# 13-221 Job Order Contracts

**Strategic Area: Facilities**
**Risk Type: Financial, Operational, Reputational**
**Audit Manager: Paul Pettit**

**Overview:**

The M.D. Anderson Cancer Center (MDACC) facilities departments use Job Order Contracting (JOCs) for smaller value jobs such as maintenance and/or minor projects. The use of JOCs permits the departments to complete routine jobs in a simpler, less complicated manner resulting in shorter durations, because jobs do not have to follow the formal detailed bidding and contractor selection process. However, because of the relatively relaxed control environment in which they are utilized, JOC's are also more susceptible to abuse, be it unintentional or willful. This is compounded by the false sense of security that JOCs often provide. JOCs are generally immaterial individually, but could be significant in the aggregate. Due to their convenient nature, JOCs can also be misused to mask inefficiencies and compensate for more fundamental planning, execution and delivery deficiencies. Thus, the risk of financial or reputational damage to MDACC is higher for projects managed through the JOC process due to the lack of a formalized bidding and review process.

**Audit Results Summary:**

Management should improve monitoring activities to ensure the JOC program is only used for projects that meet defined requirements. In addition, systems and processes should be implemented to regularly analyze the dollars spent with each JOC vendor. Data analysis revealed that some vendors currently receive a disproportionate share of the JOC work (see Appendix A).

**Management Summary Response:**

Management will improve monitoring activities of the Job Order Contracting (JOC) program. They will enhance reports to regularly monitor dollars spent with contractors. These actions will be implemented in connection with the new JOC program with is scheduled to be in place by June 2014.

**Number of recommendations to be monitored by UT System: 0**



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**Objective, Scope and Methodology:**

The objective of this internal audit was to analyze JOC data in order to identify spend anomalies by both department and Project Manager for further investigation. In addition, a sample of projects was reviewed to determine if JOC Contractor awards were properly documented and approved.

The scope of our internal audit included JOC projects conducted between 2008 and April 2013. The sample of projects was obtained from each MDACC facilities departments – Patient Care and Prevention Facilities (PCPF), Research and Education Facilities (REF), Capital Planning & Management (CP&M) and Administrative Finance Campus Operations (AFCO). Fieldwork was completed during the month of May 2013.

The following key tasks were performed:

- Obtained and leveraged prior Supply Chain and Facilities Finance analysis of JOC spend data;
- Performed a statistical analysis of JOC awards by department, project manager and spend;
- Selected a representative sample of JOC awards for each department and reviewed for proper selection and authorization;
- Reviewed a sample of JOC awards to determine trigger for using JOC over another contracting method (i.e., Competitive Sealed Proposal);
- Obtained and reviewed current JOC contracts for potential enhancements from an auditing perspective;
- Determined if the JOC contracting process was in compliance with MDACC policies and procedures;
- Identified gaps and/or inconsistencies in the JOC contracting process across departments; and
- Recommended areas for process and internal control improvement.

Our review was conducted in accordance with The International Standards for the Professional Practice of Internal Auditing, which provides guidance for the conduct of internal auditing at both the organizational and individual auditor levels. They are the result of careful study, consultation, and deliberation about the basic principles for providing internal audit services.

The courtesy and cooperation extended by employees of PCPF, REF, CP&M and AFCO was sincerely appreciated.

Sherri Magnus

Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President and Chief Audit Officer
August 28, 2013



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Observation 1:

**Monitoring of Job Order Contracting (JOC) Program**

While guidelines have been developed to assist in determining when a Job Order Contracting (JOC) project is appropriate, there is currently no systematic monitoring process to ensure JOC projects are awarded objectively and conform to the UT System guidelines. The following risks may occur within the current JOC process, although our review did not identify any specific instances of such:

- The type of project may not be for the "minor construction, repair, rehabilitation, or alteration of a facility," as required by the guidelines.
- JOCs may be used for time-sensitive projects that would not normally be appropriate under the existing JOC contracting mechanism.
- Absent capability and merit considerations, a JOC Contractor may be awarded a disproportionate percentage of the total JOC work.
- Projects within the same area or location may be split between multiple projects so the spend amount falls under the $600,000 JOC threshold.

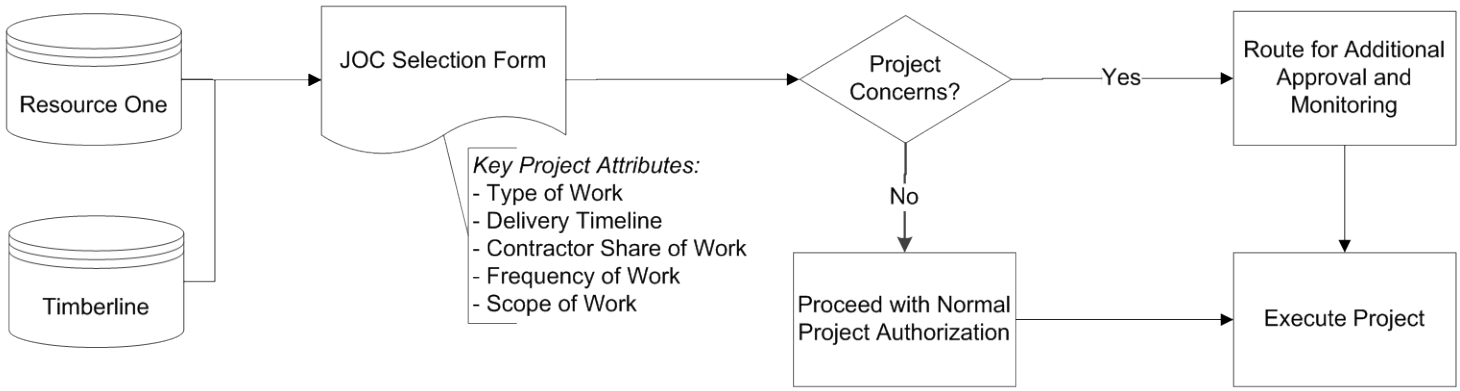
In addition, the JOC Contractor Selection Form that is used to collect data about the proposed project does not contain information to assist management in identifying potential exceptions to the guidelines.

Recommendation:

Management should consider improving monitoring activities to ensure the JOC program is only used for projects that meet defined requirements. To aid in this process, management should consider enhancing the JOC Contractor Selection Form to address the following risk areas:

- The type of work being performed should be identified to ensure it conforms to the requirements of the JOC program.
- Project Managers should document the due date for the project. If a project is scheduled to be delivered in the near term (i.e., within ninety days), then the project should require additional oversight of the project scope, bid and execution to ensure compliance with MDACC policies.
- Project Managers should document the latest percent of work awarded to each JOC Contractor.
- Project Managers should document the frequency of the type of work being performed.
- Project Managers should document any other open projects within the same MDACC area / location.

If a proposed JOC project does not meet institutional and/or UT System policies and procedures, it should be routed for additional approval. At that point, the project could be approved, rejected, or approved with additional monitoring requirements. The following flow identifies the path a project might take:




**Management's Action Plan:**
Responsible EVP: Leon Leach
Due Date: June 1, 2014
Owner: Bill Bailey
Final Approver: Chris McKee
Contributor: Jim Waters

*FM will enhance the JOC Contractor Selection Form to provide better documentation of the selection justification in order to mitigate the identified risks. FM will develop procedures for seeking higher-level approvals when appropriate. This will be implemented in connection with the new JOC program which is scheduled to be in place by June 2014.*

Observation 2:
**Disproportionate Share of Work Awarded to JOC Contractors**
The communicated intent of the Job Order Contracting (JOC) program is to equitably split the work between the JOC Contractors. However, there is no requirement in the JOC Management Plan to split the work equally. In addition, the contract with each contractor states that MDACC "…is under no obligation to request any services from contractor and no minimum amount of work are required…"

An analysis of the Job Order Contracting data, detailed in **Appendix A**, reveals that some contractors have received a disproportionate share of the work. While it does not violate current policy, a disproportionate amount of work awarded to any one JOC Contractor could negatively affect the relationship between MDACC and the remaining JOC Contractors.

Recommendation:
Management should consider regularly monitoring the dollars spent with each JOC Contractor and awarding the work in an equitable manner depending on geographic constraints and contractor capabilities.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**Management's Action Plan:**
Responsible EVP: Leon Leach
Due Date: June 1, 2014
Owner: Bill Bailey
Final Approver: Chris McKee
Contributor: Jim Waters

*FM will develop a process for regularly monitoring the dollars spent with each JOC contractor. The process will be implemented in connection with the new JOC program which is scheduled to be in place by June 2014.*

Observation 3:
**Project Tracking**
Currently, Job Order Contracting (JOC) projects are tracked in two separate systems – Lawson/Resource One and Timberline. Each system tracks data pertinent to their system requirements. However, to get a complete picture of JOC spend, data from each system is needed. As a result of the separate systems, the following issues were identified:

- There is no central repository for JOC data.
- The JOC Contractor's portion of a Purchase Order is not segregated from the furniture and equipment to be purchased, making it difficult to determine the total dollars spent with the vendor.
- Data formatting is not consistent between systems.
- Manual entry of data in free-form fields is not consistent.
- The type of project (i.e., Job Order Contracting, Competitive Sealed Proposal, Design-Build, etc.) is not consistently captured in Lawson/Resource One.
- Data is tracked in multiple systems.

Recommendation:
Facilities Management should coordinate with Supply Chain Management in order to collect sufficient information to monitor the JOC spend. The following improvements should be considered:

- More accurate tracking of specific JOC Contractor spend within a project.
- Improved identification and tracking of project types.
- Improved identification and tracking of JOC statute requirements.
- Periodic (i.e., weekly, monthly, or quarterly) reporting of project spend.
- Monthly meetings of management to review JOC projects and spend.
- Improved decision making based upon relevant timely data that is complete and accurate.


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**Management's Action Plan:**
Responsible EVP: Leon Leach
Due Date: June 1, 2014
Owner: Bill Bailey
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Contributor: Jim Waters

*FM will coordinate with Supply Chain Management to develop the means for collecting information that is sufficient to monitor the JOC spend. This will be implemented in connection with the new JOC program which is scheduled to be in place by June 2014.*

Observation 4:
**Project Approval**
Currently, the Job Order Contracting (JOC) process can be used for projects that meet the UT System guidelines and are under $600,000. If a project it estimated to exceed $600,000, the JOC process can still be utilized with additional approval from Facilities Management. Otherwise, projects exceeding the $600,000 limit must flow through the regular contracting process in Supply Chain Services.

Based on our analysis of JOC projects (see **Appendix B**) reducing the threshold for JOC projects would result in a minimal increase in the projects that are managed through Supply Chain Services. Below is a breakdown of the number of projects and their overall value if the threshold is changed to $100,000, $200,000 or $300,000. These values represent all JOC activity since the inception of the JOC program in 2008.

| Threshold | $100,000 | $200,000 | $300,000 | $600,000 |
|---|---|---|---|---|
| Number of Projects over 5 year period | 181 | 86 | 55 | 2 |
| Value of Projects over 5 year period | $45,475,505 | $31,944,670 | $24,205,148 | $1,845,323 |

A reduction of the JOC project value to $300,000 would result in an additional 1 project per month flowing through the contracting process in Supply Chain Services. A reduction of the JOC project value to $200,000 would result in 1.5 additional projects per month flowing through Supply Chain Services. While reducing the threshold of JOC projects would slightly increase the workload of Supply Chain Services, it would result in the removal of over $20 million from the JOC process and significantly minimize the inherent risk involved with JOC contracts.

Recommendation:
Facilities Management should coordinate with Supply Chain Services to determine the feasibility of reducing the JOC threshold from $600,000.



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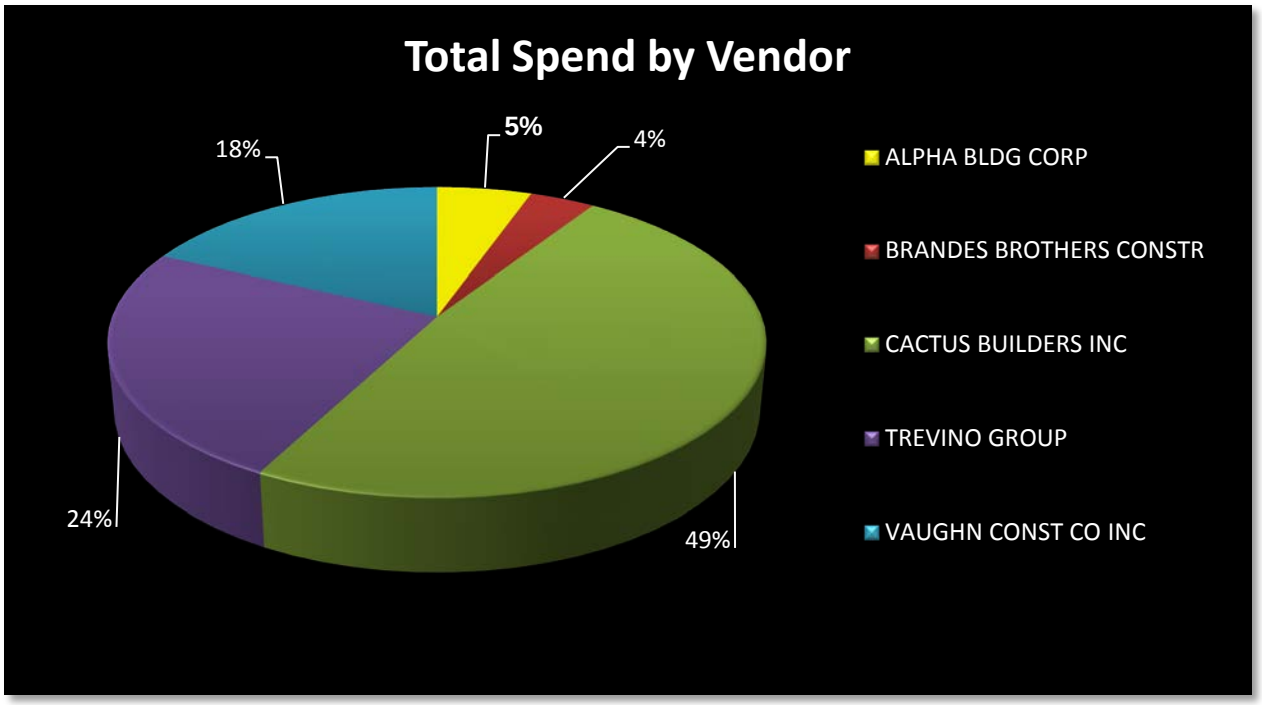
**Management's Action Plan:**
Responsible EVP: Leon Leach
Due Date: June 1, 2014
Owner: Bill Bailey
Final Approver: Chris McKee
Contributor: Jim Waters

*FM will coordinate with Supply Chain Management to determine and set appropriate limits and business rules to be used for the JOC program. This will be implemented in connection with the new JOC program which is scheduled to be in place by June 2014.*

## Appendix A - Data Analysis

The next six graphs show JOC project spend by vendor for the five year period from 2009 – present. Cactus Builders was awarded a majority of JOC spend in each fiscal year since the inception of the JOC program at MD Anderson. Brandes Brothers Construction only performs JOC projects in the Bastrop and Smithville, Texas areas, thereby resulting in lower spend than the remaining four JOC Contractors.



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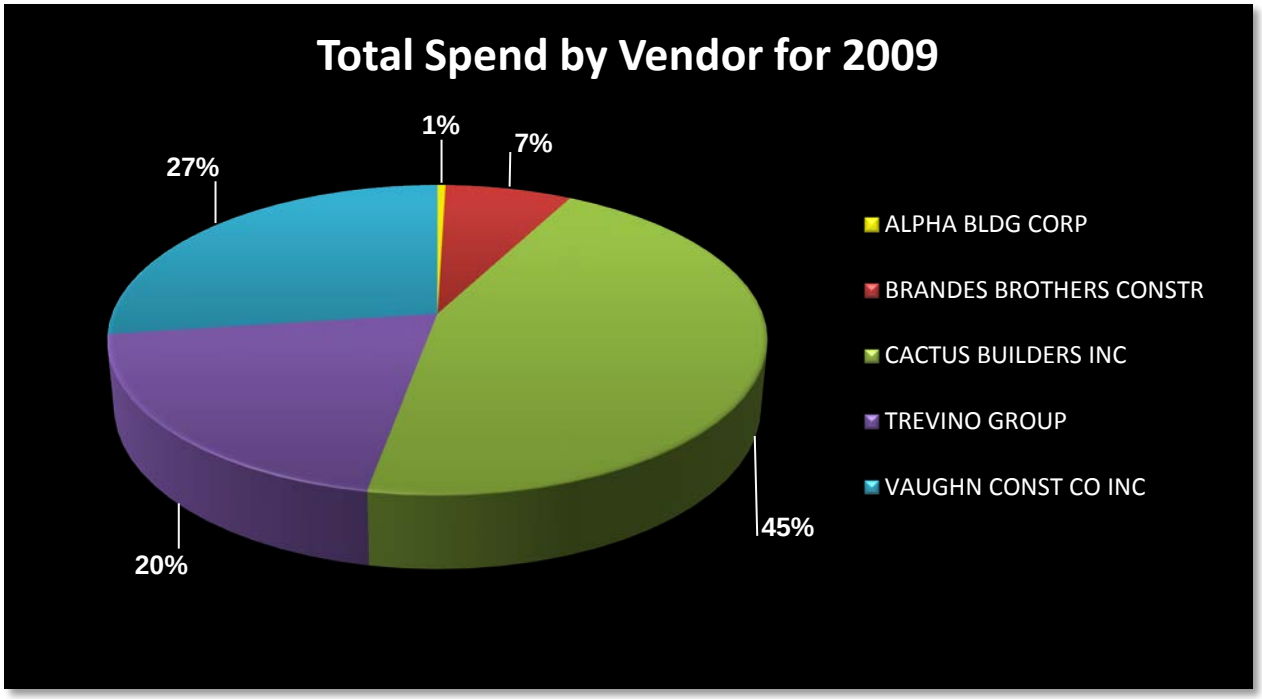
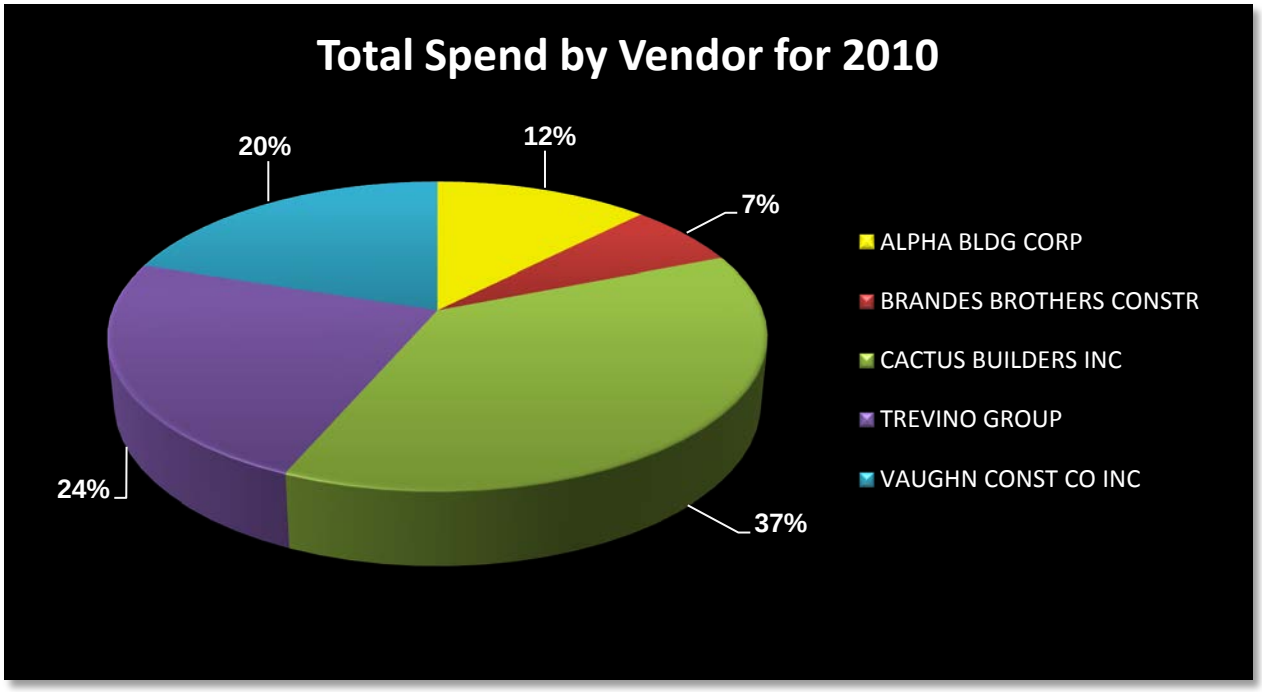
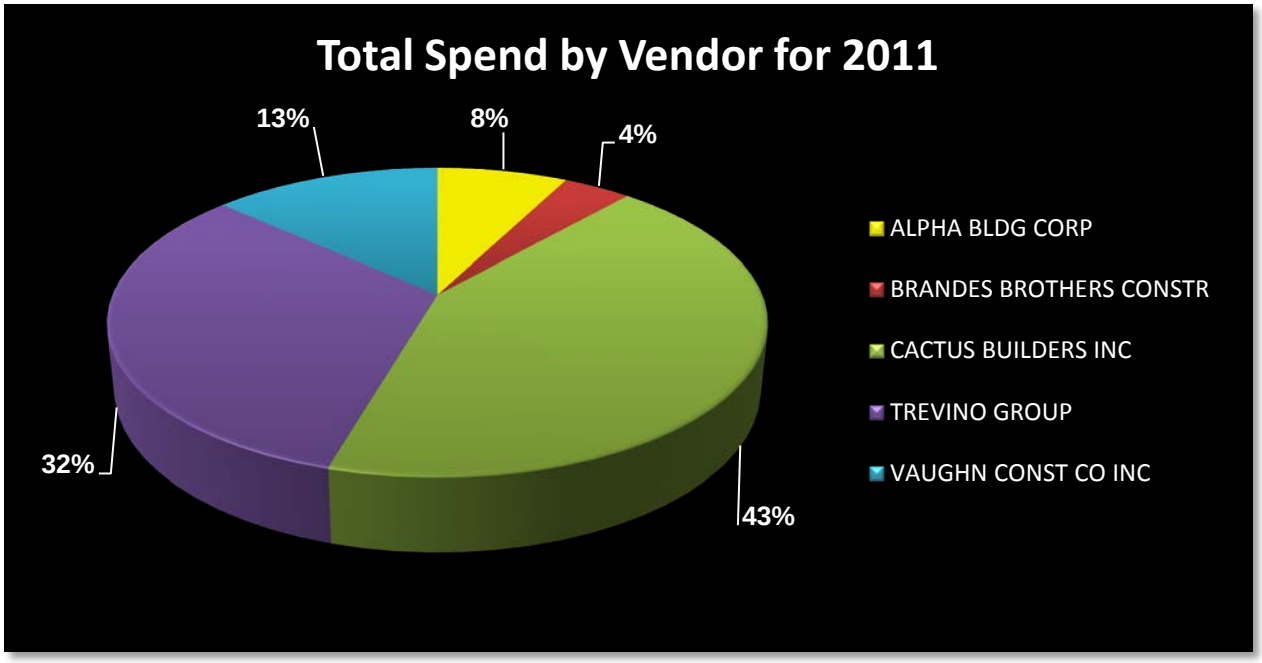
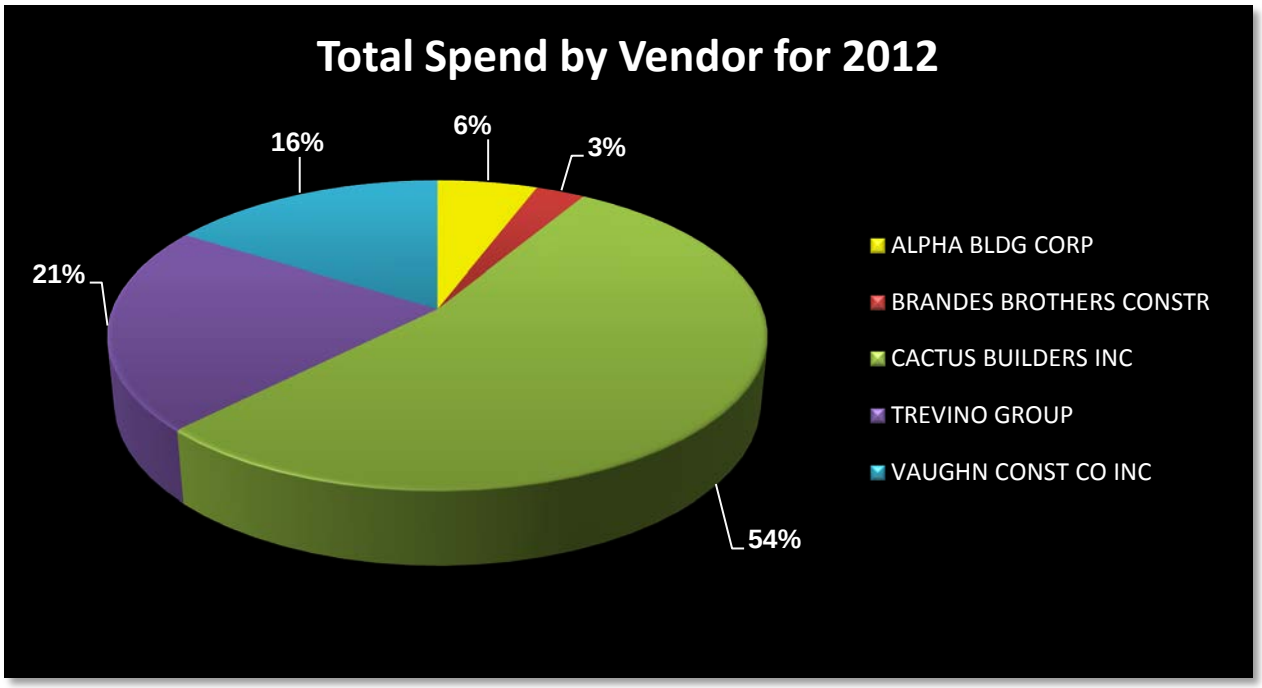

Total Spend by Vendor for 2009
1%
7%
27%
45%
20%
ALPHA BLDG CORP
BRANDES BROTHERS CONSTR
CACTUS BUILDERS INC
TREVINO GROUP
VAUGHN CONST CO INC


Total Spend by Vendor for 2010
20%
12%
7%
24%
37%
ALPHA BLDG CORP
BRANDES BROTHERS CONSTR
CACTUS BUILDERS INC
TREVINO GROUP
VAUGHN CONST CO INC



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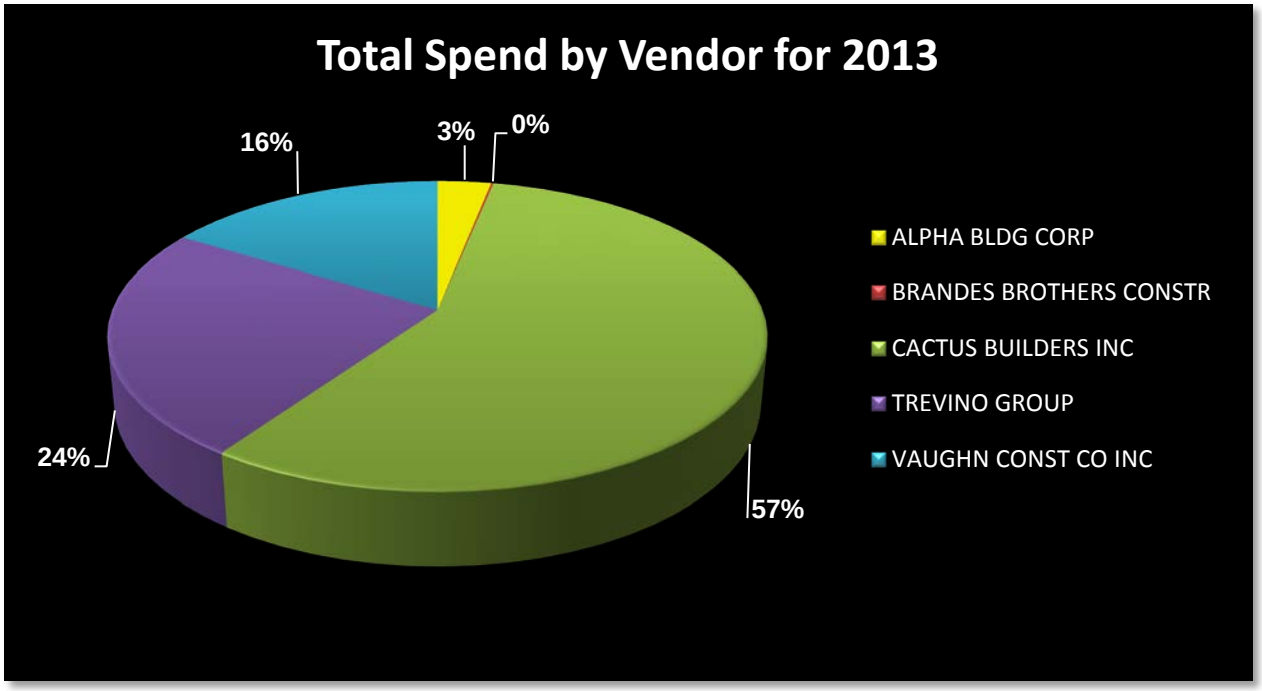




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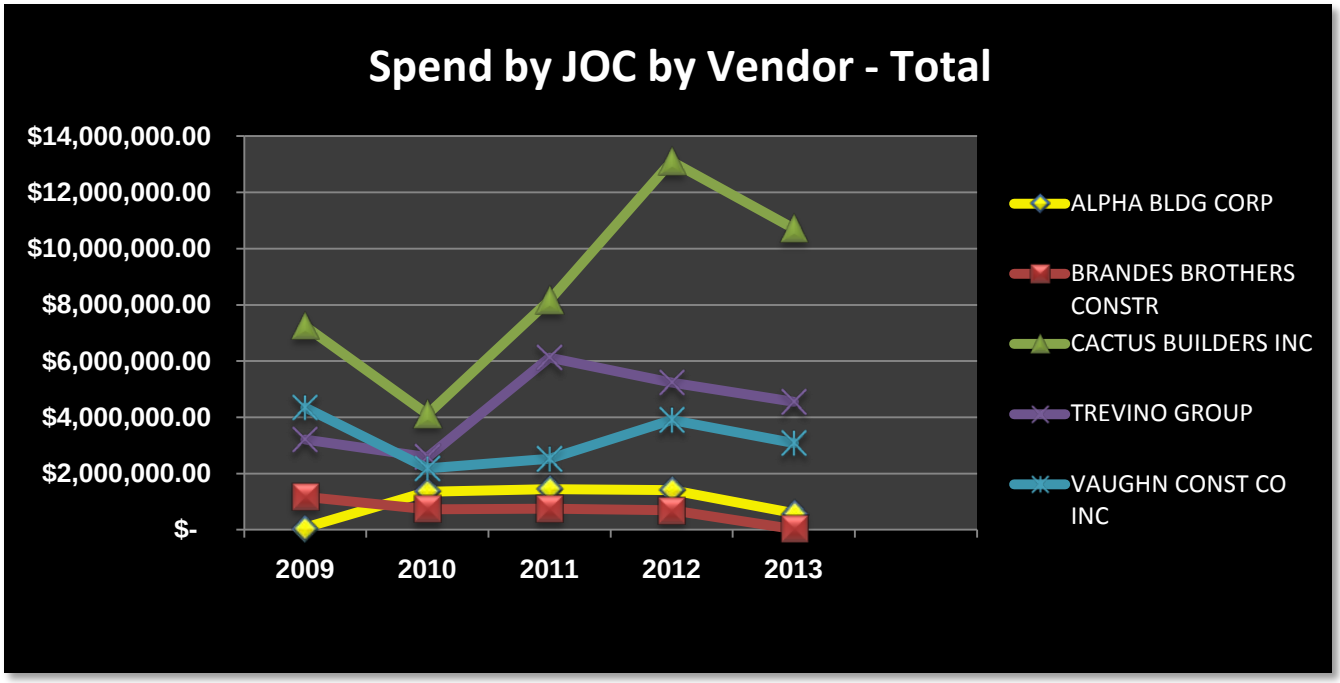
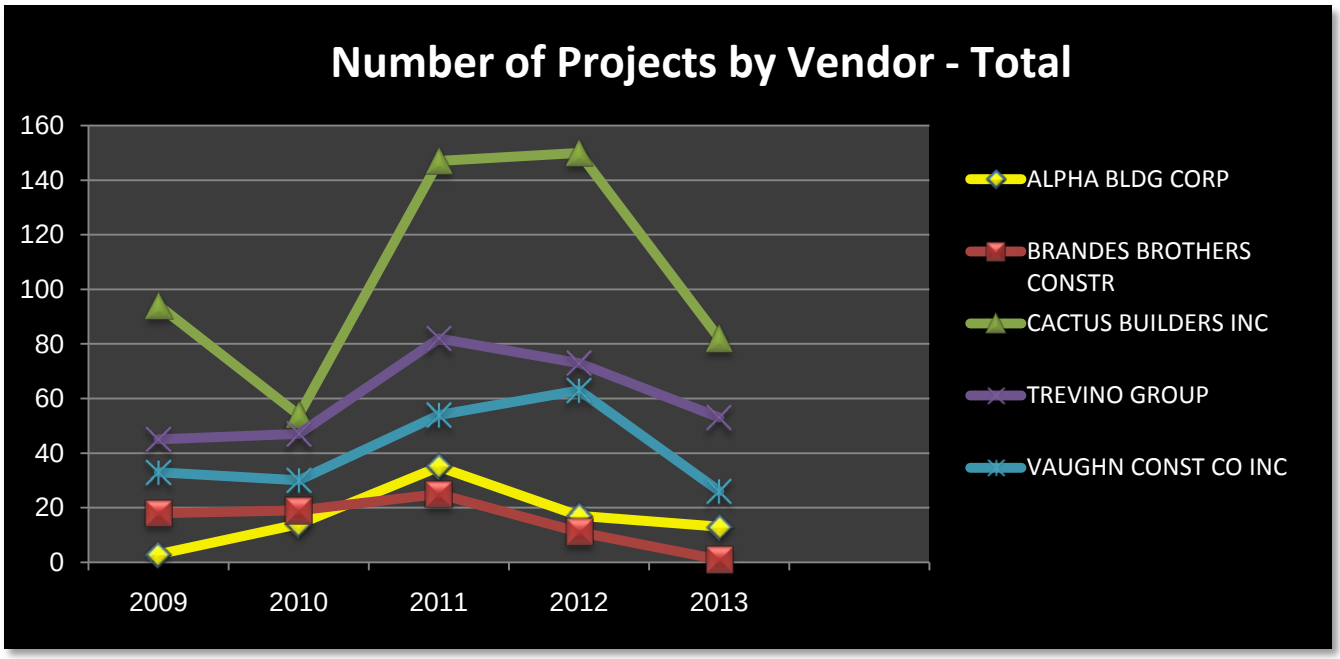
The two graphs below show JOC project spend and number of projects by vendor for the five year period from 2009 – present. These graphs indicate that Cactus Builders was awarded a disproportionate amount of spend and number of projects.



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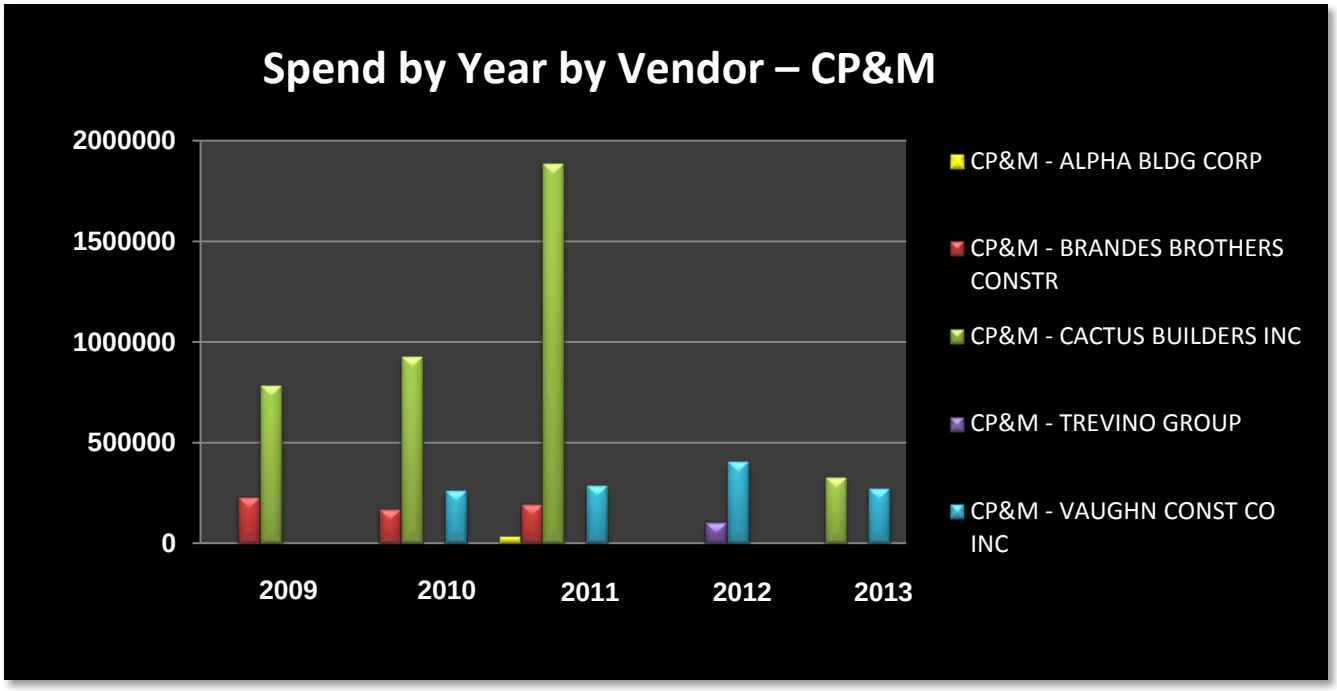
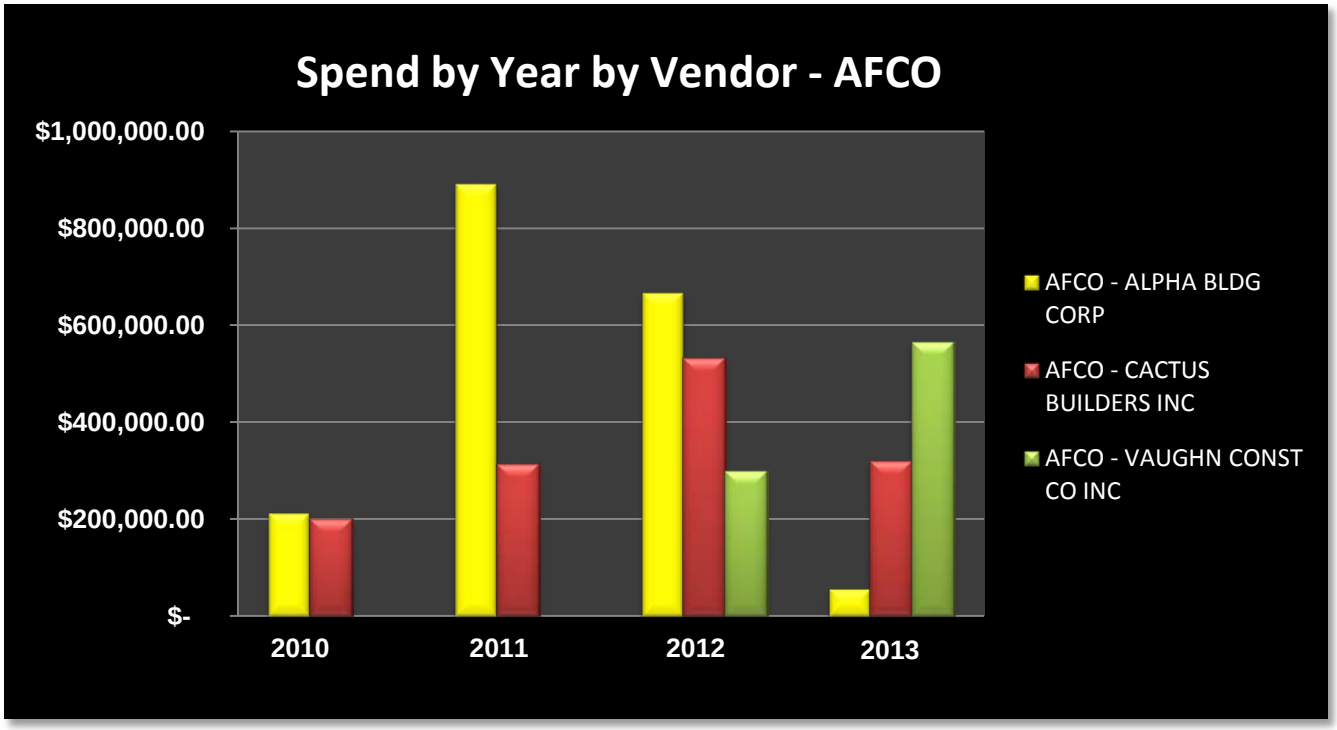
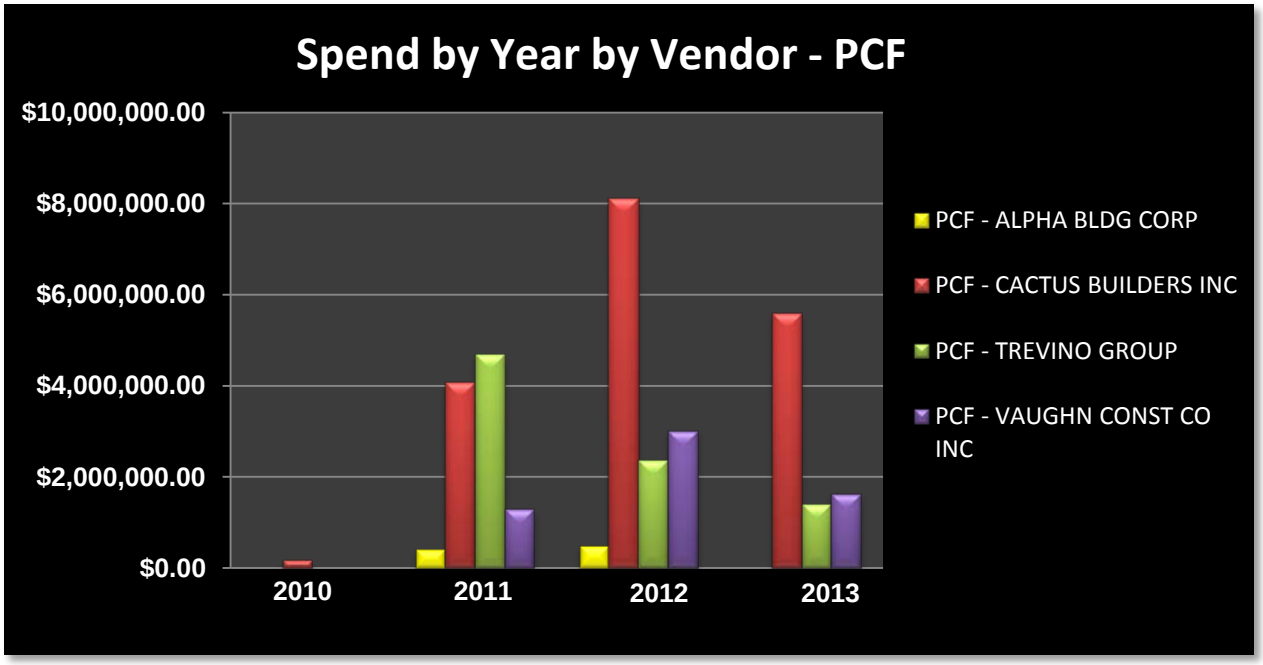
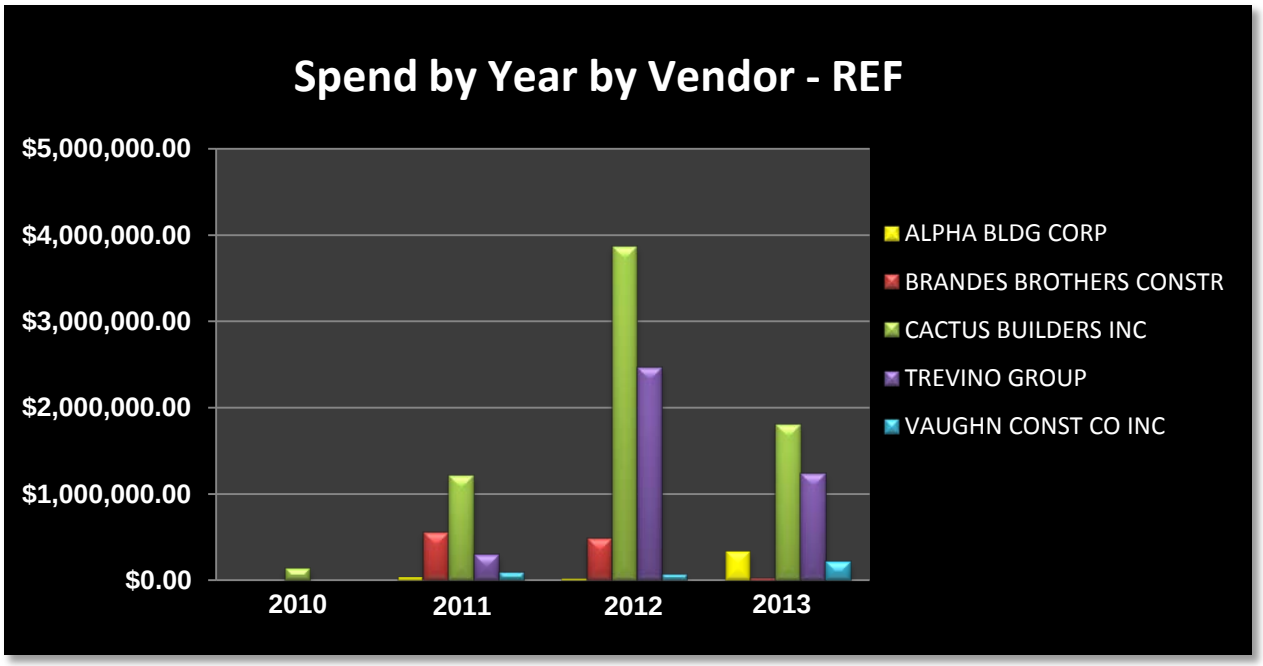
The next four graphs detail JOC project spend for the five year period from 2009 – present by vendor and by facilities department. These graphs show Cactus Builders is awarded the majority of JOC spend in each department except for Administrative Finance Campus Operations (which used Alpha Building Corporation more extensively in 2010, 2011 and 2012) and Patient Care and Prevention Facilities (which used Trevino Group more than Cactus Builders in 2011).



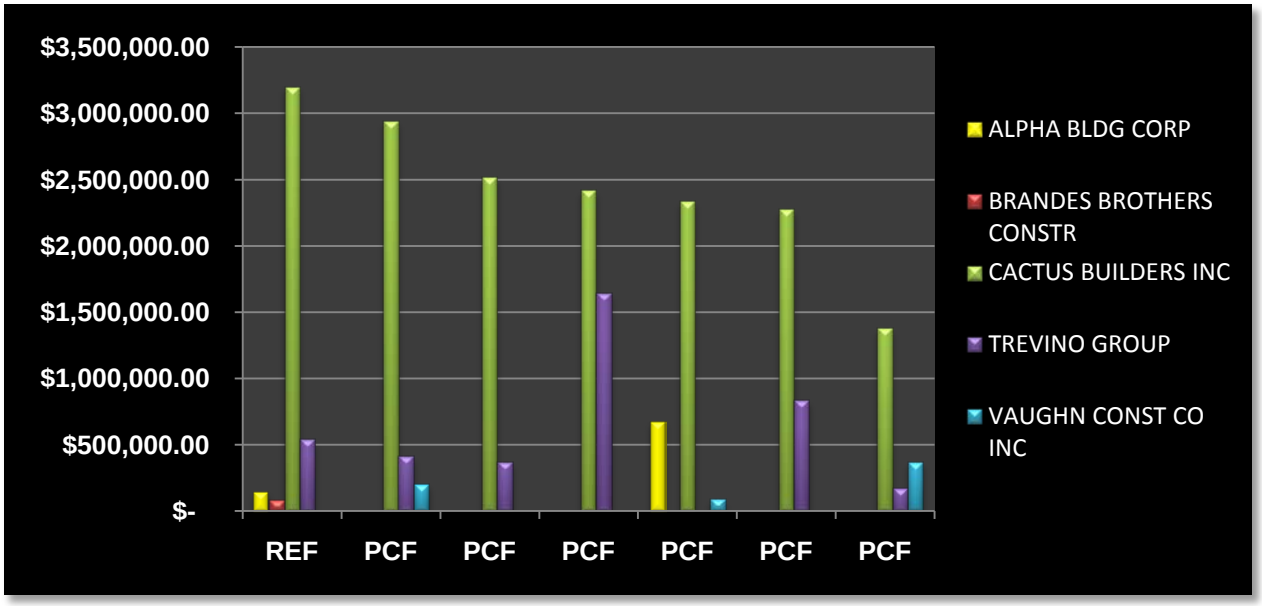

2009

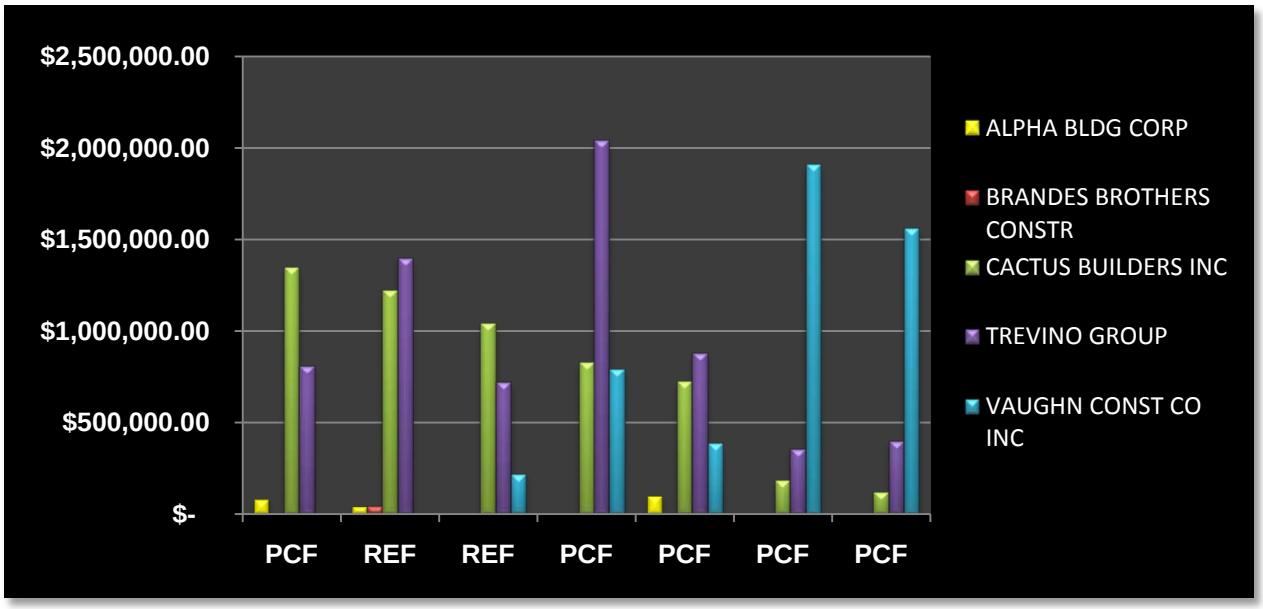



Spend by Year by Vendor - PCF
$10,000,000.00
$8,000,000.00
$6,000,000.00
$4,000,000.00
$2,000,000.00
$0.00
2010
2011
2012
2013
PCF - ALPHA BLDG CORP
PCF - CACTUS BUILDERS INC
PCF - TREVINO GROUP
PCF - VAUGHN CONST CO INC


Spend by Year by Vendor - REF
$5,000,000.00
$4,000,000.00
$3,000,000.00
$2,000,000.00
$1,000,000.00
$0.00
2010
2011
2012
2013
ALPHA BLDG CORP
BRANDES BROTHERS CONSTR
CACTUS BUILDERS INC
TREVINO GROUP
VAUGHN CONST CO INC

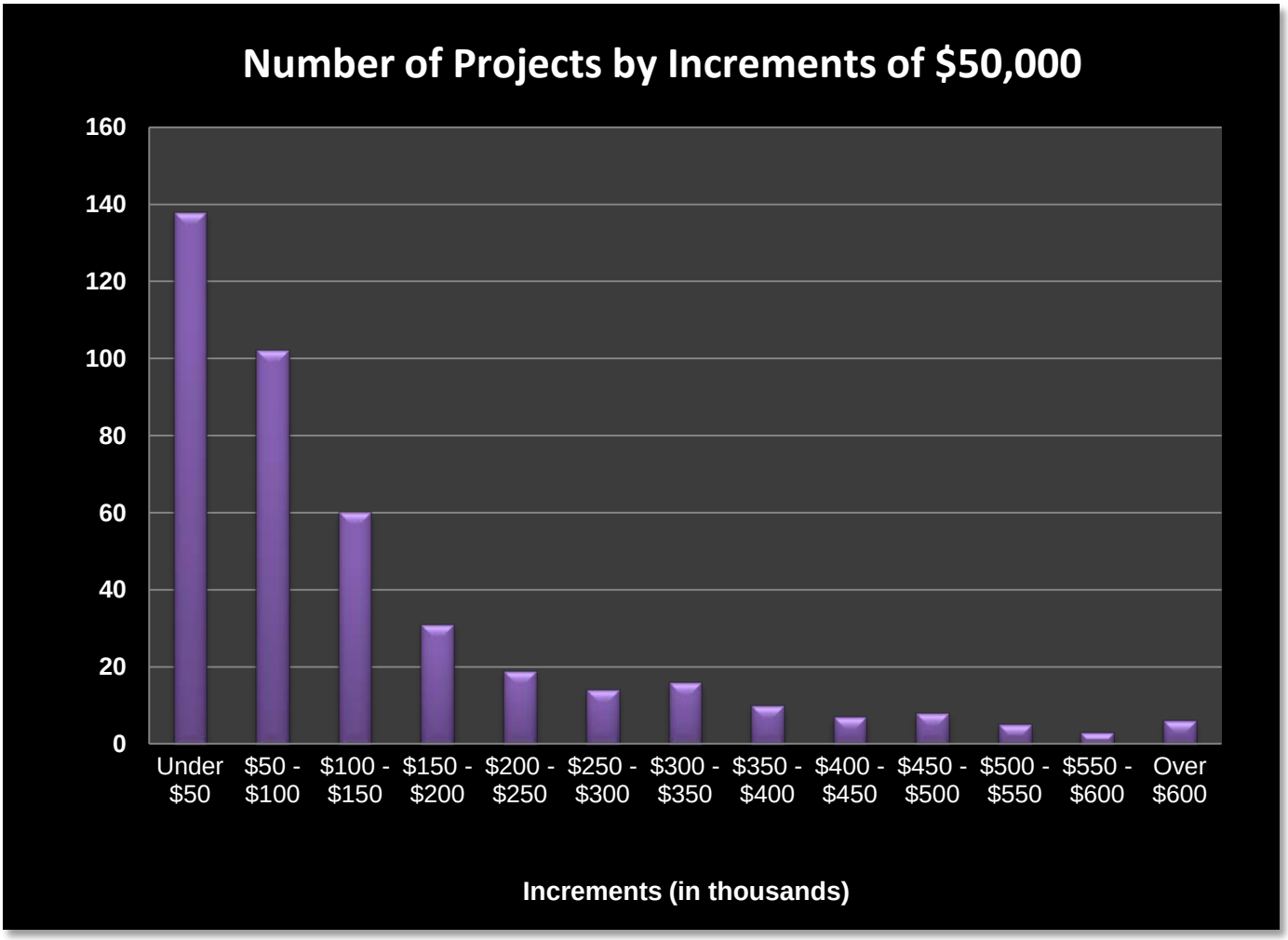
The next two graphs below show the fourteen (14) Project Managers with the highest JOC spend for the five year period from 2009 – present, organized by JOC Contractor. Project Managers' names have been replaced by the department in which they worked. Of the fourteen Project Managers with the highest spend for the five year period, nine used Cactus Builders predominantly.



## Appendix B – JOC Projects by Threshold

The following graph shows JOC projects for the five year period from 2009 – present grouped into increments of $50,000. The majority of JOC projects fall below $200,000. If the JOC threshold were dropped to an amount lower than the current $600,000, there would be a minimal increase in the number of projects handled by the Supply Chain procurement process. This analysis is in line with the analysis performed by Facilities Finance.



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