



PRESS RELEASE

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Long Beach Audit Reveals Capital Improvement Projects Not Competitively Priced Due to Lack of Controls

City Auditor Doud's Report Finds Emphasis Placed on Quick Project Completion Resulting in City Paying More than Contractually Obligated

Long Beach, CA – Long Beach City Auditor Laura Doud today released an [audit of the City's Job Order Contract program \(JOC\)](#) within the Department of Public Works. JOC is intended to efficiently move along small-scope construction projects by using a pre-established catalog to maintain competitive pricing. Since 2003, the City has used JOC to complete \$68 million in infrastructure projects, such as repair or renovations of parks, libraries and City buildings. The audit found significant systemic lack of controls over all key areas of the JOC process, creating an environment that is highly vulnerable to fraud. The City placed an emphasis on completing projects quickly instead of ensuring projects were properly defined and competitively priced.

Contractors, knowing that JOC project managers were under pressure to move projects along quickly, submitted low and unrealistic bids to secure the contract and then inflated project proposals in order to make a profit. In December 2014, the City received a letter warning that contractors' bids were too low. However, the City disregarded the warning and continued to accept the low bids. The audit found vague scopes of work (SOW) which lacked sufficient detail to determine if contractor pricing was appropriate. The poorly designed SOWs resulted in change orders and cost overruns occurring in 91% of the projects reviewed during the audit period.

Another way project costs were inflated was through contractors' use of items outside of the pre-established catalog, which were charged at 110%. Most JOC programs cap the amount of non-catalog items that can be used in a project, however the City did not have a cap. Had non-catalog items been capped, the City could have potentially saved \$1.9 million on project costs identified during the 17-month audit period. As typical JOC projects currently average \$100,000, this is equivalent to an additional 19 projects that could have been completed. Both of these situations resulted in the City negotiating project pricing outside of the catalog and paying more than what was contractually obligated.

The audit also found management oversight of the program to be insufficient. There were no policies, procedures or program standards in place, creating inconsistencies in how projects were managed and the type of documentation maintained. Due to project workload and staffing shortages, 64% of the JOC project managers were consultants. This was a risk given that project managers were responsible for all aspects of a project including approval of work and payments to contractors with little accountability. With the City's emphasis of completing projects quickly, the program was allowed to operate with the associated risks.

Overall, the City had very little oversight over JOC project costs or project quality. The City created an environment where speed of project completion, contractors' unrealistic, low bids, and lack of controls over the program resulted in projects no longer being competitively priced. Due to the environment that was vulnerable to a high risk of fraud, the Office engaged the services of an

independent firm with construction expertise to further review scopes of work and pricing of certain projects. City Auditor Doud expects to issue this report in two months.

Due to the extensive issues found during the audit, the report includes over 40 detailed recommendations. As a result of the audit findings, the City has reported that they have suspended the program to address these recommendations. Legislation recommended by the Office, similar to what other agencies using JOC programs have in place, was passed on May 24, 2016 to provide key controls around program processes and requirements including:

- ability to reject any and all bids presented and rebid if in the best interest of the City;
- cap of 10% on the amount of non-catalogue items that can be used on a project;
- prequalification of JOC contractors;
- independent review of project proposals; and
- oversight of subcontractor work.

“I want to thank the Department’s staff for their assistance, patience and cooperation during this lengthy audit,” said City Auditor Laura Doud. “I am pleased the City has acknowledged the severity of the issues surrounding the program and has taken immediate steps to address the recommendations. The JOC program has the potential to make timely and much needed capital improvements for our City.”

The complete Job Order Contract Audit can be viewed [here](#).

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