LONG BEACH CITY AUDITOR

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Job Order Contract Audit Report

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Table of Contents

EXECUTIVE SUMMARY 1

Component #1 - Pressure to Inflate Costs 2

Component #2 - Opportunity without Detection 2

Component #3 - Justification for Quick Project Completion 5

RESULTS 8

I. OVERALL USE AND MANAGEMENT OF JOC PROGAM 9

A. How the Program is Used 9

B. How the Program is Managed 11

II. PROCUREMENT AND RECORDING OF JOC CONTRACTS 11

A. History of Contracts and Low Bid Percentage Factors 12

B. Contract Language and BPO Setup 14

III. OVERSIGHT AND PROCUREMENT OF INDIVIDUAL PROJECTS 15

A. Project Manager Training 15

B. Proposal Review and Project Costs 16

C. Project Files and Project Close Out 22

IV. POTENTIAL FOR CONFLICTING INFLUENCE AND RELATIONSHIPS 24

A. Multiple Layers 24

B. Subcontractors 25

C. Consultants 25

RECOMMENDATIONS 27

BACKGROUND 31

OBJECTIVE, SCOPE & METHODOLOGY 33

APPENDICES

The Fraud Triangle ..... A

Queensway Bay Restroom Project ..... B

Management Comments C

EXECUTIVE SUMMARY

INTRODUCTION

The Long Beach City Auditor's Office recently completed an audit of internal controls surrounding the Job Order Contracting (JOC) program within the Department of Public Works (Department). Since 2003, the Department has utilized JOC to complete $68 million in infrastructure needs, such as repair or renovations of parks, libraries, and City buildings.

Approximately $68 million in capital improvement projects have been completed through the JOC program since its inception in 2003.

JOC is used by government agencies as an alternative to traditional procurement methods to move projects along quickly yet retain competitive pricing. JOC uses a pre-priced catalog of thousands of items needed to complete construction projects, such as labor, material and services. The City requests contractors to bid on the contractors' ability to perform work as a percentage of the prices listed in the catalog. For example, contractors who bid .90 are obligated to perform the work at 90% of the prices listed in the catalog. The selected contractors remain "on-call" to perform small-scoped construction projects as needed.

If properly administered, a JOC program offers the City a mechanism to complete projects quickly with quality and at a competitive price. Unfortunately, due to the inability to effectively manage the JOC program, the City is not receiving competitively priced projects. We found a significant systemic lack of controls over all key areas of the process, creating an environment that is highly vulnerable to fraud. Too much emphasis is placed on completing projects quickly instead of ensuring projects are properly defined and competitively priced. This results in projects not having competitive bidding and being priced higher than the City is contractually obligated to pay.

RISK ENVIRONMENT

The JOC program is operating in an environment highly vulnerable to fraud.

When operations, such as the JOC program, have a significant systemic lack of controls, an audit will assess the risk of fraud, waste or abuse occurring and whether the behavior can be detected. The Fraud Triangle is a model used in the audit industry to gauge the risk based on whether three primary components exist – financial pressure, opportunity, and justification of the act.[1] With the JOC program, the City has created an environment with all three of the components present, creating the perfect environment for fraud or waste to occur.

For this reason, we have engaged the services of an independent firm that specializes in forensic accounting and fraud investigations, which includes the services of a construction expert, to perform further review of certain JOC projects. The results of their work will be issued in a separate report at a later date.

[1] The Fraud Triangle is a model used by the Association of Certified Fraud Examiners. See Appendix A for additional details.

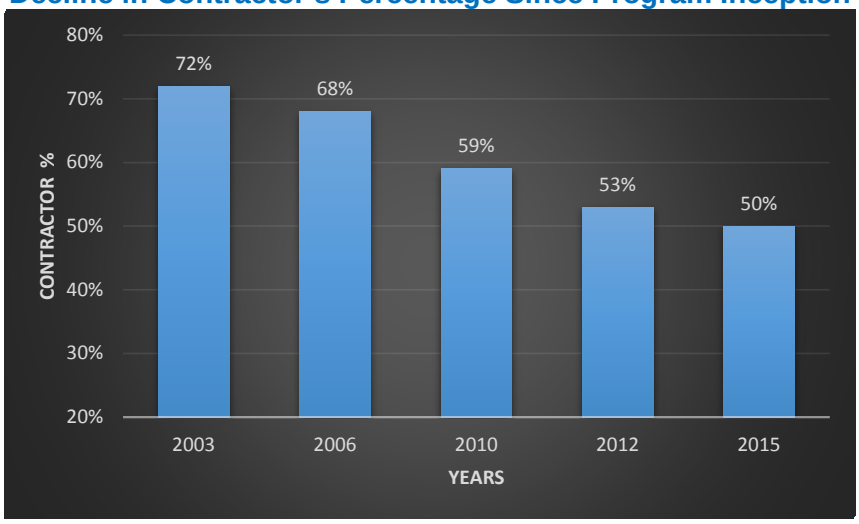
Component #1 - Pressure to Inflate Costs

Contractor's percentage has declined 31% since program inception, significantly decreasing the likelihood contractors are able to make a profit.

The first component of the triangle is the financial pressure, or need, that motivates someone to commit fraud. The pressure within this JOC program starts with the City accepting bids from the JOC general contractors that are too low and unrealistic. The current JOC contractor percentages range from .50 to .71, meaning the contractor is contractually obligated to perform work at 50-71% of catalog pricing. Under a normal JOC program, it is highly unlikely contractors could earn a profit using these low percentages. The percentages bid by the contractors have declined 31% since the program started in 2003 as shown in Chart 1 below.

Chart 1

Decline in Contractor's Percentage Since Program Inception



In December 2014, the vendor that owns and manages the pre-priced catalog for JOC programs warned the City the percentages bid by the general contractors were too low, and the JOC program could not operate as intended using percentages below 80%. Ignoring this warning, the City elected to continue with the JOC contracts as bid, creating a financial pressure for the contractors to continue to seek out alternative ways to increase project costs in order to make a profit. Two ways to manipulate pricing are to use items outside of the catalog, which are charged at 110% instead of the lower bid percentage, and to increase labor and materials beyond what is needed. The excessive use of non-catalog items and inflated cost proposals are discussed further under the next component.

Component #2 - Opportunity without Detection

The second component of the triangle is the perceived opportunity that there is a way to commit fraud and not get caught. The City's lack of structure and oversight in the JOC program creates multiple opportunities for program manipulation to occur.

Change orders and cost overruns were present in 91% of the projects reviewed during the audit period.

Vague Project Requirements

Beginning with the project proposals, we found scopes of work (SOW) that were vague and lacked sufficient detail to determine if contractor pricing was appropriate. When the detailed work to be performed is not clear, it is difficult for the City to identify when costs have been inflated or are unrealistic. In other JOC programs, proposals are reviewed and priced by an independent source aside from the project manager and contractor, creating a mechanism to gauge whether the contractors' proposals are reasonable. The City has not established such a control. The poorly designed SOWs have resulted in numerous change orders and cost overruns, occurring in 91% of the projects we reviewed during our 17-month audit period. Table 1 displays change orders of projects sampled over $100,000.

Table 1

Change Orders for Sampled Projects Over $100,000
October 2013 – February 2015

Project	Total Cost ($)	Cost of Change Orders ($)	% Increase due to Change Orders
Traffic Management Center	$ 482,300	$ 158,400	49%
Whaley Park Baseball Field Fence Replacement	$ 240,500	$ 74,100	45%
Nature Center Chain Link Fence	$ 138,700	$ 30,700	28%
Queensway Bay Restroom	$ 645,400	$ 96,300	18%
Belmont Pier Restroom Replacement	$ 154,700	$ 19,400	14%
Re-roofing of Bayshore Library & Alamitos Library	$ 167,400	$ 11,200	7%
Re-roofing at El Dorado & Ruth Bach Library	$ 199,700	$ 7,900	4%
Re-roofing of West Health Facility	$ 166,100	$ 2,200	1%
Total	**$ 2,194,800**	**$ 400,200**	**22%**

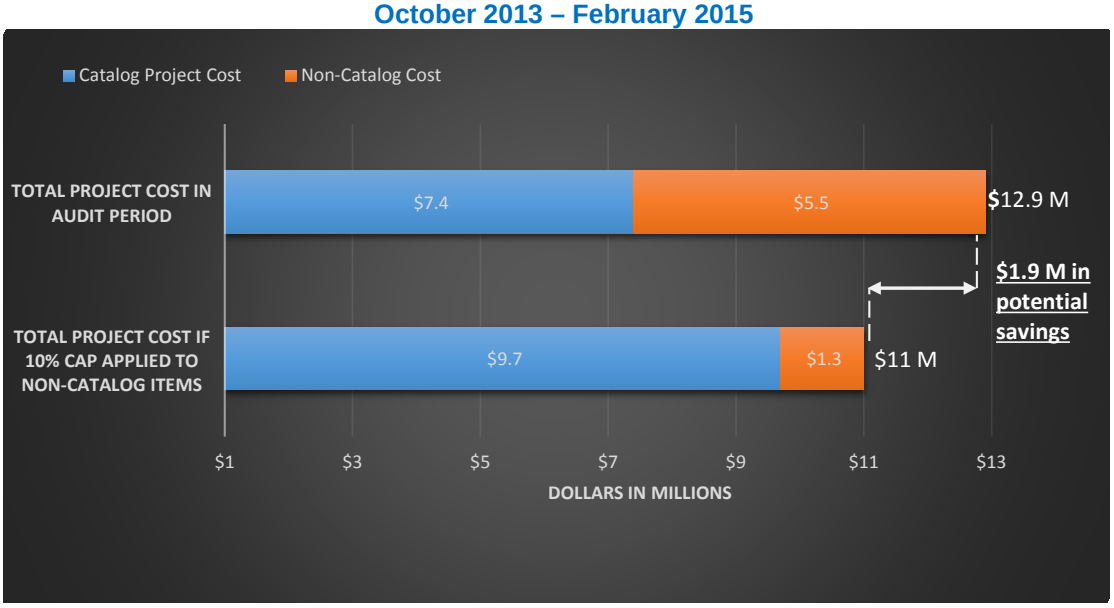
Approximately $1.9 million in savings possible if limits had been placed on use of non-catalog items.

Excessive use of non-catalog items

Most JOC programs cap the amount of non-catalog items that can be used in a project. This is because non-catalog items are priced at 110% versus catalog items priced using the JOC contractors' lower bid percentages (50% - 71%). Long Beach does not have a cap on how much non-catalog items can be used as a percentage of project cost. As a result, 42% of total project costs identified during our audit period were non-catalog items priced at 110%. As shown in Chart 2, if a 10% cap on these non-catalog items had been in place, the City could have potentially saved $1.9 million, or 15% of overall costs. Based on the average JOC project price, that savings equates to 19 additional projects that could have been completed.

Chart 2

Project Cost Comparison with Reduced Non-Catalog Items
October 2013 – February 2015



67% of non-catalog items were not competitively priced.

When using non-catalog items, the JOC contractor is supposed to obtain three quotes for the City's review to ensure the items chosen are competitively priced. For the projects we sampled, 67% of the non-catalog items did not have independent quotes, and there was no justification provided in the City project files as to why the quotes were not obtained. The substantial use of non-catalog items by the JOC contractors combined with the inconsistency in obtaining valid price comparisons result in the City having very little control over project costs.

Inflated cost proposals

In April 2013, a former City project manager issued a letter to a JOC contractor alleging the contractor was padding proposals by manipulating the catalog to inflate pricing. Although this letter was distributed to staff managing the JOC program, the City continued to award $3.8 million of work to this contractor after the letter was written. During our audit, we heard a recurrent theme among project managers that JOC contractors regularly inflate proposals due to the inability to make a profit from the low bid percentages. This results in the City negotiating pricing outside of the catalog and different from what is contractually obligated by the contractor.

Limited City involvement

Oversight by City employees is limited.

Project managers are responsible for all aspects of a project, including approval of work performed and payments to all parties. Due to staffing shortages caused by budget cuts, the Department relies heavily on consultants to fill the role of project manager. Of the projects reviewed during the audit, 64% of the project managers were consultants, which is higher than other JOC programs we surveyed. In addition, some of the contracts for which the consultants are working under allow for the firm to provide a variety of services, creating potential conflicts of interest. For example, nothing prevents the City from using the same firm to provide both design and project manager services

on a project. This allows the consultant acting as the project manager to approve his own firm's invoices for the design services.

Overall, oversight by City employees is limited. There are no formal policies, procedures or guidelines over the program, creating inconsistencies in project management and documentation. During our audit, we found no required or comprehensive reporting of key project information to the JOC program supervisor or other Department management. As a result, the City has very little oversight or control over JOC project costs or the quality of work.

Component #3 - Justification for Quick Project Completion

The third component of the triangle is rationalizing or justifying the activity taking place. The City has placed a significant emphasis on the need to complete projects quickly, providing justification for how the program operates and the associated risks. While one benefit of the program is the ability to start projects faster than more traditional procurement methods, speed has unfortunately become the focal point of the program.

Two JOC projects, totaling more than $16.6 million did not meet usual JOC project type requirements.

JOC is designed for routine and minor construction tasks and not large, complex projects that require extensive design or are likely to encounter changes and revisions during construction. Projects should not exceed $500,000 and currently average $100,000. Due to limited program oversight and without a defined process for prioritizing projects, the City reacts more than plans how projects should be completed. As a result, we found projects processed through JOC that did not appear to be best suited or within current understandings of JOC project types but were placed there based on the need for quick implementation. These include the demolition of the Belmont Pool at $2.6 million and the Harbor Department remodel of new administrative offices at the airport totaling $14 million. We also found projects already in progress that were moved into the JOC program after problems with the projects occurred. This allowed the projects to move along faster without having to address problems with the original contractors.

Examples:

- *The Traffic Management Center Project encompassed a complete relocation of the existing Traffic Management Center, along with new hardware, software, and operation and conference room. This large, complex project would not usually be best suited for a JOC program. Very little information is available in the project file, but we can identify at least four different JOC contractors who worked on the project along with 21 subcontractors. The project spanned five years with total project costs reaching at least $482,300 including $158,400 in change orders, of which 84% fell within the audit period. Per project files, one JOC contractor was used as a way to provide architectural services for the project by allowing an architectural firm to work as a subcontractor to a JOC contractor. JOC contracts are solely for construction services and should not encompasses architectural or design services as these type of services have different procurement procedures.*

- *The Queensway Bay Restroom project was originally one of four restrooms included in a direct procurement contract for the vendor to complete remodeling of all sites. After the contract was awarded, scope of work changes occurred on all four restrooms, and the City was unable to reach an agreement with the contractor on revised pricing for the Queensway Bay Restroom site. Further negotiations with the vendor were terminated and instead of rebidding the project, the remodel for this site was moved to the JOC program for completion. Total construction costs were $645,400, with over $96,000 in change orders.*

With quick implementation as the focus of project assignment, the capacity of the JOC program is not considered, and establishment of adequate controls has not occurred. Management and project managers involvement in the program is insufficient to effectively manage the workload, and many of the project managers have not received adequate training or been provided policies on program standards. Instead, the primary emphasis communicated to all parties is to get the project completed as quickly as possible.

$4.4 million of City JOC projects take longer than the industry average to initiate work.

One major benefit of using a JOC program is that it decreases the time to initiate a project. This is because the traditional procurement method is replaced with bids based on a pre-priced catalog. However, we found the time required to move City JOC projects through the design and proposal phase is significantly longer than the industry standard. The vendor overseeing the pre-priced catalog for JOC programs reports the average industry time to complete project initiation and start a JOC project is 25 days without design and 55 days with design. While it is unclear how many projects during our audit period included design, to be conservative we measured all projects against the 55 day benchmark. Projects costing $4.4 million (34% of total project costs) did not fall within the 55 day timeframe. As illustrated in Table 2, seven projects consisting of $3.3 million in costs took more than 90 days to initiate. Due to inadequate project file documentation, it was impossible to determine why the City's projects took longer. However, project manager workload and negotiating pricing outside the catalog are two potential reasons for some of the delays.

Table 2

Projects Taking Over 90 days to Initiate
October 2013 – February 2015

#	Project Name	Days to Initiate	Project Costs
1	Electrical Upgrades to Various Branch Libraries	178	$ 145,600
2	Water Leak Detection Panel Upgrade of Halon System Panels	177	$ 27,100
3	PD Academy - Perimeter Enhancement Project	148	$ 185,700
4	Somerset Park Restroom & Center Improvements	115	$ 77,500
5	Painting of Community Rooms at Various Branch Libraries	95	$ 27,300
6	Belmont Pool Demolition	92	$ 2,596,700
7	Water Line Service Repair at Temple and Willow Facility	91	$ 282,400
Total			**$ 3,342,300**

SUMMARY

This Office spent close to a year reviewing the JOC program, which resulted in numerous serious and significant findings that are detailed in the Results section of this report. Although we did not audit every project currently active in the JOC program, our review was extensive and clearly supports the evidence of a systemic lack of controls and insufficient oversight at all levels of the program. This has resulted in the City not receiving competitively priced proposals and ultimately paying more than contractually obligated for JOC projects. We encourage the City to address the systemic issues by implementing the recommendations in this report and not focus on individual project discrepancies.

We want to thank the Department's staff for their assistance, patience and cooperation during this lengthy audit. The City has acknowledged the severity of the issues surrounding the program and have begun to take steps to implement improvements. In addition, legislation recommended by this office was adopted by the City Council on May 24, 2016 that places key controls around program processes, similar to other agencies using JOC programs.

RESULTS

The Executive Summary section of this report discusses the current environment of the City's Job Order Contract (JOC) program and the systemic lack of controls over all key areas of the process. The lack of controls results in the JOC program being highly vulnerable to fraud and waste. This section of the report details the individual audit findings. Due to the number of issues identified, they have been grouped into four main program components as highlighted in the following chart:

Chart 3
Job Order Contract Program Component Issues

Process Component	Sub-Component	Issues
Overall Use and Management of JOC Program	How the Program is Used	1. Program Capacity Unknown 2. No Project Prioritization 3. Projects Do Not Fit Criteria
	How the Program is Managed	4. No Process or Policy 5. Poor Program Management 6. No Formalized Reporting
Procurement and Recording of JOC Contracts	History of Contracts and Low Percentage Factors	7. Bid Percentage Factors at All-Time Low 8. Warning of Risk Ignored 9. Lowest Percentage Factors in Survey
	Contract Language and BPO Setup	10. Contract Amount Exceeded 11. Lack of Transparency 12. Contract Terms Not Updated
Oversight and Procurement of Individual Projects	Project Manager Training	13. Training Needed for Project Managers 14. Vendor Did Not Provide Required Training
	Proposal Review and Project Costs	15. Poor Scope of Work Preparation 16. Project Cost Overruns 17. Manipulation of Catalog Items 18. Excessive Non-Catalog Items 19. City Preferred Vendors and Items
	Project Files and Project Closeout	20. Insufficient Project Files 21. No Formal Project Close Out 22. No Cost or Time Evaluation 23. No Evaluation of Subcontractors 24. Excessive Access to Files
Potential for Conflicting Influence and Relationships	Multiple Layers	25. Numerous Parties Involved
	Sub-contractors	26. Subcontractor Information Not Disclosed 27. Vendor Conflict of Interest
	Consultants	28. Use of Consultants 29. Conflicting Services

I. OVERALL USE AND MANAGEMENT OF JOC PROGAM

JOC programs are designed to handle smaller-scoped construction projects by using an alternative procurement method, allowing the project to move forward quickly yet maintain competitive pricing. Unfortunately, the City has placed a disproportionate emphasis on the need to complete projects quickly without sufficient consideration for program capacity and overall management. The focus on speed of project completion has forced the City to use the JOC program for projects that would not normally be processed through this type of program, such as large and complex projects or those previously procured through other methods but transferred to JOC when problems occurred.

The lack of formality over processes and procedures, the extensive use of outside consultants for project management, and relatively no internal program reporting, all contribute to creating the high risk environment. Until an effective management oversight structure is established and the program is used as intended, the City is at risk of paying more than contractually obligated for JOC projects.

A. How the Program is Used

Issue #1. Program Capacity Unknown

There does not appear to be any analysis on the number and type of projects the JOC staff can handle at any one time to ensure projects are managed timely and appropriately. The pressure to complete projects quickly has resulted in project cost and adequate oversight being of lesser importance. We heard a consistent concern from the project managers that there is pressure to get projects done quickly, reducing the time to deal with JOC contractors during proposal review.

Issue #2. No Project Prioritization

A list of all pending infrastructure needs or a formalized process for prioritizing the pending projects does not exist. This results in the Department of Public Works (Department) reacting versus strategically planning which projects should be completed next. Political pressures involving the City Council's annual discretionary funding allocations contribute to the poor planning. These monies are required to be spent within the fiscal year, giving priority primarily based on funding and not necessarily need.

Issue #3. Projects Do Not Fit Criteria

Industry best practices indicate JOC should be used for routine and minor construction tasks and not large, complex projects that require extensive design or are likely to encounter changes and revisions during construction, such as the Queensway Bay Restroom as illustrated in Appendix B. The City's JOC program is being used to bypass the lengthy traditional procurement process so that projects can be pushed along quickly, regardless of size or type, and without considering if JOC is the best option. Although quick completion of a project is a benefit of JOC, it should not be the only factor taken into consideration. Cost and timing should also be considered to determine if using the JOC program is better than traditional procurement methods for that particular project.

- ***Issue #3a Large and Complex Projects***
  JOC projects should not exceed $500,000, and currently average $100,000. However, we found examples of projects processed through JOC that exceeded $500,000, some with substantial change orders. Examples include the Belmont Pool Demolition valued at $2.6 million, the Harbor Department's remodel of new administrative offices totaling $14 million, and the Traffic Management Center relocation costing close to $500,000. These projects appear to be assigned to JOC solely to ensure quicker implementation.

Example:

- *The Traffic Management Center Project encompassed a complete relocation of the existing Traffic Management Center, along with new hardware, software, and operation and conference room. Very little information is available in the project file, but we can identify at least four different JOC contractors who worked on the project along with 21 subcontractors. The project spanned five years with total construction costs reaching at least $482,300 including $158,400 in change orders, of which 84% fell within the audit period. Per project files, one JOC contractor was used as a way to provide architectural services for the project by allowing an architectural firm to work as a subcontractor to a JOC contractor. JOC contracts are solely for construction services and should not encompass architectural or design services as these type of services have different procurement procedures.*

- ***Issue #3b "Saving" Projects***
  The program is being used to "save" projects that initially started outside the JOC program but then developed issues. Instead of ensuring proper oversight and problem resolution with the original contractor, the project is moved into the JOC program so it can be pushed quickly along without adhering to usual City procurement or contract amendment policies.

Example:

- *The Queensway Bay Restroom project was originally one of four restrooms included in a direct procurement contract for the vendor to complete remodeling of all sites. After the contract was awarded, scope of work changes occurred on all four restrooms, and the City was unable to reach an agreement with the contractor on revised pricing for the Queensway Bay Restroom site. Further negotiations with the vendor were terminated and instead of rebidding the project, the remodel for this site was moved to the JOC program for completion. Total construction costs were $645,400, with over $96,000 in change orders.*

B. How the Program is Managed

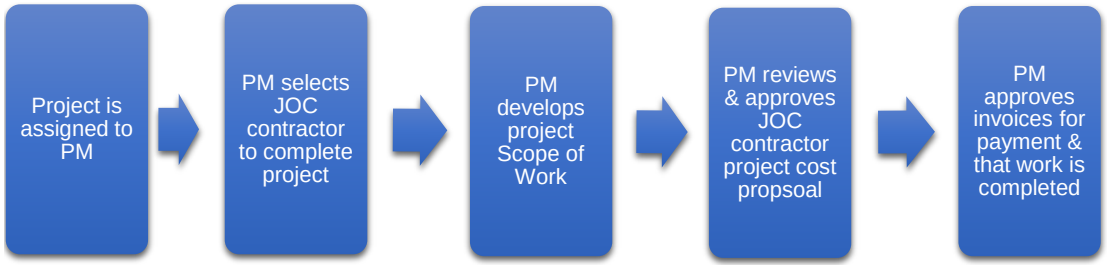
Issue #4. No Process or Policy

Even though the JOC program has been in place for 13 years, formal policies, procedures, or guidelines have not been established. Without formal policies and procedures, staff who managed or operated within the program did not have guidance on their roles or responsibilities, resulting in inconsistent handling of projects and incomplete documentation.

Issue #5. Poor Program Management

Oversight and management of the JOC program by City employees is limited. The City relies on outside consultants to fill many of the project manager positions, but provides little direct oversight to their activities. This is particularly risky given project managers are responsible for all aspects of the project, from selecting the contractor to approving payments, with little accountability as shown in Figure 1 below. As such, the City would not know if the consultant was personally benefitting or if inappropriate activities were taking place.

Figure 1
Project Manager (PM) Authority



Issue #6. No Formalized Reporting

Comprehensive reporting of key project information, such as status, budget/costs, milestone dates, or outstanding issues from the project managers to JOC program management or other Department management did not exist during our audit. This results in very few individuals within the Department being aware of how the program is operating and any potential problems. For example, the supervisor over the JOC program retired at the beginning of our audit and no one else in the Department was adequately knowledgeable of how the program operated.

II. PROCUREMENT AND RECORDING OF JOC CONTRACTS

Contractors seeking to obtain a JOC contract with the City must competitively bid a percentage factor which is applied to the cost of items in a pre-priced catalog. The factor should include the contractor's profit and overhead. Contracts are awarded to the five contractors with the lowest bid percentages. The current contractors' bid percentages are extremely low making it highly unlikely the contractors could make a profit. With the primary emphasis on keeping projects moving along quickly, the City has not evaluated the reasonableness of the contractor's percentage factors and the risks associated with them. Allowing JOC contracts with extremely low percentage factors has created a financial pressure for the contractors to find alternative ways to make a profit.

We also found issues with the administration of the contracts. Purchase order errors allowed over spending, communication of the JOC contracts in City Council agenda reports was not clear, and

JOC contract terms were conflicting. These issues contributed to a lack of program transparency and inconsistencies in contract administration.

A. History of Contracts and Low Bid Percentage Factors

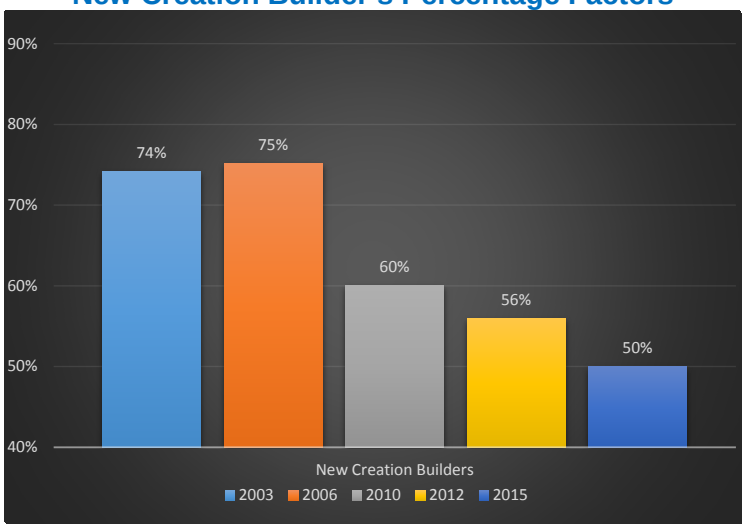
Issue #7. Bid Percentage Factors at All-Time Low

Since the inception of the JOC program in 2003, contractor's bid percentage factors have declined 31%. The current JOC bid percentage factors range from .50 to .71, meaning they are contractually obligated to perform work at 50-71% of the catalog price. It is highly unlikely contractors can earn a profit using these low percentages. Many of the contractors have held JOC contracts since 2003. Their long-term relationship with the City and experience with the JOC program likely influenced the decline in bid percentage factors.

In January 2015, the City awarded a JOC contract with an all-time low percentage factor of .50 (50%) to a contractor who has held a JOC contract since 2003 (Chart 4). Ideally, a low percentage factor would result in a lower project cost, however factors this low are not realistic and will cause the contractor to find other methods to cover costs and earn a profit.

Chart 4

New Creation Builder's Percentage Factors



As shown in Table 3, a percentage factor of 1.10 would mean that the contractor will complete a project for 110% of the catalog price, while a factor of .50 means the contractor will complete it at a 50% discount. The deep discount of 50% means the contractors are paying for a portion of the project out of their own pocket. Contractors bid these extremely low percentage factors to win the contract; however, as it is impossible to make money using these low percentage factors, it creates a pressure, or need, to find other ways to increase project costs.

Table 3
JOC Percentage Factor Comparison

Contractor	Project Cost per Catalog (Materials, Labor & Equipment)	Percentage Factor	Total Project Cost	Contractor's Profit or (Loss)
A	$20,000	1.1 (110%)	$ 22,000	$ 2,000
B	$20,000	.5 (50%)	$ 10,000	$ (10,000)

Issue #8. Warning of Risk Ignored

In December 2014 (just before the last JOC contracts were approved), the JOC program manager received a letter from The Gordian Group (Gordian Group)[2], warning the City to reject all bids because the factors bid by the contractors were too low for the program to operate as intended. An excerpt from the Gordian Group letter is shown in Figure 2.

Figure 2
The Gordian Group Letter of Concern Excerpt

> *"It's not possible to be successful under a JOC contract with a bid below 80% (.8) unless the owner (City) performs an adequate review of the proposals. When poor proposal review occurs, the contract morphs into a negotiated contract instead of firm fixed price contract. In practice, when bids are this low, the contractor and client (project manager) negotiate the value for the projects, and the contractor fabricates a proposal to match that value that is later approved by the Client. The proposal is approved despite flagrant violations of the terms of the contract, including notes in the Construction Task Catalog."*

The JOC program manager proceeded with accepting the low factors despite the warning from Gordian Group. As a result, five JOC contracts were approved at extremely low bid percentage factors and given a cumulative authorized spending amount of $17.5 million. When asked why the contracts were approved despite receiving Gordian Group's letter, the Department stated they were following the City's purchasing guidelines. Although the City is required per the City Charter to award contracts based on lowest bids, the provision also allows the City to reject all bids and re-advertise them if it is deemed in the best interest of the City. The City did this in 2006 when it rejected JOC contract bids up for renewal. Given the option to re-advertise the bids, we are unclear on why the City chose to award the current contracts at the low bid percentage factors and assume the related risk.

Issue #9. Lowest Percentage Factors in Survey

We surveyed five agencies in Southern California that also use a JOC program and found the City's current bid percentage factors are the lowest among the agencies surveyed. While the other agencies also have concerns over low factors (in addition to non-catalog items and proposal review), they are more pro-active finding solutions to mitigate or lower the risks. This is different from the City, which appeared to be unaware of the significance of the problems and was not looking to change the risky situation.

[2] The Gordian Group is a firm that provides the City with JOC consulting services and has been providing JOC consulting services to public and private agencies since 1990. Services provided to the City include development of the catalog as well as access to eGordian software used to manage projects.

B. Contract Language and BPO Setup

Issue #10. Contract Amount Exceeded

The JOC contractors are awarded a spending authority limit, which is then established in blanket purchase orders (BPOs) so payments can be processed. During the audit, we found that the BPO amounts exceeded the spending authority by $13.6 million. A separate BPO for $13.6 million was established by the Harbor Department (Harbor) when it received approval to use the JOC program for improvements for the interim Port headquarters building; however, the City erroneously added the same $13.6 million to the non-Harbor BPO, thereby doubling the authority amount granted to the contractors. With this additional authority, the City paid a JOC contractor approximately $1 million more than the approved JOC contract amount. Further review found that the $1 million was charged to the JOC program, although costs did not actually relate to JOC projects. The payments were for costs associated with another separate contract the JOC contractor had with the City and should not have been paid through the JOC BPO. This situation is an example of the City's poor contract administration and lack of adequate program reporting that should have captured this error.

Issue #11. Lack of Transparency

Communication to Council regarding contract terms and contract extensions has not always been clear and transparent. For example, the former JOC program manager chose to renew the contracts early, before his retirement, even though there was still $3.9 million of spending authority remaining on the current contracts. The early renewal awarded the JOC contracts an additional $17.5 million in spending authority and created an overlap in terms causing some contractors to have two contracts in place at one time. It is unclear if Council understood they were creating an overlap in contract terms and spending authority, because this issue was not adequately discussed in staff report to the City Council.

Issue #12. Contract Terms Not Updated

We found conflicting language within the contract and bid specifications. The audit clause language within the JOC contract documents is inconsistent and outdated, as shown below in Table 4. The audit language in the bid specifications is similar to the standard audit clause language used in current contracts. However, the audit clause in the contract is restricting and states the City only has the right to audit if the contract is funded with federal, state or county funds. We expressed our concern over the conflicting language, however, the City stated the terms were not conflicting and there was not a problem. Not only does the conflicting language create confusion but could be problematic if the right to audit were challenged.

Table 4
Conflicting Terms - Audit Clause

JOC Contract	JOC Bid Specifications (included as part of contract documents)
If payment of any part is made with federal, state or county funds and use of those funds requires that the City render an accounting or account for funds, the City has the right to audit.	The Contractor shall maintain all data and records pertinent to each Work Order and make available all data and records until the expiration of seven years after the data of final payment. Authorized representative of the City shall have access to all data and records for the time period to inspect, audit and make copies normal business hours. Contractor must require all subcontractors to comply in a similar aspect.

Also, with the most recent JOC contracts, the City made a change to the way the non-catalog fee is calculated. However, the language included in the contract was incorrect based on what was intended by management and had been communicated to prospective bidders. The former JOC program manager stated the Department was aware of the discrepancy, but did not intend to correct the contract language even knowing the calculation being used was in conflict with the contract. Conflicting and outdated contract terms or actions that disagree with the contract language create a risk to the City and make it difficult for the City to enforce the contract, should problems or disputes arise.

III. OVERSIGHT AND PROCUREMENT OF INDIVIDUAL PROJECTS

The City has created an environment where the acceptance of contractors' low percentage factors, a systemic lack of controls over the program, and an emphasis on speed of project completion has resulted in projects no longer being competitively priced. With little guidance or training, project managers are expected to establish reasonable project pricing through negotiations instead of using the pre-priced catalog as designed. JOC contractors are aware the project managers are under pressure to move projects along quickly, and there is not always time to develop detailed scopes of works and pricing proposals. This allows the JOC contractors to manipulate cost proposals by not using the pre-priced catalog correctly and increasing the use of non-catalog items to boost project costs. In addition, the City has placed little emphasis on ensuring sufficient and consistent project documentation is retained and that project efficiencies are evaluated after completion. The manner in which the JOC program is operated creates an environment for contractors to charge more for projects than they are contractually allowed and has moved project costs from firm fixed/bid price to a negotiated price.

A. Project Manager Training

Issue #13. Training Needed for Project Managers

The JOC program does not provide training for project managers to ensure they maintain sufficient controls necessary for the program to operate as designed. This includes the critical function of properly reviewing contractor proposals to ensure the City is paying a fair price for projects. As mentioned in the warning letter from Gordian Group (Figure 2), when poor proposal review occurs, the JOC contract morphs into a negotiated contract instead of firm fixed pricing. Agencies we surveyed recognize the importance of the project manager role and

have developed specific training academies or programs providing skills needed specifically for managing JOC projects.

Issue #14. Vendor Did Not Provide Required Training

Services included in the City's contract with Gordian Group require the vendor to provide the City with ongoing training regarding JOC program management. However, training was not provided even though Gordian Group account manager during the audit period was aware of the program issues and the challenges faced by the project managers.

B. Proposal Review and Project Costs

Issue #15. Poor Scope of Work Preparation

The City prepares a project's detailed scope of work (SOW), which should serve as the roadmap for the JOC contractor to build an accurate and thorough cost proposal that meets the City's needs. Based on projects we reviewed, the SOW did not always contain comprehensive information of project requirements. We saw instances where the SOW had only a general description and did not detail the necessary components of the project. Vague SOWs create an opportunity for the contractor to manipulate project costs to their advantage as the City appears not to have clarity of project requirements or expectations.

Example:

- *The SOW for the Re-Carpeting of Various Library Reading Rooms project contained guidelines for the project but lacked detail. For example one task was listed as "floor preparation" with no specifics on what that entailed. Also the SOW did not provide square footage of the rooms to be re-carpeted. Without these details it is unclear what exact quantities, services and labor should be used when the contractor is building their proposal. It also makes it nearly impossible to determine if the proposal is reasonable or accurate.*

Issue #16. Project Cost Overruns

Inadequate project planning and poorly designed SOWs led to numerous change orders and cost overruns. Table 5 illustrates the significance of change orders in a sample of projects over $100,000.

Table 5
Change Orders for Projects Sampled Over $100,000
October 2013 – February 2015

Project	Total Cost ($)	Cost of Change Orders ($)	% Increase due to Change Orders
Traffic Management Center	$ 482,300	$ 158,400	49%
Whaley Park Baseball Field Fence Replacement	$ 240,500	$ 74,100	45%
Nature Center Chain Link Fence	$ 138,700	$ 30,700	28%
Queensway Bay Restroom	$ 645,400	$ 96,300	18%
Belmont Pier Restroom Replacement	$ 154,700	$ 19,400	14%
Re-roofing of Bayshore Library & Alamitos Library	$ 167,400	$ 11,200	7%
Re-roofing at El Dorado & Ruth Bach Library	$ 199,700	$ 7,900	4%
Re-roofing of West Health Facility	$ 166,100	$ 2,200	1%
Total	**$ 2,194,800**	**$ 400,200**	**22%**

An example of inadequate planning occurred in the Whaley Park field renovations project. The project had seven change orders that totaled 45% more than the original project cost. Many of the changes to the project could have been included in the original SOW if proper planning had occurred, such as those illustrated in Table 6.

Table 6
Whaley Park Change Order Examples

Whaley Change Order Tasks	Added Cost
Additional fencing in the outfield, dugout windscreens & athletic equipment	$ 17,600
Changes to the position of the fence, relocation of conduit & repair of irrigation line	$ 7,000
Installation of poles at the baseline, additional gate at 3rd base, & replace concrete pads	$ 20,300

Issue #17. Manipulation of Catalog Items

During the audit, we heard a recurrent concern from project managers that JOC contractors regularly inflate proposals, since it is impossible for them to make a profit with the low bid percentage factors. This requires the project managers to spend additional time negotiating with the JOC contractors to arrive at a reasonable price agreed to by both parties. However, there is no guarantee the negotiated prices accurately reflect the catalog items or quantities needed to perform the work. Ultimately, this means the project costs are no longer competitively bid, and the City is paying more than contractually obligated.

In April 2013, a former City project manager issued a letter to a JOC contractor, New Creation Builders. The letter alleged New Creation Builders was padding proposals by manipulating the catalog and quantities to inflate proposal costs. An excerpt from the letter is illustrated in Figure 3. The JOC program manager at the time was copied on the letter; however, the City, through other project managers, continued to give $3.8 million in work to the contractor, with $15.7 million paid to them since inception of the program in 2003. The City accepted New Creation Builders' bid percentage factor of .50, which was the lowest contractor bid in January 2015.

Figure 3
Project Manager Letter of Concern Excerpt

- *"Prior to submission of this proposal, your staff were repeatedly cautioned to ensure that the proposal was accurately prepared and not to include excessive charges."*

- *"It is the opinion of the undersigned that the above errors are beyond unintentional mistakes or minor irregularities and constitute a knowing and reckless disregard for accuracy which, if accepted by the City, would have resulted in a misuse of public funds."*

- *"…I will not invite New Creation Builders to participate in any of my future projects in the JOC program until it has been demonstrated that these problems have been corrected."*

- ***Issue 17a. Better use of Catalog Pricing***
  The catalog was originally developed specifically for the City using local market pricing and contains over 100,000 task items. Given the volume of the catalog, it requires someone with a level of expertise within the construction industry to properly break down projects to a level of detail where the catalog can be used appropriately. Some agencies we surveyed tend to "bundle" items that are used together frequently to make it easier to use the catalog. However, the City does not currently bundle catalog items, making it very time consuming to use the catalog correctly. Because there is a strong emphasis on quick project implementation, the extra time needed to price items correctly is a deterrent for all parties.

Issue #18. Excessive Non-Catalog Items

At times there may be certain tasks or specialized materials that are not included in the pre-priced catalog but are necessary and within the scope of a project. The bid percentage factor does not apply to these items. Instead, all non-catalog items are priced at 100% of cost plus a 10% fee. Figure 4 shows how a catalog item is priced in comparison to a non-catalog item. As illustrated, a $10,000 item priced through the catalog at a factor of .50 would cost $5,000 in comparison to $11,000 when classified as a non-catalog item.

Figure 4
Pricing Comparison – Non-catalog vs catalog

Task Cost using Catalog Items & Percentage
$10,000 x .5 = $5,000
Catalog Price x Percentage = Total Cost

VS.

Task Cost using Non-Catalog Items
$10,000 + ($10,000 x 10%) = $11,000
Non-Catalog Price + (Non-Catalog Price x 10%)= Total Cost

Other JOC programs we surveyed institute a cap or maximum of non-catalog items that can be used in any project. However, the City places no cap on the quantity or frequency of use of non-catalog items. During our audit period, non-catalog items were used excessively, undermining the intent of the program and causing the pre-priced catalog and bid percentage factors to become irrelevant. As shown in Table 7, 32 (or 25%) of the projects during our audit period consisted of 100% of non-catalog items. Examples of these projects are listed in Table

8. More than $5.5 million in project costs during our audit period, or 42%, were made up of non-catalog items. This resulted in the City paying an additional $500,000 for the 10% non-catalog fee on top of premium and non-discounted project costs.

Table 7
Non-Catalog Project Costs
October 2013 – February 2015

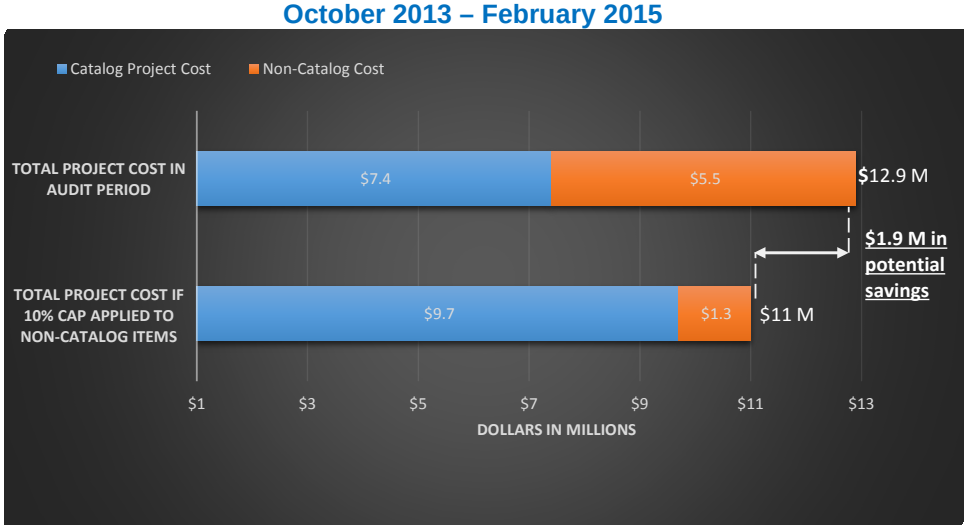
% Of Total Non-Catalog Project Cost	# of Projects	Non-Catalog Cost ($ in Millions)	Total Project Cost ($ in Millions)
100%	32	$ 1,200,000	$ 1,200,000
75-99%	15	$ 1,900,000	$ 2,000,000
50-74%	13	$ 1,000,000	$ 1,600,000
25-49%	10	$ 700,000	$ 1,700,000
<25%	58	$ 700,000	$ 6,400,000
Total	**128**	**$ 5,500,000**	**$ 12,900,000**

Table 8
Examples of Projects Consisting of 100% Non-Catalog Costs
October 2013 – February 2015

Project Title	Total Non-Catalog & Project Cost ($)
Re-roof at Bixby Park	$ 229,600
Somerset Park Playground Replacement	$ 216,400
ECOC Gate Repair Project	$ 86,500
Silverado Park Sports Courts Re-surfacing	$ 33,800
Re-carpet Community Rooms at Various Branch Libraries	$ 27,200
Total	**$ 593,500**

If a cap of 10% on the use of non-catalog items had been in place, the City could have potentially saved $1.9 million, or 15% of overall costs. Based on the average JOC project price, the savings would equate to 19 additional projects that could have been completed.

Chart 5
Project Cost Comparison with Reduced Non-Catalog Items
October 2013 – February 2015



- ***Issue #18a. No Independent Quotes***
  In order to control the use of non-catalog items, three independent quotes are required for submittal by the contractor for City review. In projects sampled, 67% of non-catalog items did not have independent quotes, and there was no documentation or written justifications retained explaining why quotes were not obtained.

- ***Issue # 18b. Vague Product Descriptions***
  The use of non-catalog items is not only excessive but is also unnecessary. Per Gordian Group, most of the non-catalog items in our project sample could have been priced through the catalog. In some instances, product descriptions were so vague that it was difficult to determine specific items that required use of non-catalog pricing. Table 9 illustrates examples of vague non-catalog item descriptions:

Table 9
Examples of Vague Non-Catalog Item Descriptions
October 2013 – February 2015

Non Catalog Item Description		Cost
Baseball athletic equipment	$	7,400
Architectural Revisions	$	1,200
Furniture Purchase	$	4,700
Beach Restroom	$	499,200

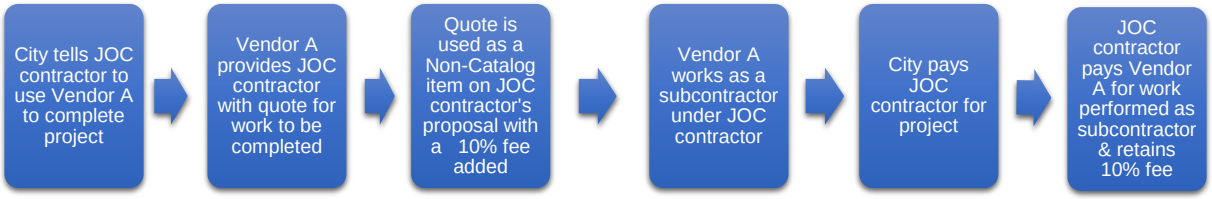
- ***Issue #18c. Poor Management of Catalog***
  Per their contract, Gordian Group is to "conduct research to identify recurring use of non-catalog tasks" and "develop new catalog tasks for recurring non-catalog tasks". Considering the excessive use of non-catalog items, this did not occur. When we asked the former Gordian Group account manager why the non-catalog items weren't being added to the catalog, he indicated the project managers didn't reach out to him for assistance. However, Gordian Group's fees are based on 1.95% of total project costs. Therefore, they directly benefit by using products outside the catalog that contribute to higher project costs.

Issue #19. City Preferred Vendors and Items

City departments may have preferred products or materials they want used in their projects. The City does not have an official pricing list of preferred products and materials. Instead, the City treats preferred products and materials as non-catalog items, priced at 100% plus the 10% fee.

When preferred vendors are used, the JOC contractor acts as a middleman as shown in Figure 5 below.

Figure 5
Use of Preferred Vendor



Using the JOC program for projects with preferred vendors allows the City to forego traditional procurement that would produce competitive bidding or provide justification for sole source procurement. During our audit, we found examples of preferred vendors performing nearly 100% of the project.

Example:

- *During the audit period, 12 roof projects costing almost $1 million were completed through the JOC program. The City uses Tremco roofing materials on all roofs in order to maintain a consistent appearance. In order for the City to receive warranties on Tremco installed roofing materials, a Tremco certified contractor must complete the work. Project Managers decide which Termco certified contractor will perform the work at the lowest cost and tells the JOC contractor to use them as a subcontractor to perform the roofing work. This results in the JOC contractor acting as a pass-through to allow the Tremco certified contractor to be paid without having a contract. The work is listed as a non-catalog item on the proposal with the JOC contractor charging (and retaining) the 10% non-catalog fee.*

If the City had an official preferred product list, then Gordian Group and the City could obtain competitive pricing and include the items in the catalog. A preferred product list would also provide justification for items left out of the catalog. For example, if the roofing materials had been added to the catalog and a 10% cap applied to non-catalog items, the City could have saved over $270,000 in roofing costs, or 27% of total roofing project repair costs during our audit, as illustrated below in Table 10.

Table 10
Potential Savings of Roofing Projects
October 1, 2013 – February 28, 2015

#	Project	Total Project Cost	Revised Total Project Cost	Potential Savings	% Potential Savings
1	West Health Facility Re-Roofing	$ 166,100	$ 93,300	$ 72,800	44%
2	Bayshore Library and Alamitos Library Re-Roofing	$ 167,400	$ 96,200	$ 71,200	43%
3	El Dorado & Ruth Bach Library Re-Roofing	$ 199,700	$ 139,500	$ 60,200	30%
4	Deforest Handball Court Re-Roofing	$ 266,900	$ 250,600	$ 16,300	6%
5	North Health Facility Roof Parapet Siding Replacement	$ 54,100	$ 54,100	$ -	0%*
6	Main Library Roof Leak Investigation	$ 3,200	$ 1,800	$ 1,400	44%
7	El Dorado Library Entry Structure Roof Repair	$ 18,200	$ 18,200	$ -	0%*
8	Silverado Center Gym Repair of Roof Light	$ 7,500	$ 4,800	$ 2,700	36%
9	Pan American Park Replacement of Lower Roof	$ 74,600	$ 43,400	$ 31,200	42%
10	College Estates Roof Replacement	$ 32,900	$ 21,300	$ 11,600	35%
11	Burnett Branch Library Repair Roof Leak	$ 6,200	$ 3,500	$ 2,700	44%
12	Bret Harte Branch Library Repair Roof Leak	$ 2,700	$ 1,500	$ 1,200	44%
	Total	**$ 999,500**	**$ 728,200**	**$ 271,300**	**27%**

* Projects had non-catalog costs below 10% and therefore do not show a potential savings

C. Project Files and Project Close Out

Issue #20. Insufficient Project Files

The Department does not specify what documentation or information should be retained in the project files, leaving it solely up to the project manager. We found inconsistent and often insufficient documentation within project files. One project file consisted solely of emails and another project file was entirely missing. Without proper documentation, it was extremely difficult to obtain a thorough history of the project to understand why problems may have occurred or the reasons behind specific decisions.

Issue #21. No Formal Project Close Out

A formal close out process helps to ensure that project quality meets City standards and appropriate close-out documentation is performed, such as a Notice of Completion. Unfortunately, a formal and consistent close-out process did not occur for JOC projects during our audit period. The City defers to the project manager to decide what is appropriate for each project, which results in significant inconsistencies in handling project close outs. At a minimum, the Department should utilize a standard checklist to ensure all critical documents have been obtained and filed and a certification that the final product meets the City's expectations.

Issue #22. No Cost or Time Evaluation

A post-project evaluation of costs and time would assist project managers with improving efficiency and cost effectiveness of future projects. However, this type of analysis did not occur with projects we sampled. For example, one major benefit of operating a JOC program is a reduction in the time needed to initiate a project. Gordian Group has stated that the average industry time it takes to initiate and begin a project using JOC is 25 days without design and 55 days with design. This is considerably shorter than the average 255 days required of a traditional procurement. If we measured all projects against the 55 day benchmark to be conservative, there were $4.4 million in projects (34% of total project costs) that did not fall within this timeframe. As illustrated in Table 11, seven projects consisting of $3.3 million took more than 90 days to initiate. Due to inadequate project file documentation, it was impossible

to determine why the City's projects took longer. However, project manager workload and negotiating price outside the catalog are two potential reasons for some of the delays.

Table 11
Projects Taking Over 90 days to Initiate
October 2013 – February 2015

#	Project Name	Days to Initiate	Project Costs
1	Electrical Upgrades to Various Branch Libraries	178	$ 145,600
2	Water Leak Detection Panel Upgrade of Halon System Panels	177	$ 27,100
3	PD Academy - Perimeter Enhancement Project	148	$ 185,700
4	Somerset Park Restroom & Center Improvements	115	$ 77,500
5	Painting of Community Rooms at Various Branch Libraries	95	$ 27,300
6	Belmont Pool Demolition	92	$ 2,596,700
7	Water Line Service Repair at Temple and Willow Facility	91	$ 282,400
Total			**$ 3,342,300**

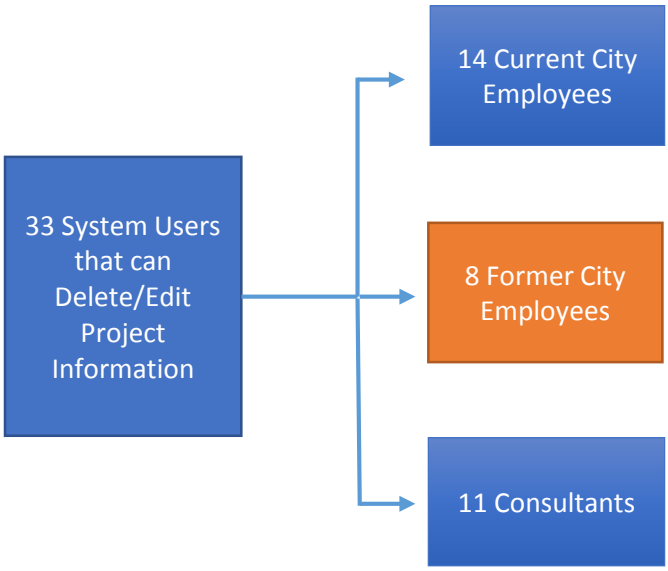
Issue #23. No Evaluation of Subcontractors

Subcontractors perform the majority of the work on JOC projects. However, the City currently does not perform a post-project evaluation of subcontractor performance to ensure work was done with quality and to the City's satisfaction. Instead of just assessing how quickly work was performed, an effective evaluation or scoring of subcontractors would include multiple areas, such as communication, responsiveness, and quality of work. This information shared with other project managers would ensure that poorly performing subcontractors are not allowed on further projects. For example, a project manager expressed to us concerns regarding the inexperience of an "on-call" engineer who was used on a JOC project. While the engineer was no longer used on that particular project, the City continued to give the engineering firm over $1.2 million of work.

Issue #24. Excessive Access to Files

A web-based software, eGordian (formally ProGen), is used by project managers to access the catalog and develop project SOWs. The data in eGordian serves as the City's official list of JOC projects. During our audit, 33 individuals had access to delete and edit data within the system (see Figure 6). However, eight of these individuals are no longer City employees, including one who left the City over 5 years ago. It is apparent that the Department is not monitoring access levels or assessing whether it is appropriate for the user to have access at all.

Figure 6
eGordian User Access



With the lack of controls around the project data in eGordian, there is little assurance that the project data is accurate and complete. It is not possible to know if all projects are in the system because project numbers are entered manually and not in sequential order. We noted one project during our audit that was completely missing from eGordian even though we found documentation showing the project existed in eGordian at one time. Neither the project manager nor Gordian Group could explain why the project was no longer in the system.

IV. POTENTIAL FOR CONFLICTING INFLUENCE AND RELATIONSHIPS

Poor oversight and few program controls combined with a substantial use of consultants, contractors and subcontractors creates an environment where the potential for conflicting interests is highly probably and nearly impossible to detect. The City is relying on consultants at almost every level of the program with minimal oversight. This allows the possibility of conflicting relationships between all parties to occur, and there is no audit trail or controls to identify when it exists.

A. Multiple Layers

Issue #25. Numerous Parties Involved

It is common practice for JOC projects to have several parties involved in the project, including numerous layers of subcontractors. However, as illustrated in Appendix B, the Queensway Bay project consisted of an excessive number of layers - nine, including 23 subcontractors. In another instance, a project was completed using four different JOC contractors, 21 subcontractors, and four other consultants used for design or engineering services. Not only is this costly and inefficient, but it allows numerous parties to have influence over the project's cost and outcome. With no mechanism to detect potential excessive costs or inappropriate relationships between the parties, the risk of fraud is very high.

B. Subcontractors

Issue #26. Subcontractor Information Not Disclosed

The contracts require the JOC contractor to perform at least 20% of the maximum contract amount, including all work in the contractor's designated trade. JOC contractors essentially function as job brokers performing a small percentage of the actual work. Instead, they use subcontractors to complete the majority of the projects. For projects we reviewed and where information was available, subcontractors performed a significant portion of the project, as shown in Table 12 below. As required by the California Public Contract Code (PCC) and the JOC contracts, the contractor is required to provide a subcontractor list for each project that includes the percentage of work for each subcontractor and their license number. None of the project files we reviewed contained a complete set of this required information. Not only is this a violation of the PCC and JOC contract, but given the extent of the use of subcontractors, the City is unaware of who is completing the majority of the work, whether they are appropriately licensed, or whether an inappropriate or conflicting relationship exists between parties.

Table 12
Examples of Work Performed by Subcontractors

Project Title	# of Subs	Work Performed by Subs ($)	Work Performed by JOC ($)	Total Project Cost ($)	% of Work Completed by Subs
Whaley Park Baseball Field	11	$ 240,500	$ -	$ 240,500	100%
El Dorado & Ruth Bach Library Re-Roofing	5	$ 181,100	$ 18,600	$ 199,700	91%
Queensway Bay Restroom	19	$ 579,800	$ 65,600	$ 645,400	90%
Bayshore & Alamitos Library Re-Roofing	3	$ 141,600	$ 25,800	$ 167,400	85%
Loma Vista Tot Lot	10	$ 79,200	$ 18,400	$ 97,600	81%
Total	**48**	**$ 1,222,200**	**$ 128,400**	**$ 1,350,600**	**90%**

Issue #27. Vendor Conflict of Interest

During the audit, the City's Gordian Group account manager held a contractor's license which was being used by a local construction company. This information was held in secrecy and was not disclosed by the account manager to the City or to his employer. Given the lack of information and documentation held by the City on subcontractors, it is unknown if this company was functioning as a subcontractor within the JOC program. If this was the case, there would have been the potential for this person to personally benefit from increased project costs.

C. Consultants

Issue #28. Use of Consultants

Project managers are responsible for all aspects of a project, including approval of work performed and payments to all parties working on the project. Due to budget cuts, the Department has turned to the use of consultants as project managers. The City maintains a number of "as-needed" contracts for consultant services. The use of consultants in the City's program was higher than that of other agencies surveyed, which ranged from 25%-50%. Of the projects we reviewed, 64% of project managers were consultants, many of them former City employees.

- ***Issue #28a. Consultants Reporting to Consultants***
  While use of consultants may be necessary, there are risks associated with allowing consultants to have total control over a project with little to no City oversight. We noted a project where the consultant acting as project manager reported directly to another consultant instead of reporting directly to the JOC program manager, as shown in Appendix B.

- ***Issue #28b. Consultant Role Not Defined***
  The project manager has a high level of authority over the decisions and management of the project. However, that role has not been sufficiently defined; therefore, there are varying degrees of management styles. For example, we found a project manager consultant that had developed an Excel "invoice template" for the JOC contractors to use as the project invoice instead of the JOC contractor submitting their own company's invoice. Behavior such as this creates a gray line between the roles of the project manager and the contractor. With no program guidelines or adequate City oversight, concerns are raised whether there is independence by the project managers to ensure project costs are appropriate and within the contract terms.

Issue #29. Conflicting Services

There are a wide range of consulting services that can be provided via the City's "as-needed" contracts and used on JOC projects, such as project management, design, inspection, engineering services and construction management. There are no JOC program controls to monitor or prevent multiple consultants from one consulting firm working in different capacities on the same project. Allowing this to occur could create a potential conflict of interest, as illustrated in Appendix B. While we understand the need to occasionally supplement City staff, allowing consultants from the same firm to function in different roles on a single job creates the opportunity for the firm to have multiple ways to benefit from increased project costs.

RECOMMENDATIONS

Due to the extensive issues found during our audit, the number of audit recommendations is substantial. Recommendations are grouped into four categories:

- Overall Program Need – Addresses management of audit recommendations.
- New Legislation – Language to be inserted into the City's Municipal Code to provide base controls surrounding the JOC program.
- Internal Processes – Changes recommended for JOC program processes.
- Catalog Vendor – Changes recommended for use of the vendor pre-priced catalog.

Overall Program Need:

The JOC program is a critical tool for processing infrastructure projects in the City. Given the Department's minimal staffing expertise over this program, the best solution to implementing all changes in a timely manner is to obtain outside assistance.

1. Retain an independent expert to assist the department in developing JOC program processes and structure in response to the audit recommendations. This independent expert should be familiar with how a JOC program functions, be independent from the City, the department, its employees, consultants and JOC contractors, and not gain financially from any changes made to the JOC program.

New Legislation

All JOC programs surveyed during this audit had corresponding legislation that provided basic program requirements to ensure controls were maintained over the life of the program. We are recommending the City adopt similar legislation that covers the following issues, at a minimum:

2. Prequalify potential JOC contractors. Prequalification should consider past performance working with the City, experience, as well as being licensed and registered.
3. Projects within JOC should be limited to $500,000.
4. During the selection of JOC contractors through a RFQ (Request for Qualifications) process, the City should establish an evaluation committee to evaluate qualifications based only on criteria specified in the RFQ and assign a qualifications score to each contractor.
    a. The City should develop written policies and procedures to prevent conflicts of interest for evaluation committee members.
5. All prequalified contractors invited to bid should submit sealed bids based on one or more adjustment factors to the unit prices listed in the catalog based on technical specifications. The City may reject all bids and begin the process again when in the best interest of the City.
6. Contract terms for prequalified contractors would not exceed 12 months, with option of extending or renewing for two more 12-month periods.
7. Require JOCs to perform a minimum of 20% of the work themselves. This clause should also be included within the JOC contracts. This requirement mitigates some of the risk associated with using numerous subcontractors on a project.
8. The City should establish a process to prequalify all subcontractors, requiring them at a minimum to be licensed, insured and have sufficient relevant experience. All subcontractors used by the primary contractor must be prequalified and approved by the City.

9. Consulting firms hired by the City as project managers should not be affiliated with any entity holding a contract with the City for conflicting services, such as engineering, design or engineering services. And, the City should establish a process to ensure project managers are independent.
10. When JOC contractors bid on a JOC project, the City should utilize a set of documents including a unit price catalog and pre-established unit prices, JOC technical specifications, and any other information necessary to describe the City's needs. Any architect, engineer or consultant retained by the City for this service should not be eligible to participate in the bid.
11. The City should obtain an independent estimate for each JOC project and compare that to the Contractor's to ensure proposed prices are not unreasonable or undesirable.
12. Before initiating a project through the JOC program, the City should determine if it will result in savings over traditional procurement methods.
13. No JOC project should be for new construction.
14. Non-catalog items should not exceed 10% of the total project cost estimate. The contractor is required to provide three written quotes for all non-catalog items, with the lowest bidder selected.
15. The City should certify a project is completed to the City's expectations.

<u>Internal Processes:</u>
In addition to enacting new legislation covering critical JOC program controls, the City must also ensure there are adequate processes within the program to support the objective of completing projects that are competitively priced and of sufficient, verifiable quality.

16. Terminate the current JOC contracts and spending authority and rebid them based on the best interest of the City.
17. The Council Letter, bid specifications, contracts and BPOs should always be consistent, particularly with regards to:
    a. Contract amount and authorized spending amounts.
    b. Terms, option years, and notification documentation.
    c. Contract language terms and conditions, including a sufficient audit clause. Language should be current and reflective of City requirements.
    d. Format of project bids, including at a minimum costing of non-catalog items and bid percentage factors.
18. Stop the approval of JOC contract extensions that cause an overlapping of terms and spending authority. Limit contract extensions to situations when original term has lapsed or the authorized amount has been fully depleted.
19. Develop a training program for project managers (both employees and consultants) on managing projects, preparing SOWs, reviewing proposals, appropriate use of the eGordian catalog, JOC program controls and processes, and requirements under the *California Public Construction Code*.
20. Identify required qualifications/certifications for all project managers (current and future) to participate in the JOC program. Develop a policy to ensure project manager credentials are current.
21. Establish clear and defined policy regarding conflict of interest (in fact and appearance) for all parties participating in the JOC program. Project managers should be required to sign a statement of independence attesting they do not have a conflict of interest with any of the parties participating in the JOC program.
22. All project managers, including consultants should report directly to the manager of the JOC program and never directly to another consultant.

23. Establish a process to evaluate, report and maintain information on contractor performance. Ensure there are consistent discipline mechanisms and processes in place for those contractors with poor performance, such as probation or disqualification from future work.
24. Develop protocols around expectations for project files that are based on best practices in project administration. These protocols should be the same for both consultants and employees. When projects are completed, all documentation attributed to the completion of the project should reside in the City's possession.
25. The project scope of work should be completely developed by the project manager and be specific in detailing project requirements and expectations.
26. Develop list of preferred City vendors and products and include them in the catalog. Use of preferred vendors and products should not be used outside the catalog without proper justification. Projects that have the majority of costs based on preferred vendors or products outside the catalog should not be processed through the JOC program.
27. Develop project close-out procedures to ensure all project managers are closing out and evaluating projects in a consistent and thorough manner.
28. Develop a tool for project managers to evaluate their experience with the contractor. This information should be considered when assessing whether the contractor should be prequalified to continue working with the City.
29. Develop policy and procedural guidance around the program that includes all areas discussed in this report.
30. Insure the JOC program has a sufficient and experienced manager dedicated to ensuring controls are functioning as designed. The JOC program manager should not be serving in any other capacity, such as a project manager, within the program.
31. Develop a formalized reporting process (project status, timeline, budgets, issues, etc.) that will provide JOC program management and above with a critical status of program operations. This includes proper reporting controls to monitor spending authority. This will create a level of oversight and accountability in all levels of the program.
32. Develop a prioritization system for JOC projects to help mitigate the "reactionary mode" the program managers are operating in today. This system would be continuously updated as new or more urgent projects arise. However, whenever projects are started out of priority order, there should be a reasonable justification.
33. Identify the JOC program's capacity levels. There should be perimeters on the number and complexity of projects assigned to each project manager at any given time. When determining capacity levels, consider capping the number of consultants used as project managers.

<u>Catalog Vendor</u>

34. Update and maintain access rights in the eGordian system
35. Work with Gordian Group to have eGordian system automatically generate sequential project numbers and eliminate manually assigned project numbers.
36. Gordian Group's contract fee currently includes services the City is not utilizing, such as providing training and assisting with updating catalog items. The City should work with Gordian Group to begin providing these much-needed services.
37. Establish guidelines and work with Gordian Group to be more proactive with entering City preferred products and non-catalog items into the catalog.
38. Develop a conflict of interest statement for Gordian Group account managers that requires them to disclose any and all relationships that may pose a potential conflict.

39. For project types that are consistent, consider working with Gordian Group to bundle materials/items within the catalog to make it more efficient for JOC contractors to submit proposals.
40. Work with Gordian Group to develop an edit/audit report within the eGordian system where the JOC manager or system administrator has the ability to see project changes that have occurred within the system to ensure the changes were necessary and appropriate.
41. If Gordian Group is utilized as an expert to assist the department in developing the JOC program, as stated in Recommendation 1, change Gordian Group's fee structure to a flat rate, rather than a percentage of each JOC project.

BACKGROUND

$68 million in projects have been completed through the City's JOC program.

The City of Long Beach Public Works Department's (Department) mission is to enhance the City's infrastructure and environment for the benefit of the public. In fiscal year (FY) 2015, the Department constructed $86 million in capital improvement projects that covered parks, recreation buildings, and libraries. One way the Department completes these infrastructure projects is through a Job Order Contracting (JOC) program. The City initiated the JOC program in 2003, which has been a vehicle to complete approximately $68 million in projects.

JOC is a way of getting small routine construction projects completed quickly through use of "as-needed" contractors.

JOC is used as an alternative to traditional procurement methods and is typically used for routine maintenance, repair, or minor construction. Under JOC the City contracts a general contractor (contractor) for a specified amount of time to be "on-call" to complete various construction projects. With contractors being "on-call", JOC allows the City to fast-track construction projects as it permits a large number of projects to be completed under a single, competitively awarded contract, rather than going through the procurement process for each individual project. This can be a major benefit of JOC as it saves time and money in the procurement stage of the project.

The City awards JOC contracts based on lowest bid adjustment factors.

In order to establish a JOC contract the City issues a request for bid which includes a construction task catalog (catalog) that contains individual tasks for completing various construction projects. Each task has a description and a corresponding price, which includes local costs for materials, equipment and labor. Instead of bidding a single price for the entire contract, typically in construction contracts, the contractor bids a construction task catalog percentage. This percentage is then applied to the price of each task in the catalog to create a total cost for the project as shown below in Table 13. The catalog and percentage are used to ensure the City is receiving a competitive price for each individual project under the contract.

JOC projects are competitively priced through use of pre-established catalog.

Table 13
Construction Catalog & Percentage

Catalog Description	Quantity		Unit Price		Contractor's Percentage Factors	Cost
Paint Exterior Surfaces, One Coat Primer	870 square feet	X	$0.81	X	1.5	$1,057.05
Paint Exterior Surfaces, Two Coats Paint	870 square feet	X	$1.66	X	1.5	$2,166.30
					Total Cost	$3,223.35

Contractors bidding the lowest percentages are awarded the JOC contracts. Contracts initiated in January 2015 were awarded five contractors with the five lowest percentages. Contracts were awarded for a three year period with a not to exceed amount of $3.5 million each.

Since the inception of the program the City has contracted with The Gordian Group (Gordian Group) to provide JOC consulting services. Gordian Group develops the City's catalog, which is tailored to local prices, and currently

Gordian Group provides JOC consulting services which have cost $1.3 million since the start of the JOC program.

has over 100,000 individual tasks. In addition, Gordian Group provides the City with access rights to their eGordian software, which aids in administering the JOC program. The City pays a license fee to Gordian Group in the amount of 1.95% of the cost of each JOC project, and has paid them approximately $1.3 million since the inception of the program.

OBJECTIVE, SCOPE & METHODOLOGY

This audit assesses whether the Department employed sound controls to properly administer the JOC program.

The objectives for this audit were to evaluate the adequacy of internal controls surrounding the Department of Public Work's (Department) Job Order Contract (JOC) program, including oversight, awarding of work, and performance monitoring. The audit scope was from October 2013 through February 2015.

While the Harbor Department used the City's JOC contracts to perform tenant improvements at their interim headquarters, we did not audit their use of the program.

During our audit we performed the following procedures:

- Reviewed JOC contracts and terms within the audit period, as well as from a historical perspective to gain an understanding of the program;
- Identified total payments made to JOC contractors within the audit period, as well as from a historical perspective.
- Interviewed Department management, project managers, consultants and JOC contractors to gain an understanding of the JOC processes and internal controls related to our audit objective;
- Reviewed applicable regulations governing the program including the City of Long Beach (City) Municipal Code & Charter, and California Public Contract Code.
- Obtained an understanding of the eGordian system used to administer the JOC program and reviewed system access.
- Selected a sample of projects within the audit period and reviewed project files, including contractor proposals and supporting documentation, to determine if the Department is properly administering the program.
- Surveyed agencies that also operated a JOC program in order to identify program challenges and best practices.

Based on result of the test work we performed that indicated a high risk of fraud or abuse occurring within the program, we have contracted with an outside firm to perform an additional review. Also, due to the subject matter of the audit centering around construction this firm has specific expertise within the construction field. A second report will be issued with the results from the outside firm's review at a later date.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX A – The Fraud Triangle

About the Association of Certified Fraud Examiners (ACFE)
The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. The ACFE's mission is to reduce the incidence of fraud and white-collar crime and to assist the membership in fraud detection and deterrence. [1]

The Fraud Triangle
The ACFE defines the Fraud Triangle as a model for explaining the factors that cause someone to commit occupational fraud. It consists of three components which, together, can lead to fraudulent behavior[2]:

1. Perceived unshareable financial need
2. Perceived opportunity
3. Rationalization

Opportunity defines the method by which the crime can be committed. The person must see some way to use their position of trust to solve their financial problem with a low perceived risk of getting caught.

Rationalization is when the person must justify the crime to themselves in a way that makes it an acceptable or justifiable act. Common examples include: "I was underpaid." or "I was entitled to the money."

Pressure is what motivates the crime in the first place. The person has some financial problem they are unable to solve through legitimate means. Examples include: need to meet earnings quota or need to meet productivity targets.

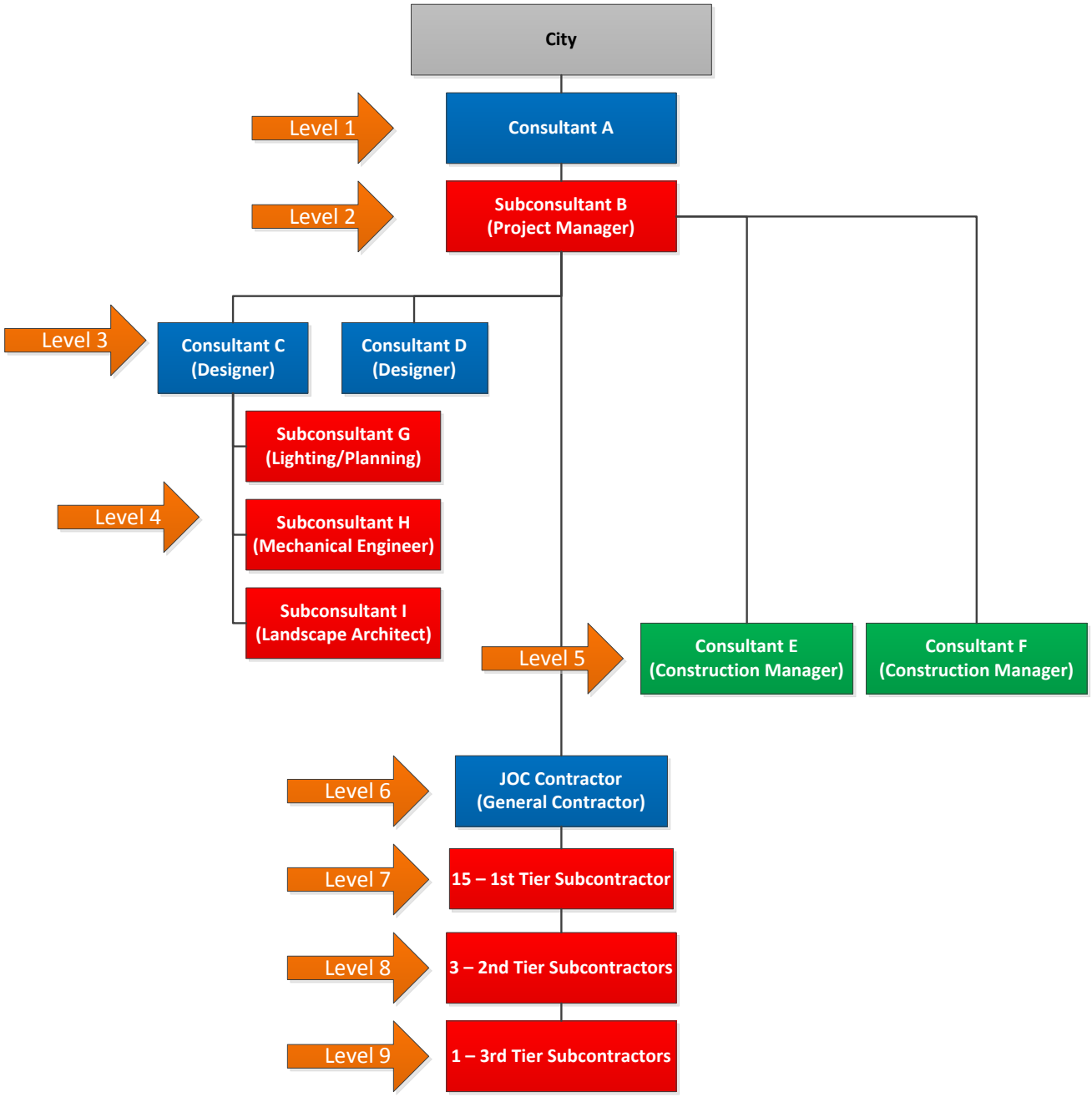
Source: Wells, J.T., 20015. Principles of fraud examination. Hoboken, New York: John Wiley and Sons

[1] www.acfe.com/who-we-are.aspx

[2] www.acfe.com/fraud-triangle.aspx

APPENDIX B – Queensway Bay Restroom Project

The Queensway Bay Restroom project consisted of replacing the existing bathroom which was in dilapidated condition. As seen below, the project was complex and encompassed various services such as project management (Consultant A & Subconsultant B), design services including mechanical engineering & landscape architecture (Consultant C, D, and Subconsultants G, H & I), construction management (Consultant E & F), and construction which was completed by a JOC contractor and three tiers of subcontractors. These services created nine levels of consultants or contractors and resulted in 23 various types of subcontractors. Industry best practices indicate that JOC should not be used for large complex projects that require extensive design such as this project. In addition, the multiple layers in the project allows numerous parties to have influence over the project's cost and outcome with little City involvement.



Management Comments

Management's response begins on the following page.

City of Long Beach **Memorandum**

Working Together to Serve

Date: May 17, 2016

To: Patrick H. West, City Manager

From: Craig A. Beck, Director of Public Works

For: Laura L. Doud, City Auditor

Subject: **Job Order Contract Audit**

Thank you for the opportunity to comment on the draft the Job Order Contract Audit.

Public Works management agrees with the audit's recommendations with few exceptions. The instances where management's response indicates "disagree", is in the context of proposing a more feasible alternative to satisfy the intent of the particular recommendation, or there is a conflict in the Public Contract Code or Municipal Code.

All of management's responses are within the backdrop of providing appropriate controls balanced within available operational resources.

Public Works management appreciates the City Auditor's level of due diligence reflected in the Job Order Contract Audit, and appreciates the opportunity to comment. The Public Works Department will work expeditiously to implement actions in response to the audit. We have a brand new team in place since the audit (Director, Deputy Director/City Engineer, Public Services Manager, and Executive Assistant), and we will spend whatever time necessary to make the changes recommended by the audit.

ATTACHMENT: MANAGEMENT RESPONSE AND ACTION PLAN

CC: TOM MODICA, ASSISTANT CITY MANAGER
ARTURO SANCHEZ, DEPUTY CITY MANAGER

MANAGEMENT RESPONSE AND ACTION PLAN

Public Works

Job Order Contract Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1	Retain an independent expert to assist the department in developing JOC program processes and structure in response to the audit recommendations. This independent expert should be familiar with how a JOC program functions, be independent from the City, the department, its employees, consultants and JOC contractors, and not gain financially from any changes made to the JOC program.	H	27	Agree	Deputy Director of Public Works (DDPW)/ Project Management Division Officer (PMO)	A consultant with expertise in Job Ordering Contracting will be engaged to help develop policies, controls and procedures.	August 31, 2016
Result 2-15 are related to the City adopting legislation pertaining to the JOC program.							
2	Prequalify potential JOC contractors. Prequalification should consider past performance working with the City, experience, as well as being licensed and registered.	H	27	Agree	PMO/ Project Managers (PM)	JOC contractors will be required to meet pre-qualification requirements, and only those that demonstrate competent experience, knowledge and successful project delivery, will be allowed to provide JOC services to the City. Project manager will file a peformance evaluation form after each City project so that information can be taken into account for future job orders with that contractor.	Re-bid of JOC program
3	Projects within JOC should be limited to $500,000.	H	27	Agree	PMO/PM	The $500,000 limitation is identified in the ordinance.	Re-bid of JOC program
4	During the selection of JOC contractors through a RFQ (Request for Qualifications) process, the City should establish an evaluation committee to evaluate qualifications based only on criteria specified in the RFQ and assign a qualifications score to each contractor.	H	27	Agree	PMO/PM	An evaluation committee will be established to determine the pre-qualifying requirements. Only contractors that meet the qualification requirements will be invited to submit bids.	Re-bid of JOC program
4a	The City should develop written policies and procedures to prevent conflicts of interest for evaluation committee members.	H	27	Agree	DDPW/PMO	A conflict of interest section will be included in the policies and procedures.	August 31, 2016
5	All prequalified contractors invited to bid should submit sealed bids based on one or more adjustment factors to the unit prices listed in the catalog based on technical specifications. The City may reject all bids and begin the process again when in the best interest of the City.	H	27	Agree	PMO/PM	Sealed bids are a requirement of the Public Contract Code (PCC) and included in the specifications.	Re-bid of JOC program
6	Contract terms for prequalified contractors would not exceed 12 months, with option of extending or renewing for two more 12-month periods.	H	27	Agree	PMO	This will be the standard, unless longer periods are approved by the City Council.	Re-bid of JOC program

MANAGEMENT RESPONSE AND ACTION PLAN

Public Works

Job Order Contract Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
7	Require JOCs to perform a minimum of 20% of the work themselves. This clause should also be included within the JOC contracts. This requirement mitigates some of the risk associated with using numerous subcontractors on a project.	H	27	Agree	PMO/PM	The 20% limitation is identified in the ordinance.	Contract execution
8	The City should establish a process to prequalify all subcontractors, requiring them at a minimum to be licensed, insured and have sufficient relevant experience. All subcontractors used by the primary contractor must be prequalified and approved by the City.	H	27	Agree	PMO	This requirement is identified in the ordinance	August 31, 2016
9	Consulting firms hired by the City as project managers should not be affiliated with any entity holding a contract with the City for conflicting services, such as engineering, design or engineering services. And, the City should establish a process to ensure project managers are independent.	H	28	Agree	PMO/PM	Project Manager consulting firms will not have conflicting services.	Contract execution
10	When JOC contractors bid on a JOC project, the City should utilize a set of documents including a unit price catalog and pre-established unit prices, JOC technical specifications, and any other information necessary to describe the City's needs. Any architect, engineer or consultant retained by the City for this service should not be eligible to participate in the bid.	H	28	Agree	PMO/PM	Program specifications, which are incorporated in the contract, will include this prohibition.	Contract execution
11	The City should obtain an independent estimate for each JOC project and compare that to the Contractor's to ensure proposed prices are not unreasonable or undesirable.	H	28	Agree	PMO/PM	Particular focus will be given to any non-pre-priced items. Additionally, any Construction Task Catalog (CTC) values will be evaluated for appropriateness by City staff and/or independent consultant reviewer.	Contract execution
12	Before initiating a project through the JOC program, the City should determine if it will result in savings over traditional procurement methods.	H	28	Disagree	PMO/PM	The City will determine which method will provide best value, as stated in the ordinance.	Prior to issuing a notice to proceed
13	No JOC project should be for new construction.	H	28	Disagree	PMO/PM	The scope of work is more material than defining maintenance or new construction. The ordinance will provide the level of new construction.	
14	Non-catalog items should not exceed 10% of the total project cost estimate. The contractor is required to provide three written quotes for all non-catalog items, with the lowest bidder selected.	H	28	Agree	PMO/PM	Per the ordinance, project staff are prohibited from exceeding 10%. the City Manager or designee may approve non-catalog items in excess of 10%, if justified by exception.	Contract execution
15	The City should certify a project is completed to the City's expectations.	H	28	Agree	PMO/PM	JOC policies and procedures will include a requirement that a notice of completion will be filled for every work order.	Project Completion

Results 16-33 are related to Internal Processes

MANAGEMENT RESPONSE AND ACTION PLAN

Public Works

Job Order Contract Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
16	Terminate the current JOC contracts and spending authority and rebid them based on the best interest of the City.	H	28	Agree	DDPW/PMO	When the policies and procedures are in place, the JOC contracts will be re-bid.	When currently authorized projects are completed
17	The Council Letter, bid specifications, contracts and BPOs should always be consistent, particularly with regards to: a. Contract amount and authorized spending amounts. b. Terms, option years, and notification documentation. c. Contract language terms and conditions, including a sufficient audit clause. Language should be current and reflective of City requirements. d. Format of project bids, including at a minimum costing of non-catalog items and bid percentage factors.	H	28	Agree	Budget Services Officer (BSO)/PMO	Current contract management and document control practices address this.	September 30, 2016
18	Stop the approval of JOC contract extensions that cause an overlapping of terms and spending authority. Limit contract extensions to situations when original term has lapsed or the authorized amount has been fully depleted.	M	28	Agree	BSO/PMO	This was a one time anomally and will be included in the policies and procedures.	Contract execution
19	Develop a training program for project managers (both employees and consultants) on managing projects, preparing SOWs, reviewing proposals, appropriate use of the ProGen catalog, JOC program controls and processes, and requirements under the *California Public Construction Code*.	H	28	Agree	PMO/PM	This will be addressed in the training section of the policies and procedures. Note: ProGen is now called E-Gordian.	September 30, 2016
20	Identify required qualifications/certifications for all project managers (current and future) to participate in the JOC program. Develop a policy to ensure project manager credentials are current.	H	28	Agree	PMO/PM	This will be addressed in the training section of the policies and procedures.	December 31, 2016
21	Establish clear and defined policy regarding conflict of interest (in fact and appearance) for all parties participating in the JOC program. Project managers should be required to sign a statement of independence attesting they do not have a conflict of interest with any of the parties participating in the JOC program.	H	28	Agree	PMO/PM	This will be addressed in the training section of the policies and procedures. A city employee will have final responsibility for a consultant.	August 31, 2016
22	All project managers, including consultants should report directly to the manager of the JOC program and never directly to another consultant.	H	28	Agree	PMO/PM	All project managers will report to City project manager.	Project Development

MANAGEMENT RESPONSE AND ACTION PLAN

Public Works

Job Order Contract Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
23	Establish a process to evaluate, report and maintain information on contractor performance. Ensure there are consistent discipline mechanisms and processes in place for those contractors with poor performance, such as probation or disqualification from future work.	M	29	Agree	PMO/PM	This will be addressed in the policies and procedures. Any contractor with documented poor performance will receive no further work under that contract.	September 30, 2016
24	Develop protocols around expectations for project files that are based on best practices in project administration. These protocols should be the same for both consultants and employees. When projects are completed, all documentation attributed to the completion of the project should reside in the City's possession.	M	29	Agree	PMO/PM	This will be addressed in the written policy and precedures. This is also covered in the document retention policy.	September 30, 2016
25	The project scope of work should be completely developed by the project manager and be specific in detailing project requirements and expectations.	H	29	Agree	PMO/PM	This will be done in consultation with subject matter experts, which will not include JOC contactors.	Project Development
26	Develop list of preferred City vendors and products and include them in the catalog. Use of preferred vendors and products should not be used outside the catalog without proper justification. Projects that have the majority of costs based on preferred vendors or products outside the catalog should not be processed through the JOC program.	H	29	Disagree		The Public Contract Code prohibits naming a firm or product, or requiring use of a particular product in construction unless a process for approving an equal is provided. All department procurements are conducted in coordination with Purchasing, ensuring all requirements are followed.	
27	Develop project close-out procedures to ensure all project managers are closing out and evaluating projects in a consistent and thorough manner.	M	29	Agree	PMO/PM	Close-out procedures will be addressed in the policies and procedures.	September 30, 2016
28	Develop a tool for project managers to evaluate their experience with the contractor. This information should be considered when assessing whether the contractor should be prequalified to continue working with the City.	M	29	Agree	PMO/PM	Please reference response to #23.	September 30, 2016
29	Develop policy and procedural guidance around the program that includes all areas discussed in this report.	H	29	Agree	DDPW/PMO	Please reference response to #1.	August 31, 2016
30	Insure the JOC program has a sufficient and experienced manager dedicated to ensuring controls are functioning as designed. The JOC program manager should not be serving in any other capacity, such as a project manager, within the program.	H	29	Agree	PMO/PM	This will be handled with the new Project Management Division Officer.	When PMO is finalized

MANAGEMENT RESPONSE AND ACTION PLAN

Public Works

Job Order Contract Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
31	Develop a formalized reporting process (project status, timeline, budgets, issues, etc.) that will provide JOC program management and above with a critical status of program operations. This includes proper reporting controls to monitor spending authority. This will create a level of oversight and accountability in all levels of the program.	H	29	Agree	BSO/PMO	The formalized reporting proces with be addressed in the written polices and procedures. To monitor spending controls, Public Works will work with Gordian to include it in the E-Gordian system.	August 31, 2016
32	Develop a prioritization system for JOC projects to help mitigate the "reactionary mode" the program managers are operating in today. This system would be continuously updated as new or more urgent projects arise. However, whenever projects are started out of priority order, there should be a reasonable justification.	H	29	Agree	PMO	This will be addressed in the written policies and procedures. Management is actively involved in identifying and monitoring project requests and available resources.	August 31, 2016
33	Identify the JOC program's capacity levels. There should be parameters on the number and complexity of projects assigned to each project manager at any given time. When determining capacity levels, consider capping the number of consultants used as project managers.	H	29	Disagree	PMO	Projects are assigned based on the size, complexity and specific PM experience. Workloads will fluctuate depending on several factors that may include grant funding, legal implications, priorities, and staffing levels.	
Recommendations 34-41 are related to the Catalog Vendor, Gordian Group							
34	Update and maintain access rights in the ProGen system	M	29	Agree	BSO/PMO	Public Works will actively manage access to E-Gordian.	Upon execution of new Gordian Contract
35	Work with Gordian Group to have ProGen system automatically generate sequential project numbers and eliminate manually assigned project numbers.	M	29	Agree	BSO/PMO	Public Works will discuss with Gordian.	Upon execution of new Gordian Contract
36	Gordian Group's contract fee currently includes services the City is not utilizing, such as providing training and assisting with updating catalog items. The City should work with Gordian Group to begin providing these much-needed services.	M	29	Agree	BSO/PMO	Public Works will utilize these services.	Upon execution of new Gordian Contract
37	Establish guidelines and work with Gordian Group to be more proactive with entering City preferred products and non-catalog items into the catalog.	H	29	Agree	PMO/PM	Public Works will work with Gordian.	Upon execution of new Gordian Contract
38	Develop a conflict of interest statement for Gordian Group account managers that requires them to disclose any and all relationships that may pose a potential conflict.	H	29	Agree	BSO/PMO	This will be addressed in the written JOC policy and procedures.	Upon execution of new Gordian Contract
39	For project types that are consistent, consider working with Gordian Group to bundle materials/items within the catalog to make it more efficient for JOC contractors to submit proposals.	M	30	Agree	PMO	Public Works will discuss with Gordian, but not sure if this approach will provide additional value to the process.	Upon execution of new Gordian Contract

MANAGEMENT RESPONSE AND ACTION PLAN

Public Works

Job Order Contract Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
40	Work with Gordian Group to develop an edit/audit report within the ProGen system where the JOC manager or system administrator has the ability to see project changes that have occurred within the system to ensure the changes were necessary and appropriate.	M	30	Agree	PMO	Public Works will discuss with Gordian.	If feasible, upon execution of new Gordian Contract
41	If Gordian Group is utilized as an expert to assist the department in developing the JOC program, as stated in Recommendation 1, change Gordian Group's fee structure to a flat rate, rather than a percentage of each JOC project.	M	30	Agree	PMO	Staff is currently negotiating with Gordian Group for new contract terms. Gordian is currently un-willing to change their pricing structure as a percentage of the project cost as this is what they have for their 300+ clients. Staff is reviewing alternatives to Gordian as an Independent Expert for cost analysis.	Upon execution of new Gordian Contract

Priority

H – High Priority - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

M – Medium Priority - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than six months.

L – Low Priority - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

Yellow areas - to be completed by the department