



Independence you can rely on



Job Order Contract (JOC) Audit

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What Is a Job Order Contract (JOC) Program?

- Meant to maintain competitive pricing and move along small-scope construction projects
- Uses pre-priced catalog with unit prices of common construction tasks
- Selected contractors bid an adjustment factor which is applied to unit price

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)

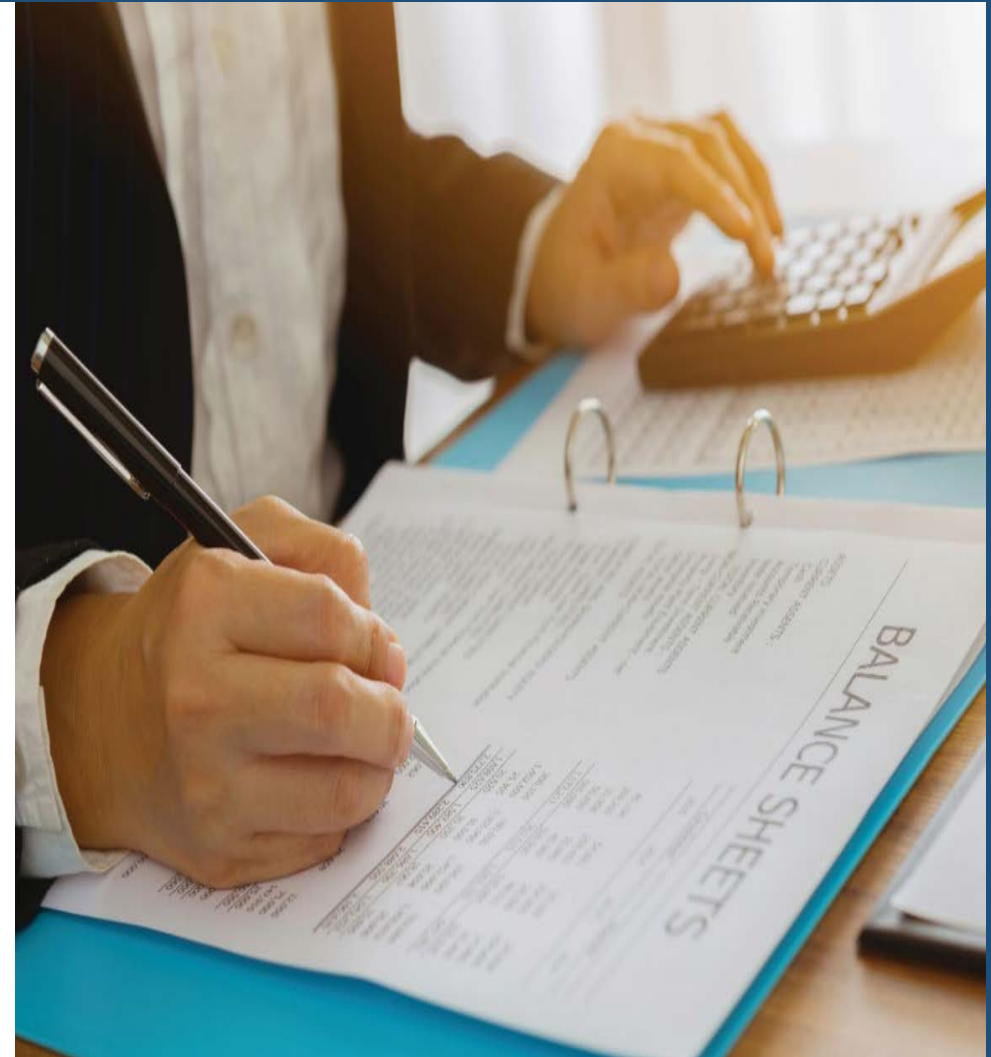
Why We Did This Audit

- Tips received through our **Fraud Hotline**
- Preliminary analysis found:
 - **\$68 Million** spent on JOC construction projects
 - No clear guidelines or project oversight
 - Short staff under pressure to complete projects quickly



How We Conducted This JOC Audit

- **17 month** time period: Oct 2013 – Feb 2015
- Identified **key personnel**:
 - Public Works management
 - JOC project manager
 - JOC consultant in charge of pre-priced catalog
 - JOC contractors
- **Benchmarked** against agencies with JOC programs
- Reviewed City Charter & Code to understand **laws governing our JOC program**



JOC Audit Main Takeaway

Significant systemic lack of controls creating an **environment highly vulnerable to fraud**

Emphasis placed on completing projects quickly, not ensuring projects were defined and competitively priced

Contractors low ball bids



obtain contracts



start work



issue change orders or breach contracted prices

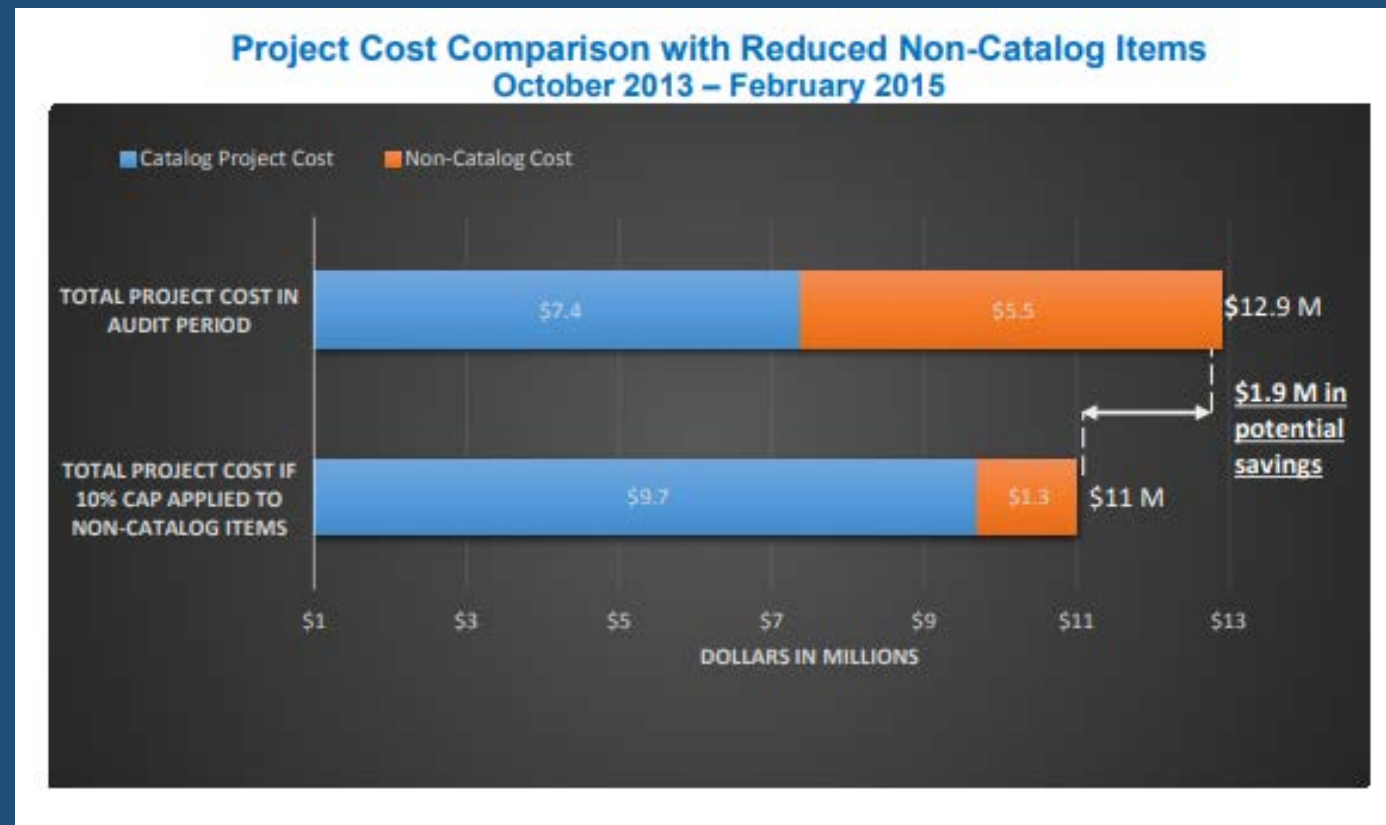
No JOC Program Policies or Procedures

- Contractors knew of **pressure** to move along projects
 - Submitted low, unrealistic bids to secure contract and then **inflated proposals** to make profit by:
 1. Use of **non-catalog items** charged at 110%
 2. Use of **vague scopes of work** and then submitting change orders



Use of Non-Catalog Items to Inflate JOC Project Pricing

- Non-catalog items used and charged at 110% instead of bid percentages to catalog items causing City to negotiate outside catalog and pay more than contractually obligated



Use of Vague Scopes of Work to Inflate JOC Project Pricing

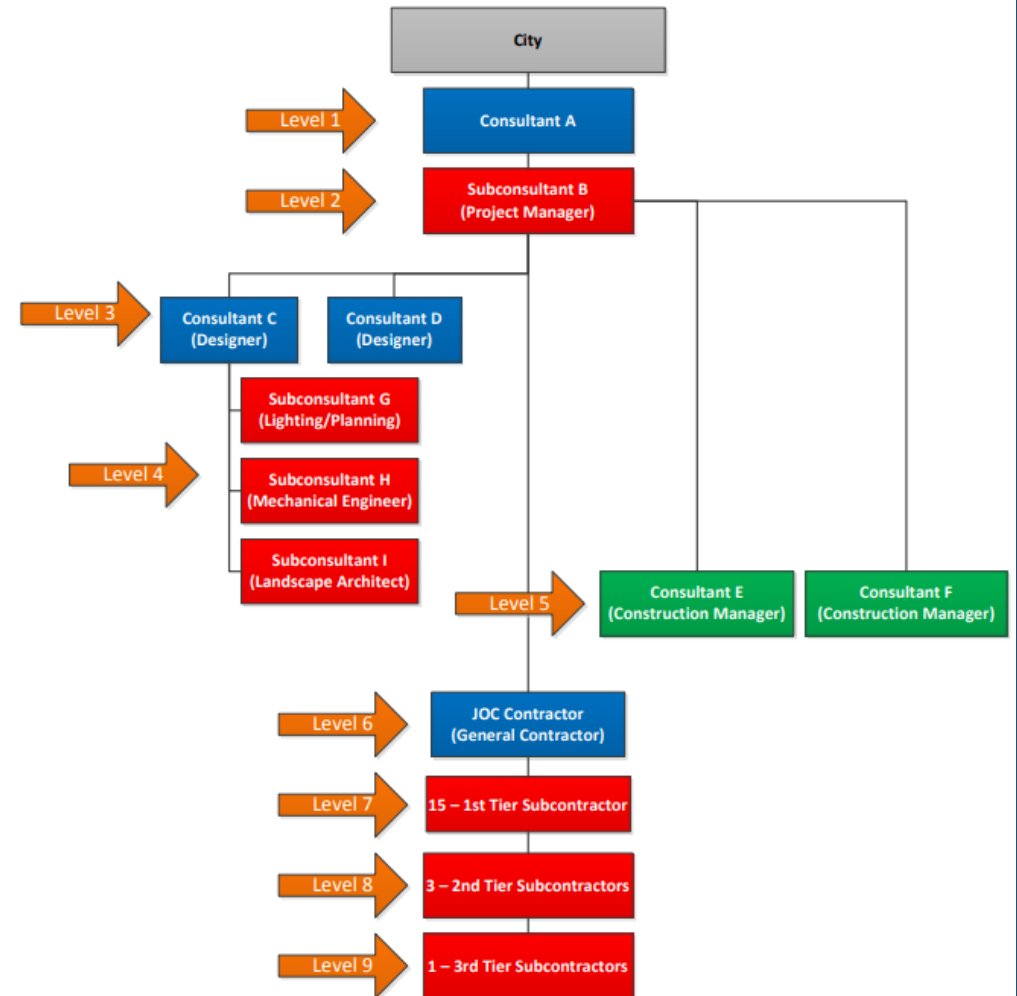
- Vague scopes of work submitted followed by change orders which caused cost overruns

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 & Alamos 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%

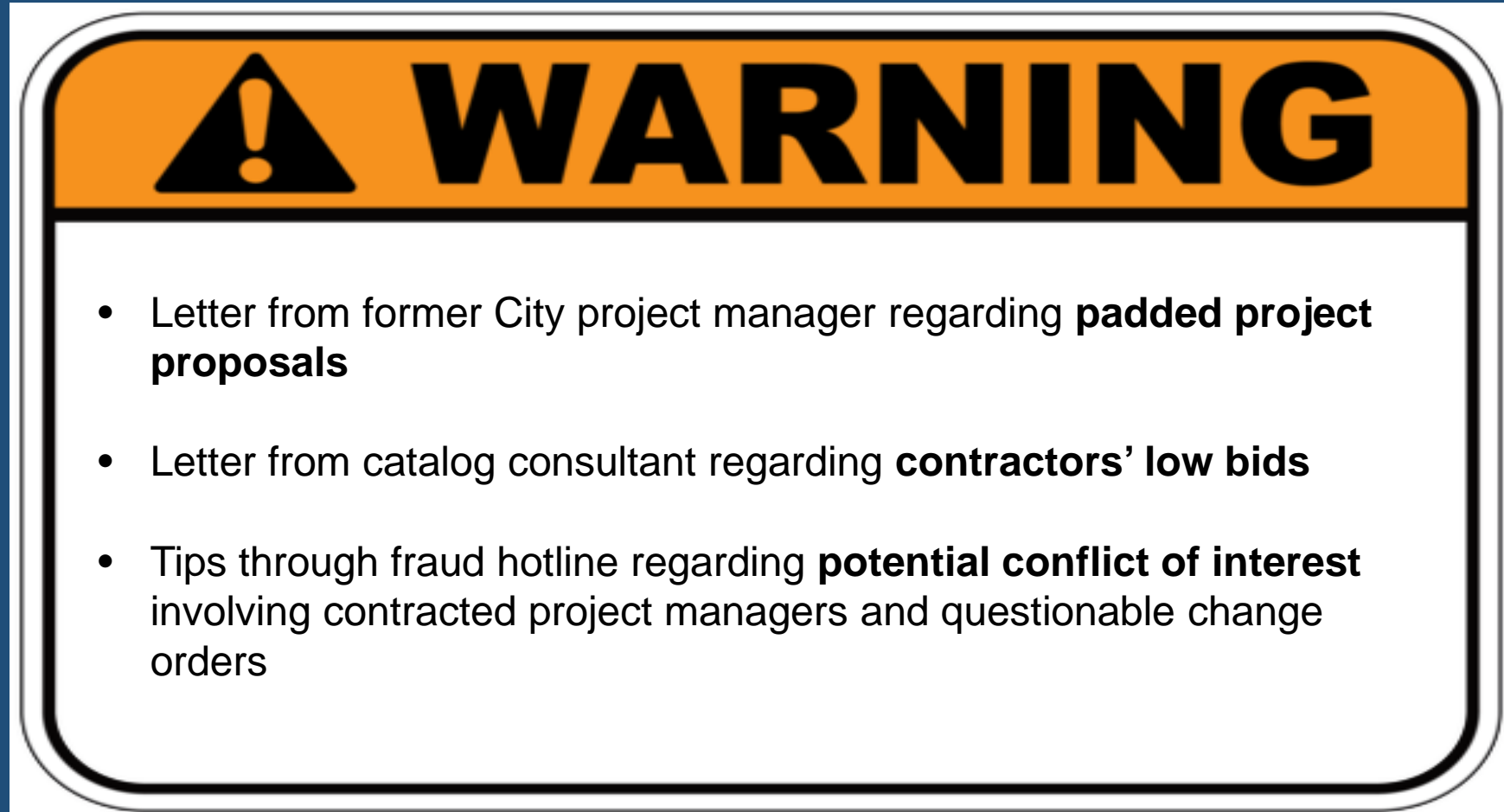
Limited Oversight of JOC Program

- **Inconsistencies** found in JOC project management:
 - **Excessive use** of consultants as JOC project managers
 - **No apparent oversight** of subcontractors
 - Projects **improperly processed** through JOC program
 - **Lack of** project documentation



Warnings

- City received varied warnings about JOC program



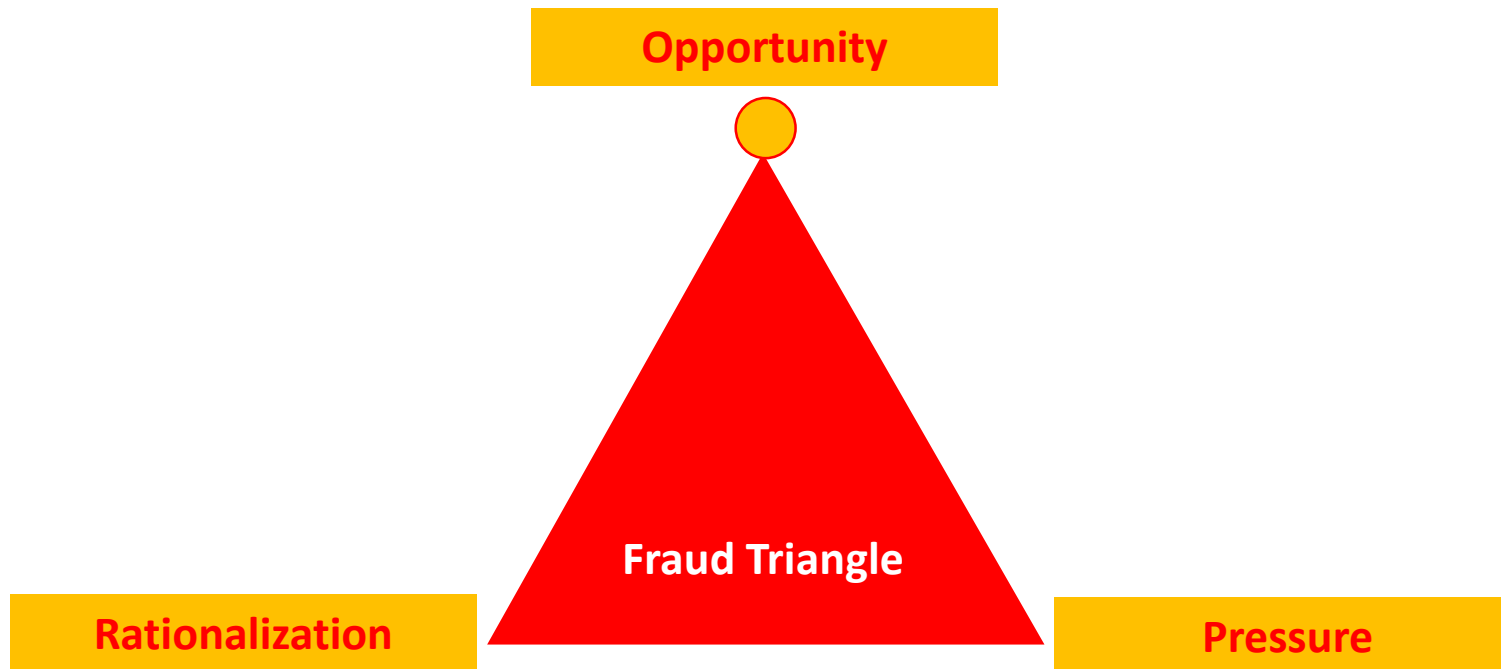
Red Flags

- **Lack** of project oversight and review of contracts
- Contracts **without** scope of work or **vague** scope of work
- **Excessive** use of consultants and potential **conflict of interest**
- **Excessive** use of subcontractors on projects
- Projects with **many change orders**



JOC Operating in Environment Vulnerable to Fraud

- Due to lack of structure and oversight, there were multiple opportunities for JOC program manipulation to occur creating the perfect **environment for fraud, waste or abuse**



City Outcomes

- City acknowledged severity of issues and **suspended the JOC program** to implement recommendations
 - Recommended **Legislation** passed in May 2016 to provide key JOC program controls:
 - ability to reject any and all bids and rebid if in City's best interest
 - prequalification of JOC contractors
 - oversight of subcontractor work
 - job type specifications
 - cap on total project amount
 - 10% cap on amount of non-catalog items that can be used on a project

With the City operating the JOC program within this framework, the public can have greater confidence the City is receiving quality service at a fair price.



Other Outcomes & What This Means for You

- Our audit served as a template for the Los Angeles County Auditor-Controller's JOC Audit
- Example of how we can learn from one another as we work on common problems
- As many agencies have JOC programs, these audits can serve as models for you too





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Thank You!

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