



# 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.

### City Auditor’s Office

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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.