the report that follows.

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## Finding No. 1

### **The County paid more than \$2 million for work that might or might not have been performed.**

The Road Operations Division project manager informed us that the lead Inspector for Road Operations measured the roads to be resurfaced prior to Asphalt Recycling, Inc., beginning work. These measurements, and the anticipated quantities of materials to be used were then verbally confirmed with Asphalt Recycling, Inc.'s representative so as to avoid any future discrepancies or misunderstandings concerning the work to be performed. These measurements became the basis for the invoices. Internal Audit requested copies of these written measurements during the audit; however, we were advised that the county did not maintain any of these agreed-upon measurements in its files. Therefore, there was no way to confirm whether or not the work performed, the materials provided, conform with the measurements taken; or, in fact, if measurements were taken in the first place.

During the period October 1997 to September 1999, Asphalt Recycling, Inc., submitted invoices totaling \$2,128,514.35. There was no documentation attached to the invoices to support the billings. Internal Audit analyzed the estimates of quantities to be installed by zone, as stated in the bid, versus the actual quantities installed. Our analysis revealed the following:

- The Road Operations Division estimated that 54,300 square yards of asphalt base stabilization would be needed for projects in Zone 1 during the three-year period; the actual amount installed was 128,882 square yards. The dollar value of the variance, \$262,236.60, represents unanticipated and unplanned costs to the taxpayer.
- The Road Operations Division estimated that 70,881 square yards of asphalt base stabilization would be needed for projects in Zone 5 during the three-year period; the actual amount installed was 187,435 square yards. The dollar value of the variance, \$93,418.00, represents unanticipated and unplanned costs to the taxpayer.

These conditions further illustrate the need to document measurements and maintain an audit trail to confirm whether the invoices are fairly stated.

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**Recommendation**

Establish a written procedure to document the agreed upon quantities to be installed and compare these measurements to the contractor's billings for reasonableness.

**Management Response**

Every roadway that is recycled is measured prior to the start of work and delineated with pavement markings and is final measured following completion of work. These measurements are available in our files at any time for anyone to inspect. Each invoice submitted by Asphalt Recycling states the roadway name, the square yards recycled, cubic yards of excavation, gallons of emulsion used and any other bid items and unit prices and quantities used. Each invoice is verified and signed off by the lead inspector for the project. The report goes on to say that the actual amount installed was 128,882 square yards for Zone 1. This also is an incorrect figure. The actual amount installed was 100,790 square yards. It is important to note that this debate is totally irrelevant since the quantities estimated are simply given to establish a relative magnitude of possible uses for each and every item in the bid document so that competing bids may be compared equally. In this bid document, just as in the Orlando Paving bid document, there are many items that are listed that need to be available for usage and have set prices that may never be used during the life of this contract. Each year one district is re-tested and the entire Pavement Management Program updated. Conditions change, roads fail, priorities change and it is impossible to look three years into the future and determine how many roads may, for example, require soil cement as opposed to asphalt cement. The work is not performed with mandatory limits and quantities by zone. The Pavement Management Program is a comprehensive countywide program in which work is performed where most needed utilizing the most appropriate repair strategy. The use of zones in early contracts was only an effort to receive lower bids in the areas closer to the manufacturing plants, not to guarantee a specific amounts of work in each district. Again, this entire line of thinking is irrelevant. These quantities are only used to evaluate bid prices. This is already being done.

**Audit Comment**

Internal Audit requested copies of the written measurements in November 1999. We were advised that the agreed-upon measurements were not available in writing. During a subsequent meeting in April 2000, we were provided with a copy of the spreadsheet containing square yard measurements for roads that had been worked on by Asphalt Recycling. We are concerned, however, with the length of time it took the division to locate the requested measurements or why the division was unable to provide the measurements when originally requested. It is management's responsibility to ensure that each invoice is properly supported and the support for the billing by the contractor is readily available. This is why the audit report states, "...Establish a written procedure to document the agreed upon quantities to be installed and compare these measurements to

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the contractor's billings for reasonableness." Records maintained by management need to be readily available for audit or inspection.

## Finding No. 2

**The division's business processes are not documented in the form of written policies and procedures; the documentation regarding the roads to be resurfaced was not available at the time the audit was conducted.**

Because the division does not maintain written policies or procedures, or any sort of paper trail documenting decisions made, we relied on the program manager's verbal explanation. We understand that the division evaluates roads to be resurfaced using a three-step process: First, a computer software program (Dynalect) is used to evaluate the **strength** of existing roadways; some 20 percent of the roads are evaluated. Second, another program known as the Infrastructure Management System (IMS), a laser surface survey, is used to evaluate the **surface condition** of the road. Third, division personnel physically **observes and inspects** the roads needing repair. This three-step process is used to rank the road projects for placement on the candidate for resurfacing list. To confirm that this process was operating as described, Internal Audit requested the candidate list for road projects for 1997, 1998, and 1999. By not having written policies and procedures, nor detailed records, the process cannot be audited for compliance with sound business practices or management directives.

*(Audit Comment: At the time requested, November 1999, the division did not or could not provide the listings. Therefore, based on the information provided during the audit, we concluded that the division did not have an effective operating plan. At a subsequent meeting in April 2000, management was able to provide the requested candidate lists. Internal Audit reviewed these reports and have concluded that the Road Operations Division does have a process in place to support roads selected to be resurfaced. We are concerned, however, with the length of time it took the division to locate the requested reports.)*

### Recommendation

Develop written policies and procedures.

### Management Response

This has been addressed in response to the same statement concerning Orlando Paving. The statement, rather than being based on factual information, is based on a lack of information. This Division did not provide a copy of a five-year plan at the time it was requested. These plans, as well as numerous different methods of documenting, tracking and decision making are available at Road Operations for inspection.

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### Finding No. 3

**Bid estimates are not revised nor reevaluated from contract period to contract period.**

The Road Operations Division provides County Purchasing with quantities of materials it estimates will be needed for a specific contract period. The estimated quantities are then incorporated into the Invitation to Bid. Prospective bidders use these quantities in developing its proposal to the County. Internal Audit compared the estimated quantities on A/B-118 (bid date July 17, 1996) with A/B-370 (bid date October 22, 1999). For Zone 1 through 5, in A/B-118, the County estimated that the contractor would need to install 173,039 square yards of asphalt base stabilization. For the same zones in A/B-370, the County also estimated 173,039 square yards. It appears that estimates from one contract to the next might not be revised nor reevaluated. We also noted that the division does not have a program to track the actual quantities of materials installed in a given project. By not tracking the materials actually installed, estimating future requirements might not be realistic.

**Recommendation**

Develop a procedure to update bid estimates based on historical data and future job requirements.

**Management Response**

This is already being done; see Response to IAD Recommendation for Finding No. 2 regarding Orlando Paving. Similar to methods employed for Bid A/B-127 described earlier in this memorandum, we track and document each road, each quantity and all materials used under Bid Document T/C-118. This information is readily available at Road Operations. This is already being done. Overall quantities in the new bid document is within 5% of those placed in fiscal year 1998/99. The use of zones and variety of bid items still presents a problem. The zone concept has been eliminated from the new Orlando Paving bid document and will be removed from this document upon renewal.

**Audit Comment**

We will follow-up in future audits on the procedures described by management concerning the tracking of quantities.

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## Finding No. 4

**Compaction test results were not available at the time the audit was conducted.**

A/B-118 required Asphalt Recycling, Inc., to obtain the services of a certified testing laboratory to ensure that the compacted stabilized base is not less than ninety-eight (98%) of the maximum dry density at optimum moisture content using a modified Proctor Test. No payments are to be made to Asphalt Recycling, Inc., until satisfactory test results are received for each section of roadway mixed.

Internal Audit requested the test results for three projects billed by Asphalt Recycling, Inc. We were not provided with any documentation that indicated that the required Proctor Tests had been performed and test results were within the acceptable range. We also could not determine if any required testing had ever been ordered or been obtained by Asphalt Recycling, Inc., due to the fact that there were no approvals, notes, test results, or other indications noted on any of the paid invoices. Deferring payment until the test results are on file provides further assurance that the roadways were properly compacted thus reducing the risk of paying for services not performed.

***(Audit Comment: At the time requested, November 1999, the division did not provide copies of the Proctor Tests for the three sampled roads. At a subsequent meeting in April 2000, management was able to provide the requested test results. Internal Audit reviewed these reports and have concluded that the Road Operations Division is receiving satisfactory test results as contractually required from Asphalt Recycling. However, we again recommend that approvals, notes, test results, or other indications be noted on the invoices.)***

### **Recommendation**

Enforce the contract. Require compaction test results to be submitted prior to paying Asphalt Recycling, Inc., and indicate on the face of the invoice that test results were within the acceptable range. Additionally, test results should be maintained for every project.

### **Management Response**

This statement is also inaccurate. Test results for each roadway recycled and paid for are contained in our files. This assumption is also based on Internal Audit not receiving copies of these test results at the time they were requested. These documents are available for inspection at Road Operations. This is already being done. Test results are available for inspection.

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## Finding No. 5

### **Commodity code assignments are not accurate and are not up to date.**

County Purchasing has contracted with DemandStar.com (formally Information on Demand, Inc.), to maintain a vendor-list-by-commodity-code of manufacturers, suppliers, agents and consultants who desire to do business with Seminole County. DemandStar.com also is responsible for maintaining vendor applications and faxing bid documents to requesting bidders.

Internal Audit surveyed three companies from the bid list for Asphalt Base Stabilization (A/B-118) to confirm that it was receiving Invitations to Bid; and why it elected not to bid. One company stated that it was a supplier of “roofing” materials. Another worked solely in the Northeast. The last did not perform asphalt recycling type work. Therefore, the companies were not qualified to place a bid for this work.

We then asked Purchasing for copies of the original applications of a sample of companies invited to bid on A/B-118 (13 of the 24 companies contacted). Purchasing was only able to furnish four of thirteen applications requested; the other nine companies had not registered with DemandStar.com.

In addition, the files of four of the 24 companies did not list a telephone number and one did not list a contact name. Therefore, the files were incomplete.

By having incorrect commodity codes assigned, and unqualified vendors included, the number of eligible vendors solicited is in fact much lower than the – publicly-stated 24. Without an accurate and up-to-date vendor list, there is no assurance that the most qualified vendor is awarded the contract at the best possible price to the taxpayer.

### **Recommendation**

DemandStar.com should ensure that vendor applications on file are accurate and the Purchasing Division should verify that commodity codes are correct. Additionally, County Purchasing should periodically review the files maintained by DemandStar.com to ensure that all appropriate and interested vendors receive bid information on county jobs.

### **Management Response**

We cannot comply with this recommendation. The Purchasing Division ensures that public notice of invitations to bid for goods and services is given in compliance with state and county regulations. A service arrangement with DemandStar.com is one of several tools employed to maximize competition in the procurement of goods and services. DemandStar.com’s database is proprietary information and consists of vendors who register with the company

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for a specialized service. The County cannot monitor that database. The vendor list, established and used by DemandStar.com is not maintained, nor intended, as a “pre-qualified bidder” list. When vendors register as a customer of DemandStar.com, they select the commodity codes applicable to their organization for which they would like bid notification. Purchasing will continue to seek cost effective methods to encourage a maximum number of responses to bidding opportunities for Seminole County Government.

### **Audit Comment**

It appears from management’s response that it does not believe that it has a right to audit or inspect DemandStar.com’s records. The County should never sign a contractual agreement without an audit clause. We again recommend that Purchasing verify the accuracy of DemandStar.com’s database by requesting a listing and/or copies of all vendor applications on file to ensure that appropriate vendors are registered and therefore, able to receive bid information on county jobs.

## **Finding No. 6**

### **Some invoices submitted by the contractor did not have a description as to the type of service performed.**

Section 440.23 (9b) of the County Purchasing Code requires invoices to contain a description and quantity of items purchased or services rendered. Internal Audit reviewed 43 invoices submitted by Asphalt Recycling, Inc., with a total dollar value \$2,128,514.35. Thirty-seven of 43 (86 percent) invoices, totaling \$1,234,180.54 contained at least one line item that had no description as to the work performed. These line items on the invoice simply had a street location, total square yards, a unit price, and an extended price. By not having a complete description on the charges, the invoices are incomplete, unauditible, and inadequately supported.

### **Recommendation**

Require contractor to add a description to all line items on the invoice.

### **Management Response**

Each invoice lists the square yards recycled, cubic yards excavated, the gallons of asphalt emulsion used, etc. It appears that the issue here revolves around the fact that the square yards listed as the first item does not have the word “mixed or recycled” after it. This is very easily addressed, but it should be noted that the mixing bid item is the only item in this contract that is reported in square yards. Effective immediately, we will require the contractor to add the words “base stabilization” next to the square yard item on all invoices.

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