

## Jordan Boulevard Project Review

At the request of Town Manager David Hewett, the Audit Committee conducted a review of Jordan Boulevard Project. Following is a summary of the key findings of the Committee:

### **Project Cost Control and Budget Authorization**

Although there was no formal recording of an appropriation in the minutes, the original North Carolina Department of Environment and Natural Resources (NCDER) grant dated January 23, 2006 reflected a total project cost of \$159,500 (\$103,360 to be provided by NCDER with the remaining \$56,140 in Cash match from the Town of Holden Beach). There was no mention of a project cost overrun in any of the minutes until the May 13, 2008 meeting after the grant completion documentation had already been submitted by interim Town Manager Jim Lowell as of December 31, 2007 that indicated the project had been completed at a total cost of \$181,941.79, or \$22,441.79 over the original estimate.

A project spreadsheet summary schedule provided by David Hewett reflects total spending of \$183,021.47 (Exhibit A) through December 2007. We would ascribe this minor difference to Mr. Lowell having to obtain interim financial data to avoid expiration of the Grant without access to the final accounting information recorded only after obtaining Bank Statements, the accounting procedure at the time.

New Town Manager Hewett's request for amendment at the May 13, 2008 meeting not only provided for the overrun already incurred (\$24,000), it provided an additional \$13,500 for several items deemed necessary to complete the scope of the project. These amounts were approved, bringing the total approved project to \$197,000. The Exhibit A summary including these extra items shows total cash outlay of **\$196,361.47**, within the appropriated level provided by this amendment but before consideration of "in kind" or "force" services discussed as a separate issue. The Committee believes this is a fair representation of the total cash outlay for this project.

In retrospect, project or budget overspending should be properly approved prior to any excess expenditure of funds. The new accounting system that the Town has installed along with other improved internal controls should better assist in the earlier identification of potential overruns.

A second concern regarding the administration of this project relates to a clearly defined definition of the scope. For example, it appears the original project contemplated installation of a playground area adjacent to the complex. We understand that circumstances dictate revising the scope of projects of this magnitude. Nonetheless, we believe larger projects should initially be broken into sufficient detail to accommodate appropriate management and assure expectations are met.

### **Use of Town Resources as “in kind” or “force” Services**

In an apparent effort to contain project costs, the Planning Manager elected for the Town to serve as general contractor for this project, and supplement with the use of town resources including machinery and employee time. Although there is no formal record of the total extent of Town resources employed to perform the these “in house” services, it is clear that in fact town employees did work directly in support of this project along with the use of Town machinery. We have no reason to conclude that this activity was not in the best interest of the Town, but it is critical that these costs be appropriately accumulated and charged against the project. The State of North Carolina statutes provide that this accounting should be applied for all projects exceeding \$125,000.

The Town Manager has assured the Committee that should similar Town resources be utilized in the future, appropriate accounting will be applied. This may require the establishment of standard hourly rates for employees or equipment that appropriately reflects the full costs.

### **Competitive Bid Process**

Attached as Exhibit B is a document obtained from the Town files reflecting the bid summary for the two main components of the project. As indicated, the Town elected to manage this project “in-house”. Blue Moon Development Company served as the primary subcontractor for both of these portions.

For the “Pier & Walkway” portion, Blue Moon invoiced \$49,633. This amount exceeded their original estimate of \$45,000, referencing that an additional 30 feet of walkway caused the overrun. Regardless, the total charged was still less than the next lowest quote on the summary. It is unclear how much Town labor or equipment was utilized in this portion of the project, nor is it clear whether other smaller amounts spent would have been included in the quotes of other bidders.

Blue Moon also served as the primary subcontractor for “Stage” portion of the project, billing \$51,400 for labor. The remainder of the \$110,000 estimate was spent directly for materials and other services. Again it is unclear whether the inclusion of Town resource expense would have caused a difference in the bid selection process.

### **Conclusion**

Aside from the appropriate inclusion of “in-house” resources used on the Jordan Boulevard Project, the Audit Committee believes the total cost of the project (\$196,361) has been appropriately documented and approved by the Commissioners. Although this total exceeded the original estimates, we are reminded that the Town benefited from the NCDER grant of \$103,360 for over half the project cost, and the community has enjoyment of the finished project.

Throughout the review of the Town Accounting records, the Committee noted evidence of several of the internal control weaknesses recognized in the most recent Annual Report prepared by the Town's independent accountants, and feels that it would not be constructive to reiterate any of the issues here. We are comforted that the Town Manager has implemented several significant changes including the installation of a new accounting system which will provide for improved tracking of budgets and special projects.

Respectfully submitted,

The Audit Committee

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