



Internal Audit

Bond Funded Projects - Job Order Contract Process Review

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Date: October 18, 2023

To: Board of Trustees
Stephanie S. Elizalde, Ed.D., Superintendent

From: Robert Rubel, MBA, CPA, CIA, CISA
Chief Internal Audit Officer

Subject: Bond Funded Projects - Job Order Contract Process Review

Executive Summary

The Dallas Independent School District (District) Office of Internal Audit (OIA) has completed the Bond Funded Projects - Job Order Contract (JOC) Process Review Audit.

The audit focused on reviewing the District's processes surrounding the JOC procurement method for bond-funded construction projects to determine if controls are in place to effectively and efficiently manage JOC projects in accordance with policies and regulations.

Overall, the Construction Services/Bond Office (Construction Services) has controls and processes in place for managing bond-funded construction projects procured using the JOC delivery method. Construction Services collaborates with Procurement Services, The Gordian Group (Gordian), Architect/Engineer (A/E) firms, and Project Management (PM) firms to administer and manage construction projects.

Opportunities for process improvements were identified in the following area:

1. Processes could be streamlined to manage JOC projects more efficiently and effectively.

Specifically in the areas of contracting agreements, certificates of insurance management, review and approval workflows, and project management system.

Implementation of the recommendations in this report could assist Construction Services to improve the management of bond-funded JOC projects.

Background

Job Order Contracting

Job order contracting is a type of procurement process to be used for smaller construction projects. It involves a multi-year agreement and relationship between the District and Board approved JOC vendors, who are pre-selected through a competitive bidding process and grouped in nine vendor pools by specific trade or service. During the competitive bidding process, prospective JOC vendors respond to a solicitation with their proposals to include references, safety plan, Minority and Women Business Enterprise (M/WBE) plan, financial status, past K-12 experience, proposed project teams, and proposed schedule. However, instead of pricing specific projects during the bidding process, vendors propose a coefficient, or multiplier, which will later be used along with a unit price book from Gordian to accurately estimate their future assigned job order projects.

Under a JOC, the District issues job orders to the assigned JOC vendor, which are smaller maintenance, construction, or renovation projects with a set scope of work, budget, and timeline. The assigned JOC vendor is then responsible for completing the job order within the agreed-upon parameters. JOCs are often used for projects that need a quick turnaround time. They are designed to provide an agile, streamlined, and efficient process for completing projects, while still maintaining competitive pricing and quality control.

Vendor Pool

Currently, the District has nine different Board approved JOC programs with JOC vendor pools grouped by specific trade or service. The approved JOC vendor pool, and work assignments by PO amount as of April 4, 2023, consisted of the following:

- General Contractors - 5 of 16 approved JOC vendors have been assigned a total of \$22,364,842 for 19 issued POs.
- HVAC Parts and Repair - 7 of 9 approved JOC vendors have been assigned a total of \$17,711,314 for 21 POs issued.
- Athletic & Recreation Equipment - Both approved JOC vendors have been assigned a total of \$7,715,641 for 10 issued POs.
- Fencing - 1 of 4 approved JOC vendors have been assigned a total of \$3,145,129 for eight POs issued.
- Building Envelope and Roofing Services - 2 of 5 approved JOC vendors have been assigned a total of \$1,506,161 for two POs issued.
- Concrete and Asphalt Paving - Both approved JOC vendors have been assigned a total of \$1,023,498 for three issued POs.
- Indoor and Outdoor Painting - 11 JOC vendors have been approved but have not yet been assigned projects.
- Electrical Parts and Services - 4 JOC vendors have been approved but have not yet been assigned projects.
- Flooring - 3 JOC vendors have been approved but have not yet been assigned projects.

Project Pricing

During the competitive bidding process, the pool of JOC vendors are ranked by their proposed coefficients, among other requirements. Coefficients are proposed multipliers that must be applied to unit book prices provided by Gordian for each job order assigned.

Unit price book is a pre-determined set of prices required to be used for all the JOC projects to estimate the cost of construction. JOC vendors assigned a job order project will breakdown every part of a project into individual components called Divisions. Divisions include general requirements, masonry, electrical, plumbing, etc. Within each Division, JOC vendors will list, in detail, components required to complete the job. JOC vendors will use the unit price book for each component based on quantity needed to accurately estimate the total amount needed to complete the scope of work. Unit book prices will include labor, materials, and equipment amounts required. Other factors included in unit book prices include location, complexity of unit, and overhead.

When approved JOC vendors are assigned a job order project, they identify the line items needed for their project and submit the unit book price times their approved coefficient for each line to produce a line-item total. For example, if a line-item's unit book price is \$100 and a vendor's coefficient is 1.5 then the line-item total would be \$150 after the vendor's coefficient is applied. Line-item totals are added together to determine the overall project cost proposal amount.

Gordian

The District has entered into an agreement with a third-party contractor, The Gordian Group, to provide services including JOC program development, implementation, and support. Gordian works closely with the assigned JOC vendors to develop proposals and provides the unit book pricing discussed above. Additionally, Gordian assists with preparing contract documents, providing procurement support, conducting training programs, etc. For an additional fee, Gordian will also provide project management services, such as, preconstruction, site visits, communication, supplemental job orders, approvals, and project close outs.

JOC Job Order Project Assignment Process

For each specific bond-funded construction job order project, the following process is followed:

- A JOC vendor is selected/assigned by the PM firms using the list of Board approved JOC vendors, with the occasional assistance from Gordian. PM firms will utilize the ranking from the Board approved JOC vendors when determining assignments where the top ranked vendors are chosen from first. JOC project assignments are communicated to Gordian by the District's PM firms by use of a manual form.
- The project budget is prepared and provided independently by Construction Services. A joint scope meeting between Gordian, the PMs, Construction Services, and the assigned JOC vendor is held to determine the scope of work. Gordian is then responsible for preparing the statement of work to be used by the assigned JOC vendor to prepare their cost proposal for the job with Gordian's assistance. The cost proposal is then reviewed and approved by the PM and the District's contract manager.
- A current certificate of insurance (COI) must be obtained by the assigned JOC vendor and approved by the District's third-party contractor, Marsh. Gordian obtains the required M/WBE documentation and routes to the M/WBE department for approval. Following receipt of approval from M/WBE, Gordian will begin to prepare American Institute of Architect's (AIA) contract documents consisting of an A101 and A201. Upon completion, Gordian will upload the contract documents into DocuSign to be routed through the required approval hierarchy. Currently, required signatures include the assigned JOC vendor, Legal Services, and the District's deputy superintendent for business services.
- Following contract document approvals, District representatives will upload the signed documents and any supporting documentation into Oracle and create a purchasing requisition. Several sign-offs are then required before a purchase order (PO) is issued by Procurement Services. Upon issuance of a PO, the District will send a copy to Gordian to commence the notice-to-proceed (NTP) procedure. Before NTPs are issued to the assigned JOC vendor, Gordian will request the required performance and payment bonds.
- For each assigned project, a JOC vendor must currently sign new A101 and A201 contract documents which include the scope of work, the cost proposal, plus any owner-controlled contingency. Once contracted, assigned JOC vendors will either self-perform work and/or hire subcontractors to complete the required scope of work.

Once an NTP is issued, the project is then managed by the PM firms with oversight by Construction Services.

Scope

This audit included a review of Construction Services processes and activity for current JOC construction¹ projects funded by the 2020 bond program. Certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period.

Objective

The objective of the audit was to review the District's processes and controls surrounding the procurement, contracting, and management of bond-funded construction projects using the JOC delivery method.

Methodology

To determine if processes for job order/project contracting are effective, efficient, and in compliance with applicable rules and regulations, OIA conducted walkthroughs with Gordian representatives, Construction Services, Maintenance and Facility Services, M/WBE, Legal, and District Project Management Firms to review processes related to job order contracting. Auditors reviewed controls in place as well as supporting documentation for contracting and oversight of JOC job order/projects.

See Recommendation 1 in this report.

Primary criteria used for this audit were:

- 1) Dallas Independent School District (ISD) Purchasing Manual, dated December 2022
- 2) Construction Services A101 and A201 Contract Documents, dates vary based on contract date
- 3) Texas Government Code 2269, as of date of this audit report
- 4) CVF (Legal), Facilities Construction, Job Order Contracts, issued June 22, 2021
- 5) CV (Local), Facilities Construction, issued June 3, 2022
- 6) CV (Legal), Facilities Construction, issued June 29, 2022

Audit Observations and Recommendations

Observation 1 – Processes could be streamlined to manage JOC projects more efficiently and effectively.

Condition

Auditors reviewed processes and workflows surrounding job order contracting to determine if proper controls were in place and if processes were effective and efficient. During this review, auditors noted areas where processes can be further streamlined to produce timely and more effective results in line with the intent of the JOC program.

Based on review of Gordian's timeline tracking, JOC projects are currently taking on average 114 days from project initiation to issuance of a PO; compared to 60 to 90 days for competitive seal

¹ Select JOC processes in the Maintenance and Facilities Services department were reviewed for efficiencies although most of those JOC projects were not bond-funded.

proposal projects, which require scheduling around Board approval. During review of JOC processes, auditors noted the following reasons which appear to be contributing factors to the lengthy timeline:

1. Full AIA contract documents are initiated for each individual JOC job order project rather than utilizing a sole master agreement for each JOC vendor when the JOC vendor pool is approved in conjunction with a subsequent project specific scope/assignment of work.

AIA A101 and A201s are currently utilized for all individual JOC projects. However, as the pool of JOC vendors have already been competitively bid and approved for assignment of subsequent projects, it is not a requirement for them to sign a new A101 and A201 for each individual project. Auditors note it is acceptable to sign a master agreement at the time the JOC vendors have been approved that would be subsequently valid for all their assigned projects. Requiring an A101/A201 for each JOC project significantly slows down the process as the A101/A201 can be upwards of 200 pages that must be reviewed and approved by multiple channels compared to an assignment/scope of work consisting of approximately 2 pages. Utilizing a master agreement would not reduce the accountability of the assigned JOC vendors as they will still be required to sign off on AIA contract document requirements during the signing of the master agreement.

2. Certificates of insurance are re-verified each time a JOC vendor is assigned a new project.

Currently, COIs are based on a 12-month coverage period per specific JOC projects. Although assigned JOC vendors are required to have consistent insurance coverage, processes require them to submit a new COI along with their pricing proposals upon every assignment of a JOC project. Obtaining COIs at the time of each project proposal is significantly slowing down the JOC procurement as Gordian must wait for COI approvals from either Marsh, the District's third-party vendor, or Risk Management before continuing to the next steps of the JOC process. Review of COI terms and coverages is a time-consuming process which can take several days or weeks depending on the information provided.

The District relies on Marsh to review and maintain assigned JOC vendor COIs. Marsh noted that because a COI is currently required to be specific to an individual project, they are verifying at the time of each project; and conditional approvals² must be obtained prior to initiating the contract documents. Per Marsh, auditors noted it would be sufficient to obtain a COI that is not tailored to one specific project but rather to cover any projects potentially assigned within a given time frame. This would allow the District to have flexibility in drafting contracts and proceeding with the procurement process without waiting on review and approval of a newly tailored COI.

3. Lengthy approval workflows are required to initiate a PO.

Initiation of a PO for bond-funded construction JOC projects currently requires up to 10 different approvals based on the dollar threshold. Maintenance contracts procured using JOCs currently require up to 14 different approvals. The current approval process expects each individual to review and sign off on the final project package, which includes proposals, AIA contract documents, M/WBE documentation, COIs, etc. Auditors noted multi-level review and approval processes are a good control; however, extensive levels of approval may create an opposing effect as a meaningful review may not be conducted due to assumptions that documents are being

² Conditional approvals are given by Marsh pending performance and payment bond review which are acquired by the assigned JOC vendor after a PO is issued to them. A notice to proceed with the job order project is not given until full approval from Marsh.

properly scrutinized by other approvers.

4. An effective integrated project management system has not been established.

JOC projects involve both internal and external representatives who are responsible for different functions within the projects. Construction Services, Procurement Services, and M/WBE all play large roles in developing and overseeing these projects as well as external representatives such as Gordian, Marsh, and the PMs. Currently, multiple disparate systems/applications are used to manage these projects. Gordian utilizes their internal project management system; the PM firms have multiple project management systems available for use; and the District uses Oracle for PO workflow approvals, payments, budgets, etc. along with an internal shared X: drive to serve as a document repository. The use of multiple systems to manage JOC projects creates inefficiencies as well as reduces ability for proper oversight and monitoring capabilities.

Criteria

Texas Government Code, Chapter 2269, Subchapter I, Section 2269.410 - Sept 2013

(a) An order for a job or project under a job order contract must be signed by the governmental entity's representative and the contractor. (b) The order may be: (1) a fixed price, lump-sum contract based substantially on contractual unit pricing applied to estimated quantities; or (2) a unit price order based on the quantities and line items delivered.

Dallas ISD Construction Contract Document AIA A201, Article 11, Insurance and Bonds - Dec 2018

1.5 Execution of Contract Documents

1.5.1 The Contract Documents must be signed by the Owner and Contractor. The Agreement between Owner and Contractor, as amended, including Conditions of the Contract, as amended, as well as all other Contract Documents that required signature of the Parties, including the A201-2007, as amended must be signed first by the Contractor's representative. After signing the Agreement and all other Contract Documents requiring signature, Contractor shall return the Contract Documents along with proof of insurance and payment and performance bonds to Owner. Once Owner has approved of the Contract Documents and the proof of insurance and payment and performance bonds, Owner shall sign the Agreement and all other Contract Documents requiring signature of the parties. When Owner has signed and approved all required documents, District shall issue a Notice to Proceed to Contractor.

Cause

Gordian and the PMs were engaged to provide better oversight and controls surrounding bond-funded JOC projects. With the addition of these third-party representatives came new and further processes that have yet to be fully integrated.

Effect

The lengthy time frame to initiate JOC projects has deterred the Construction Services and the Maintenance and Facilities Services Departments from utilizing these resources to their full potential. JOC contracting is intended to be utilized as an efficient and cost-effective procurement method for maintenance and minor construction projects. The inefficiencies noted above are causing delays to critical projects needed to improve District campuses and facilities.

Recommendation 1

To gain efficiencies and enhance JOC project effectiveness, Construction Services should consider the following:

1. Collaborate with Procurement Services and Legal Services to consider amending the JOC contracts to utilize a master agreement for each approved JOC vendor with attached AIA contract documents that would serve the same purpose and provide the same contractual obligations as currently required for each individual project contract.
2. Collaborate with Risk Management and Marsh to determine best methods for maintaining current COIs that do not greatly impede the JOC contracting process. Per Marsh, a potential solution may be to submit COIs every 60 days that covers all current and potential future JOC projects with the District rather than for a specific project.
3. Review the current PO approval process and eliminate any redundant or unnecessary approvals. Determine and document procedures for what each approver is responsible for looking at and determine if linear approval processes can be avoided. Additionally, appropriate time frames for approval sign offs should be established, and time between approvals could be tracked and managed to determine where and why any significant delays may exist.
4. Establish an integrated project management system to provide more efficient and effective processes. Where viable, a universal software should be utilized across users to effectively manage projects.

Risk Level for Observation 1: Medium³

Conclusion

Overall, Construction Services has implemented processes and procedures for the JOC program. Implementation of the recommendations in this report could assist in improving and streamlining operations.

We would like to thank the Construction Services/Bond Office, Procurement Services, and Maintenance and Facilities Services for their cooperation and assistance during this audit.

The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Those standards require OIA to plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. OIA believes the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Respectfully submitted,

Robert Rubel

Robert Rubel, MBA, CPA, CIA, CISA
Chief Internal Audit Officer

³ See Attachment 1 for Definition of Risk Level.

Cc: Pamela Lear, Ed.D., Deputy Superintendent, Chief of Staff and Racial Equity
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Zachary Ornelas, CFE, Auditor II, Internal Audit
Ashton Loyd, MBA, Auditor I, Internal Audit

Definition of Risk Level

Risk Level	Definition
High	High probability of occurrence that would significantly impact District operations and have a significant financial or compliance risk. These observations are defined as an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of the District.
Medium	Risks are considered to be substantially undesirable and pose a moderate level of risk exposure to District operations. Without appropriate controls, the risk will happen on a consistent basis.
Low	The risks are considered to be undesirable and could moderately expose the District. Without appropriate controls, the risk will occur some of the time.

Management Response

Observation 1 – Processes could be streamlined to manage JOC projects more efficiently and effectively.

1. Contracting agreements - Collaborate with Procurement Services and Legal Services to consider amending the JOC contracts to utilize a master agreement for each approved JOC vendor with attached AIA contract documents that would serve the same purpose and provide the same contractual obligations as currently required for each individual project contract.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response:

Construction Services will work with DISD's Legal Department and DISD's Procurement Department to look at both the currently used JOC Contract versus using a district Master Agreement and determine which method is best for the JOC process and the district.

Estimated Implementation Date:
October 2023

Individuals responsible for implementation:
Mike Garcia, Executive Director, Construction Services/Bond Office, Financial Services

2. Certificates of insurance management - Collaborate with Risk Management and Marsh to determine best methods for maintaining current COIs that do not greatly impede the JOC contracting process. Per Marsh, a potential solution may be to submit COIs every 60 days that covers all current and potential future JOC projects with the District rather than for a specific project.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response:

Construction Services will collaborate with Marsh and DISD's Risk Management Department to improve the COI submittal process that incorporates receiving insurance certificates for all current and potential future JOC projects rather than for a specific project.

Estimated Implementation Date:
October 2023

Individuals responsible for implementation:
Mike Garcia, Executive Director, Construction Services/Bond Office, Financial Services

3. Review and approval workflows - Review the current PO approval process and eliminate any redundant or unnecessary approvals. Determine and document procedures for what each approver is responsible for looking at and determine if linear approval processes can be avoided. Additionally, appropriate time frames for approval sign offs should be established, and time between approvals could be tracked and managed to determine where and why any significant delays may exist.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response:

Construction Services will continue to review the existing purchase order approval process to help eliminate redundant or unnecessary approvals. Once it is determined that processes can be improved, Construction Services will document the new process which will include time frames for approval sign offs. Construction Services will continue to monitor the process to mitigate any potential delays in the approval process.

Estimated Implementation Date:
November 2023

Individuals responsible for implementation:
Mike Garcia, Executive Director, Construction Services/Bond Office, Financial Services

4. Project management workflows - Establish an integrated project management system to provide more efficient and effective processes. Where viable, a universal software should be utilized across users to effectively manage projects.

Acknowledgement of observation:

- ☒ Agree
☐ Disagree

Management's Response:

Construction Services uses several project management platforms to manage Bond projects; Owner Insite, Project Status Report Spreadsheet, Oracle, X Drive, MS Teams, Power Bi and several checklists associated with design or construction phases. Construction Services will continue to search for a universal platform that can manage the financial portion of projects as

well as the project management portion of projects. This proposed platform must be useful to the department and bring value to the district.

Estimated Implementation Date:
January 2024

Individuals responsible for implementation:
Mike Garcia, Executive Director, Construction Services/Bond Office, Financial Services