



CITY AUDITOR'S OFFICE

Selected Job Order Contract Construction Contracts

June 15, 2018

AUDIT REPORT NO. 1804

CITY COUNCIL

Mayor W.J. "Jim" Lane
Suzanne Klapp
Virginia Korte
Kathy Littlefield
Linda Milhaven
Vice Mayor Guy Phillips
David N. Smith



June 15, 2018

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Selected Job Order Contract Construction Contracts*. An audit of selected construction contracts was included on the Council-approved FY 2017/18 Audit Plan. This audit was conducted to continue the process of auditing selected construction contracts due to the large financial and operational investment they represent for the City.

Job order contract (JOC) proposal evaluation phase cost controls can be improved through guidelines for evaluating and negotiating job order costs, monitoring subcontractor selection requirements, and ensuring required reviews and approvals occur and are documented. As well, effective project delivery phase cost controls can be improved through better monitoring of subcontractor use and costs and ensuring the required performance and payment bond coverage. Further, specific records retention guidance can improve the efficiency and consistency of contract administration.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker". The signature is fluid and cursive.

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Paul Christiansen, CPA, CIA – Senior Auditor
Cathleen Davis, CFE, CIA – Senior Auditor

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AUDIT HIGHLIGHTS

Selected JOC Construction Contracts

June 15, 2018

Audit Report No. 1804

WHY WE DID THIS AUDIT

An audit of *Selected Job Order Contract Construction Contracts* was included on the City Council-approved Fiscal Year 2017/18 Audit Plan as an audit of selected construction contracts. This audit was included to continue the process of auditing selected construction contracts due to the large financial and operational investment they represent for the City. This audit specifically reviewed selected job order contracts for compliance with contract terms and effectiveness of contract administration.

BACKGROUND

The Capital Project Management (CPM) department within the Public Works division is responsible for City capital improvement projects. Job order contracting (JOC), which uses individual job orders written against a “master” contract, is one of the methods CPM uses to procure construction services.

Once the JOC master contracts are established, the specific projects are procured through individual job orders. Project terms, such as scope of work, price and timeframe, are specified in the job order documents.

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WHAT WE FOUND

JOC proposal evaluation phase cost controls should be improved.

Negotiating the cost for individual projects is critical to ensuring the City receives quality work at a fair and reasonable price. We found:

- Guidelines have not been established for evaluating and negotiating job order cost proposals, and subcontractor selection requirements were not enforced in the reviewed job order proposals.
- Required approvals were not always obtained, and one reviewed project appeared to have been split to bypass the individual job order limit.

Effective cost controls are needed during the project delivery phase.

We found:

- CPM staff did not compare subcontractors used to those submitted in the proposal. Also, required reviews and approvals were sometimes not obtained prior to submitting contractor pay requests for payment.
- CPM was not effectively ensuring contractors provided required performance and payment bonds.

Improved records retention practices and contract documentation can improve efficiency and consistency of contract administration.

Creating documentation standards can ensure appropriate records retention and improve efficiency in locating documents. Some significant documents were not retained in the reviewed project files.

WHAT WE RECOMMEND

We recommend the CPM department:

- Develop and enforce guidance or procedures for job order proposal evaluation, review and approval.
- Ensure that all job order contract, adjustment and pay request reviews and approvals are obtained and documented.
- Ensure the contractors maintain sufficient bond coverage.
- Establish policies and procedures for the maintenance and retention of contract-related documents.

MANAGEMENT RESPONSE

The department agreed with the audit recommendations.

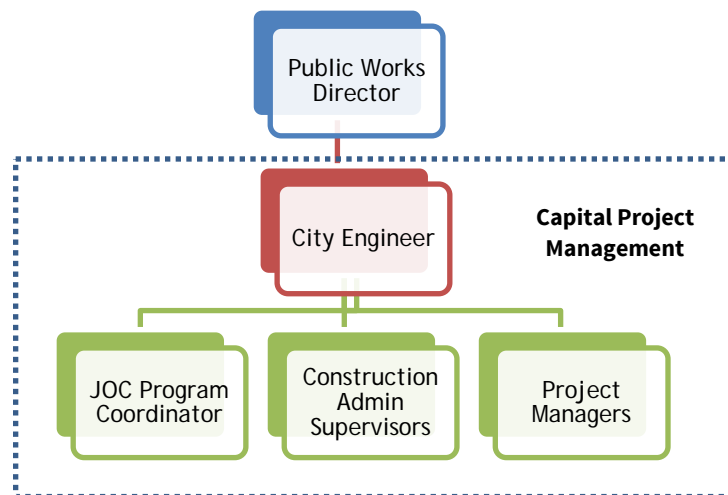
BACKGROUND

The Capital Project Management (CPM) department within the Public Works division is responsible for City capital improvement projects. The City’s Purchasing Director has delegated procurement authority for design and alternative delivery construction services, including architects, engineers and construction managers, to CPM through the Public Works Director. Job order contracting (JOC), which uses individual job orders written against a “master” contract, is one of the methods CPM uses to procure construction services.

Job order contracting (JOC) is a way of getting simple, small and commonly encountered construction projects done easily and quickly.

Arizona State University Alliance for Construction Excellence

Figure 1. Organization Chart for Job Order Contracting Program



SOURCE: Auditor analysis of JOC program.

Arizona Revised Statutes Title 34, Chapter 6, authorizes government entities to use alternative delivery methods to procure construction and professional services in addition to the traditional design-bid-build approach. As one of the alternative procurement methods, job order contracting is designed to expedite smaller, commonly encountered construction projects, and particularly those that are time sensitive.

JOC contracts are procured through a qualifications-based selection process. In Arizona, government entities use a Request for Qualifications (RFQ) solicitation to establish a short list of qualified contractors. After this, statute allows the entity to either negotiate pricing and contract terms, starting with the highest ranked contractor, or to issue a Request for Proposals (RFP) to those on the final list. Each of these master JOC contracts then establishes the terms and general requirements for all projects to be completed by the contractor under the contract.

Once the master contracts are established, the specific projects are procured through individual job orders, and project terms, such as scope of work, price and timeframe, are specified in the job order document. While a limit is not put on the number of job orders that can be completed under a single master contract, the City typically limits the individual job order to \$1.5 million.

The City generally uses a two-year JOC construction contract, with a maximum annual value of between \$2 million and \$5 million. Three one-year extensions are available as an incentive for the contractor to provide quality construction and good customer service.

Because many small projects can be completed through one procurement contract, JOC contracts can result in significant time savings. In Scottsdale, the RFQ process can take three months or longer. However, once the master JOC contracts have been established, a specific job order can begin within a matter of weeks.

CPM's JOC Process

CPM determines the types of JOC contracts that are likely to be needed. Based upon the capital improvement plan and communication with the applicable City department, an RFQ is issued for each specific type of construction, such as vertical (buildings), horizontal (streets/bridges) or landscaping. The RFQ typically describes the number of contractors that will be selected, the potential types of projects involved, the evaluation criteria, and insurance and bonding requirements for the contractor.

As projects arise, they are evaluated based upon estimated cost, schedule, facility location and the type of work. When multiple JOC contractors are available for the particular construction type, the department indicated the JOC Program Coordinator works with the Project Manager and the client department to select the contractor based the contractors' familiarity with the City facility, their current and projected workload, and their volume of work completed to date.

CPM may get the selected JOC contractor involved in the planning phase to review early designs and provide feedback on the feasibility of construction methods, timing, costs and other factors.

Near the end of design work, the JOC contractor submits an initial project proposal. According to the department's procedures, the JOC Program Coordinator sends the initial proposal to the CPM Project Manager, Construction Admin Supervisor, CPM estimator and the client department to evaluate whether the price is acceptable based on past experience and their assessment of current market costs.

When the City started using JOC about 13 years ago, CPM used a "price book" pricing approach, establishing agreed-upon unit prices for common construction tasks and a price multiplier, but it has since discontinued this approach. The pre-established price approach can use an industry standard price book or an internally developed list of common construction tasks and unit prices. The contractor's price multiplier (also known as the coefficient), which covers other contractor costs, is negotiated into the JOC contract. Some entities choose to negotiate the unit prices into the JOC contract. With this approach, all JOC contractors know the price basis, and each states in its individual price proposals the multiplier that will be applied to these standard prices. For example, a JOC contractor may state it will apply a 1.10 multiplier, or a 10% increase, to the price book amounts for the project tasks. The price multiplier is what each contractor considers necessary to cover its costs, overhead and profit. Rather than using a price book, CPM reviews the provided proposal and negotiates the price with the contractor.

During the job order phase, after CPM's contractor assignment and cost review process, the JOC Program Coordinator prepares a job order document that includes scope and cost information for

approval signatures from the Project Manager, Budget Analyst, client department and City Engineer. If the project cost is over \$500,000, the City Manager’s approval of the alternative delivery method is also required. Once the job order has been created and the Notice to Proceed issued, the contractor begins work.

Figure 2. City JOC Contract and Job Order Process

JOC Contract



JOC Job Order



¹ The client City department determines when capital improvement projects are needed.

SOURCE: Auditor analysis of JOC program.

As work progresses, adjustments to the project scope, cost or timeline are often made. CPM treats these adjustments in a similar manner, with similar review and approval processes.

Selected JOC Contractors

For this audit, three JOC contracts related to Water Resources construction projects were selected. As shown in Table 1 on page 6, these JOC contractors had been awarded 121 job order projects totaling nearly \$29 million since July 2015. Twenty projects (17%) exceeded \$500,000 in costs and required City Manager approval.

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Table 1. Selected Water Resources JOC Contracts

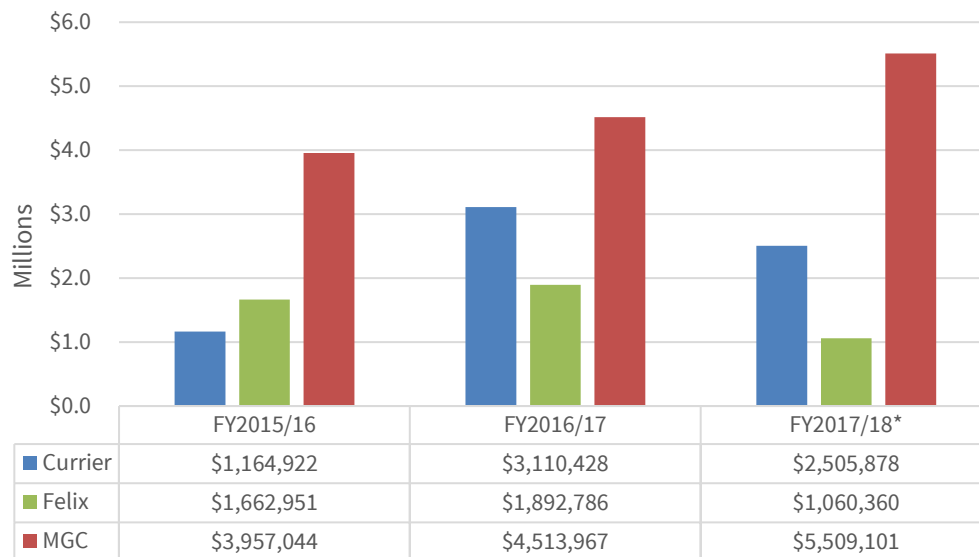
	Currier	Felix	MGC	Total
Job Order Projects Awarded				
FY 2015/16	15	5	17	37
FY 2016/17	19	5	23	47
FY 2017/18*	18	6	13	37
Total	52	16	53	121
Job Order Low	\$990	\$13,000	\$2,300	\$990
Job Order High	\$1,073,000	\$1,324,000	\$1,090,000	\$1,324,000
Projects Exceeding \$500,000	4	5	11	20

* FY 2017/18 data is based upon actual data through March 8, 2018.

SOURCE: Auditor analysis of JOC contracts and related SmartStream expenditure data.

Further, as shown in Figure 3, the City has paid these three JOC contractors a total of \$6.8 million and \$9.5 million in the two prior fiscal years and will pay an estimated \$9.1 million in FY 2017/18.

Figure 3. Selected JOC Contractor Payments by Fiscal Year



* FY 2017/18 spending is estimated based upon actual payments through March 8, 2018.

SOURCE: Auditor analysis of JOC contracts and related SmartStream expenditure data.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Selected Job Order Contract Construction Contracts* was included on the City Council-approved Fiscal Year 2017/18 Audit Plan as an audit of selected construction contracts. This audit was included to continue the process of auditing selected construction contracts due to the large financial and operational investment they represent for the City. This audit specifically reviewed selected job order contracts (JOC) for compliance with contract terms and effectiveness of contract administration.

To gain an understanding of related standards, we reviewed the following laws, policies and requirements:

- Relevant sections of Arizona Revised Statutes, Title 34 *Public Buildings and Improvements* particularly Chapter 6 pertaining to *Architect Services, Assayer Services, Construction Services, Engineering Services, Geologist Services, Landscape Architect Services and Land Surveying Services*
- City Administrative Regulations (AR) including AR 215 *Contract Administration*, AR 216 *Contract Change Orders and Contract Modifications* and AR 285 *Signature Authority*
- City Procurement Code related to JOC contracts
- City Records Management Manual
- Terms and conditions of the selected JOC contracts

To gain an understanding of current Capital Project Management (CPM) operations, policies and practices, we interviewed the City Engineer and the JOC Program Coordinator and reviewed CPM's project management guide. We also reviewed prior City Auditor reports related to construction contract audits, including Audit No. 1409, *Job Order Contracting*. Further, after selecting Water Resources JOC contracts for audit, we interviewed the Water Resources Planning & Engineering Director to gain an understanding of that department's role within and objectives for the JOC program.

We identified the current JOC contracts, which were effective beginning April 28, 2015, and identified job order projects that had been completed for each. Based on certain criteria, such as budget and actual expenditures, change orders and use of contingency funds, and the delivery method, we selected the following three JOC contracts and job order projects for testing:

- Currier Construction, Inc., Contract No. 2015-112-COS, project: Chaparral Water Treatment Plant Membrane Basin 12 Improvements
- Felix Construction, Co., Contract No. 2015-113-COS, project: Sewer Lift Stations Rehabilitation
- MGC Contractors, Inc., Contract No. 2015-114-COS, project: RWDS Site 99 Reservoir Replacement

To evaluate contract administration and compliance with various contract terms, we reviewed project documentation, including job order adjustments, contractor payment requests and supporting documents, email communications, meeting minutes, inspection reports and close-out documents. To determine whether payment requests were appropriately supported, we reviewed all pay applications and supporting documentation, including job order adjustments. We also reviewed the contractor's related job cost reports. To evaluate the accuracy of these reports, we compared the cost ledger amounts to the cost proposal amounts.

In addition, we compared CPM's job order project records to the Purchasing department's purchase order records and the Accounting department's accounts payable records.

Our audit found that JOC proposal evaluation phase cost controls should be improved, and effective cost controls are needed during the project delivery phase. Also, specific records retention guidance could improve efficiency and consistency of contract documentation.

We conducted this performance audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code §2-117 et seq. Those standards 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from March to May 2018.

FINDINGS AND ANALYSIS

1. Job order contracting (JOC) proposal evaluation phase cost controls should be improved.

Capital Project Management (CPM) can more effectively evaluate project costs, and the required JOC approvals are not consistently obtained or documented.

A. Because CPM does not use a standard price book for its JOC construction contracts, negotiating the cost for individual projects is critical to ensuring the City receives quality work at a fair and reasonable price. Various CPM staff are required to review the job order proposal to help ensure it is technically appropriate, the contractor's proposed hours and markups are reasonable, and price calculations are correct. Once a proposal is accepted, the JOC Program Coordinator prepares the job order for approvals by the Project Manager, budget staff, client department management, the City Engineer and the Public Works Director. However, these processes are not always applied.

1. As reported previously in Audit No. 1409, *Job Order Contracting*, guidelines still have not been established for evaluating and negotiating job order cost proposals. While some written procedures have been developed, guidance for evaluating and negotiating costs still is not available. Further, some established cost review procedures are not consistently followed.

- Although there are established processes for in-house cost estimation, these processes were not used for the three Water Resources job orders that we tested.

CPM has an estimator on staff and the Water Resources division has a contracted estimator to review a project design and prepare a cost estimate for comparison to the contractor's cost proposal. An independent cost estimate can provide a check on both the anticipated scope of work and the proposed cost. CPM staff indicated use of the in-house estimator may not always be suitable. However, the decision not to use an estimator or alternative cost evaluation was not documented in the job orders we reviewed.

- For one of the three reviewed projects, costs were not fully negotiated prior to the job order approval. After initial negotiations and approval of the cost proposal, CPM staff questioned the amount of the agreed-upon indirect costs, approximately \$228,000. However, the audit found that the additional documentation provided by the contractor in response to these questions did not support \$41,600 of costs. Despite this incomplete documentation, the previously approved costs were not adjusted. CPM explained that this project to rehabilitate nine sewer lift stations was based on CPM and Water Resources staffs' visual inspections, and they knew ongoing decisions would be made based on the condition of examined locations as construction progressed.

As well, cost and scope changes negotiated later were not formally approved and integrated into the contractor's payment requests. CPM staff explained that since the revised costs were lower than the originally approved costs, the cost differences could serve as an owner's contingency so that any further scope changes could be made without a formal contract adjustment.

- CPM staff does not enforce the subcontractor selection requirements in the contract to help ensure costs are controlled. The JOC contract requires the contractor to develop a subcontractor selection plan that details which trade work will be subcontracted and how prospective subcontractors and suppliers will be prequalified. Further, the JOC contract requires all major subcontracted work and major suppliers to be competitively bid to the prequalified subcontractors unless CPM agrees a different subcontractor selection is in the best interest of the City.

As shown in Table 2, contractors for the three reviewed projects submitted subcontractor quotes for only a portion of subcontracted work, ranging from approximately 20% to 86%. Besides not ensuring all subcontractor quotes were submitted, CPM staff did not review the subcontractor selection plans detailing how the subcontractors were chosen.

Table 2. Subcontractor and Supplier Quotes Submitted

JOC Project	Subcontractor/Supplier		Percent Submitted
	Quotes	Costs*	
Chaparral Water Treatment Plant Membrane Basin 12 Improvements	\$455,000	\$528,000	86.2%
Sewer Lift Stations Rehabilitation	\$247,000	\$632,000	39.1%
RWDS Site 99 Reservoir Replacement	\$168,000	\$814,000	20.6%

* These costs represent all proposed direct costs where quotes should have been submitted, including contractor self-performed work.

SOURCE: Auditor analysis of JOC project cost proposal documents.

Further, one of the three JOC contractors self-performed a significant amount of the project work, but the contractor’s costs were not compared to subcontractor costs as required by the contract to ensure the work was performed at a fair and reasonable cost. Effectively monitoring the subcontractor and major supplier selection process and results helps ensure that the desired quality is obtained for a fair and reasonable cost.

- Without an established process to guide documenting the cost evaluation, there is less assurance that the evaluations are consistently performed. For the three job order projects we reviewed, overhead and profit rates varied from 7% to almost 12% of the total proposed project cost.

JOC Project	Approved Overhead & Profit
Chaparral Water Treatment Plant Membrane Basin 12 Improvements	9.2%
Sewer Lift Stations Rehabilitation	11.6%
RWDS Site 99 Reservoir Replacement	7.0%

Cost guidance could describe the types of costs that would typically be included as a direct project cost versus the types of costs that would be part of the contractor’s overhead supplies. As well, cost guidelines could establish overhead and profit rates to better ensure reasonable costs.

B. CPM does not ensure that all required approvals are obtained.

1. CPM is required to obtain City Manager approval for each job order that exceeds \$500,000. However, for one of the three reviewed projects, the work being performed was two related projects combined into one job order. Together, the projects’ job order exceeded \$500,000 yet CPM did not obtain the City Manager’s approval. CPM staff stated these were two separate projects and since neither of the individual projects exceeded the threshold, City Manager approval was not necessary.
2. The required approvals for the contractor’s job order proposals and adjustments were not consistently documented.

CPM Staff	Number of Proposals *	Documented Approvals
Project Manager	10	5
Construction Admin Supervisor	10	0
Water Resources (client)	10	7

* Number of proposals includes proposed job order adjustments.

Although the Project Managers only documented approval of five of the ten proposals or adjustments, they subsequently signed the formal contract documents for all ten. CPM reports these approvals are often given verbally. However, without documentation CPM cannot be sure the required reviews were completed.

C. One of the reviewed projects appears to have been split to bypass the contract’s \$1.5 million limit on individual job order cost.

Two projects at the same location were designed, planned, bid, approved and performed simultaneously, as shown in Table 3 on page 12. Further, the JOC contractor stated the proposed job order prices were contingent on performing both projects together. The contractor also submitted at least one job order quote combining the two projects. Together the two projects totaled \$1.9 million, which exceeded the \$1.5 million job order limit allowed by the City’s JOC contract.

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Table 3. RWDS Site 99 Reservoir Improvements

	RWDS Pump Station 99 Rehabilitation	RWDS Reservoir Site 99 Replacement
	Job Order #16	Job Order #17
Project Cost	\$851,943	\$1,055,605
City Manager Approved	12/29/2015	12/29/2015
Start Date	01/04/2016	01/04/2016
First Invoice	03/03/2016	03/03/2016
Last Invoice	12/14/2016	12/14/2016
Completion Date	01/12/2017	01/12/2017

SOURCE: Auditor analysis of project information and dates.

Recommendations:

The Public Works Director should require CPM to:

- A. Develop and enforce standard procedures for job order proposal review and approvals. Specifically, CPM should:
 1. Ensure that either the staff estimator or a contracted estimator submits a cost estimate for comparison to the contractor's project cost proposal.
 2. Obtain and evaluate the contractor's subcontractor selection plans and subcontractor quotes, and monitor and approve any changes to the approved subcontractors and suppliers. This review should include evaluating the reasonableness of planned contractor self-performed work in comparison to subcontractor pricing.
 3. Develop cost proposal evaluation guidance, such as standards that describe which costs are typically direct project costs and which should usually be part of the contractor's overhead and profit fee.
- B. Ensure that all necessary approvals are obtained and documented prior to creating a job order contract or adjustment.
- C. Submit for required approvals any job order projects that give the appearance of split projects.

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2. **Effective cost controls are needed during the project delivery phase.**

Stronger oversight controls over various contractor activities, such as subcontractor changes, pay request approvals, bond coverage, job order adjustments and project close-outs, could result in cost savings and help address construction risks.

- A. Although the contract requires subcontractor selection reviews, CPM staff does not formally approve subcontractor changes.

The JOC contract requires written notice to the City when a subcontractor or supplier is changed. However, CPM did not require the JOC contractors to submit subcontractor or supplier changes for approval nor compare the subcontractors used to those in the proposal.

- B. The JOC Program Coordinator sometimes did not obtain required reviews and approvals of the contractor pay requests prior to submitting them for payment and signature authority was exceeded in almost half of the reviewed pay requests.

- For the 37 pay requests we reviewed, approvals of the CPM Inspector, Construction Admin Supervisor and the Project Manager were sometimes not obtained. Further, one contractor pay request was submitted for payment before any needed approvals were obtained. After payment, the contractor’s pay request form was approved as submitted.

CPM Staff	Number of Pay Requests	Documented Approvals
CPM Inspector	37	26
Construction Admin Supervisor	37	36
Project Manager	37	32

- Administrative Regulation (AR) 285 *Signature Authority* establishes internal controls and guidelines for appropriate signature authority required for processing expenditure-related documents. The JOC Program Coordinator and CPM Project Managers generally have Level 2 authority, which allows expenditure approval up to \$50,000. However, for the three JOC projects reviewed, signature authority was exceeded 18 times (49%) when the contractor pay applications exceeded \$50,000.

JOC Project	Signature Authority Exceeded	Total	Percent
Chaparral Water Treatment Plant Membrane Basin 12 Improvements	4	17	23.5%
Sewer Lift Stations Rehabilitation	9	9	100%
RWDS Site 99 Reservoir Replacement	5	11	45.5%
Total	18	37	48.6%

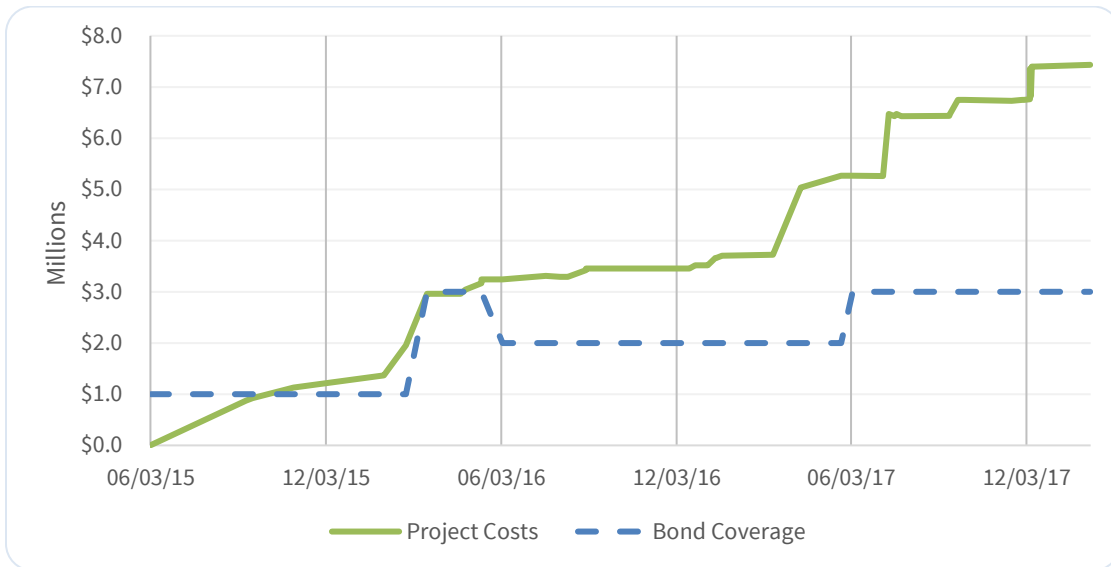
AR 285 also requires segregation of duties between the requestor/preparer and authorizer of expenditure-related documents. All expenditure-related documents must include the review and approval of one level of management higher than the preparer. However, the

JOC Program Coordinator signed 31 of the 37 City’s pay authorization documents (84%) without a secondary review and approval. Because this secondary approval was not obtained, particularly when the JOC Program Coordinator prepared the City’s pay application form and submitted it for payment before any required reviews had taken place, duties and responsibilities are not effectively separated.

- C. CPM was not effectively ensuring JOC contractors provided the contractually required performance and payment bonds to protect the City against potential added costs.

Two contractors initially provided sufficient bond coverage, but CPM did not ensure they provided additional bonds as their job order project values increased. For one JOC contractor, CPM did not request or obtain the additional bond certificates for four project adjustments totaling nearly \$400,000. For the second contractor, CPM did not ensure provided bond coverage for additional projects and that the required bond coverage was maintained on an ongoing basis. As shown in Figure 4, this contractor reduced its FY 2016/17 bond coverage below the value of its projects. During the contract period, the City was exposed to potential financial loss of more than \$4.4 million due to this contractor’s insufficient bond coverage.

Figure 4. Contractor’s Bond Coverage



SOURCE: Auditor analysis of bond certificates and approved project costs.

The City requires performance and payment bonds to reduce its financial risk should the contractor not appropriately complete its contracted work or fail to pay its subcontractors, suppliers or laborers. In the event of performance issues, the City may incur litigation costs or additional project costs or pay for construction liens placed by unpaid subcontractors, suppliers or laborers.

- D. CPM staff approved an incorrect job order adjustment. Along with a job order adjustment, CPM approved a contractor request to spend against a project allowance already included in the contract price. However, the final job order adjustment increased the price by the amount of

both items, and the approval process did not catch this error. The contractor noted this error and did not bill against the incorrect amount.

- E. For two of the three tested projects, final payment was made before required close-out documents were received or prepared.
- *Affidavit Regarding Settlement of Claims* – For one JOC project, this Affidavit, indicating there are no remaining claims that may affect the City’s interests and that all further claims against the City will be released upon receipt of the final payment, was not timely received.
 - *Final Acceptance Letter* – For the second JOC project, the Final Acceptance letter, which is prepared after City staff and the contractor perform a final walkthrough inspection and the City receives all relevant operating and maintenance documents, was not yet on file. This letter also establishes the beginning of the warranty period.

Recommendations:

The Public Works Director should require CPM to:

- A. Obtain and evaluate the contractor’s subcontractor selection plans and monitor and approve any changes to the originally proposed subcontractors and suppliers.
- B. Document that all necessary contractor pay request approvals are obtained prior to payment. Also, ensure appropriate segregation of duties by requiring a secondary review and approval and ensure that signature authority is not exceeded.
- C. Ensure the contractors submit bond certificates and maintain sufficient bond coverage.
- D. Ensure that job order adjustments are appropriately calculated prior to approval.
- E. Ensure that all required close-out documents are received prior to the contractor’s final payment.

3. Improved records retention practices and contract documentation can improve efficiency and consistency of contract administration.

Creating documentation standards can ensure appropriate records retention and improve efficiency in locating documents. Some project-related documents are retained and archived in print form, while others are scanned into the City’s Document Management system. Also, other relevant files that were received via email are only on the Project Managers’ computers and may or may not be properly retained.

The department’s Records Inventory requires construction records to be retained for nine years plus the current year. These records are described as those “... documenting the design and construction and major renovation of buildings for public bodies” and specifically include inspection reports, progress reports, change orders, project information correspondence, construction cost and timeframe reports, project photos and videos.

For the three tested projects, the following items were not retained in the project file:

- *Contractor project proposals and subsequent negotiations for changes in the project scope and cost.* For one of the tested projects, we obtained contractor cost proposals and negotiation documents from the Project Managers' separately retained personal files and from the contractor.
- *Authorizations for the contractor to proceed on project work on a time-and-materials basis.* When CPM and the contractor encounter an urgent matter, CPM staff can authorize the contractor to perform related work on a time-and-materials basis.¹ However, we did not find documentation detailing the approval or the nature and scope of the time-and-materials work billed for one of the three tested projects.
- *Accurate, signed City payment applications.* The signed versions of many City payment applications in CPM records have inconsistent dates within the document. It appears the signature page is scanned and merged with the other payment application pages on a different date. This adds the risk of inadvertent changes being made in the pages that are added later. A more reliable record would result if the entire payment application was scanned in from the signed copy.
- *Project Manager correspondence.* While some project-related documents are added to the Document Management system, many other files and emails are only retained on Project Manager computers. For the three projects we reviewed, only limited Project Manager correspondence was available in the project files.

Recommendation:

The Public Works Director should require CPM to establish policies and procedures for the maintenance and retention of contract-related documents.

¹ When working on a time-and-materials basis, the contractor tracks actual labor hours and material costs and includes these costs in the related cost proposal.

MANAGEMENT ACTION PLAN

1. Job order contracting (JOC) cost controls in the proposal evaluation phase should be improved.

Recommendations:

The Public Works Director should require CPM to:

- A. Develop and enforce standard procedures for job order proposal review and approvals. Specifically, CPM should:
 1. Ensure that either the staff estimator or a contracted estimator submits a cost estimate for comparison to the contractor's project cost proposal.
 2. Obtain and evaluate the contractor's subcontractor selection plans and subcontractor quotes, and monitor and approve any changes to the approved subcontractors and suppliers. This review should include evaluating the reasonableness of planned contractor self-performed work in comparison to subcontractor pricing.
 3. Develop cost proposal evaluation guidance, such as standards that describe which costs are typically direct project costs and which should usually be part of the contractor's overhead and profit fee.
- B. Ensure that all necessary approvals are obtained and documented prior to creating a job order contract or adjustment.
- C. Submit for required approvals any job order projects that give the appearance of split projects.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: CPM will work with associated departments to refine and better define these processes and procedures.

RESPONSIBLE PARTY: City Engineer, Dave Lipinski

COMPLETED BY: 5/31/2019

2. Effective cost controls are needed during the project delivery phase.

Recommendations:

The Public Works Director should require CPM to:

- A. Obtain and evaluate the contractor's subcontractor selection plans and monitor and approve any changes to the originally proposed subcontractors and suppliers.
- B. Document that all necessary contractor pay request approvals are obtained prior to payment. Also, ensure appropriate segregation of duties by requiring a secondary review and approval and ensure that signature authority is not exceeded.
- C. Ensure the contractors submit bond certificates and maintain sufficient bond coverage.

- D. Ensure that job order adjustments are appropriately calculated prior to approval.
- E. Ensure that all required close-out documents are received prior to the contractor's final payment.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: CPM will re-evaluate written procedures and update as necessary. Upon completion of updates, all information will be communicated to all CPM staff.

RESPONSIBLE PARTY: City Engineer, Dave Lipinski

COMPLETED BY: 5/31/2019

3. Improved records retention practices and contract documentation can improve efficiency and consistency of contract administration.

Recommendation:

The Public Works Director should require CPM to establish policies and procedures for the maintenance and retention of contract-related documents.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: CPM is already in the process of enhancing records retention and documentation practices for consistency. Once finalized, these processes and procedures will be communicated to all CPM staff.

RESPONSIBLE PARTY: City Engineer, Dave Lipinski

COMPLETED BY: 5/31/2019

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