

The background of the slide features a large, faint, circular seal of the Illinois Judicial Branch. The seal contains a central figure holding a scale of justice and a sword, surrounded by the text "ILLINOIS JUDICIAL BRANCH" and the year "1926".

Compliance Audit of Facility Management and Maintenance Contracts (2006 through 2011)

Hon. Richard D. Huffman, Chair, Advisory Committee on Financial
Accountability and Efficiency for the Judicial Branch (A&E)

John A. Judnick, Senior Manager, Internal Audit Services

Burt Hirschfeld, Office of Real Estate & Facilities Management

Gerald Pfab, Office of Real Estate & Facilities Management

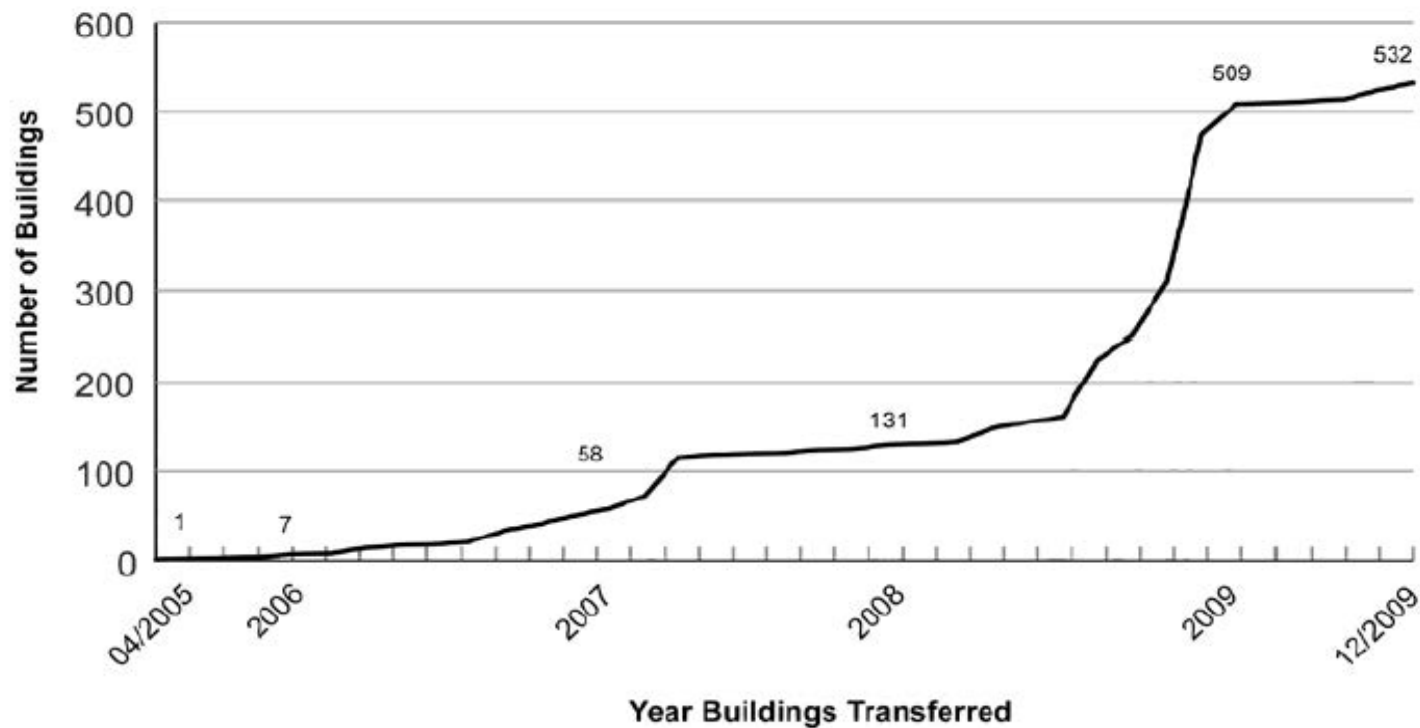
BACKGROUND

- Gov. Code 70392 Judicial Council and AOC
“authority and responsibilities including providing ongoing oversight, management, operation, and maintenance of facilities used by the trial courts.”
- Transfer of Court Facilities 2005 through 12-31-09
 - 532 transfers
 - Over 20 million sq. ft. managed

Source: The AOC's Fact Sheet on Transfer of Court Facilities (September 2010)

Office of Court Construction and Management Cumulative Number of Transfers

April 2005 through December 2009



Transfers began in earnest in 2006, once legislation resolved issues of seismic liability that had hindered the process in many counties.

Infrastructure

Descriptions	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Source: OCCM/FMU							
Total square footage FMU is responsible for	272,909	1,576,367	3,442,617	9,584,150	13,410,691	16,267,602	19,391,399
Source: State of California, Department of Finance (DOF) - Salaries and Wages*							
Total number of authorized positions	74	14	22	34	68	66	65
Total number of filled positions	10.90	12.20	15.30	33.10	43.80	40	35
For Perspective							
Total number of square footage per filled position	25,038	129,210	225,008	289,551	306,180	406,690	554,040

* Information is from FMU since information for FY 2011/2012 is not yet available from the DOF website.

Regions and Facilities

AOC Regions	Number of Counties	Number of AOC Districts	Number of Buildings	Number of Square Footage
Southern Region (SRO)	11	4	186	7,523,378
Bay Area/Northern Coastal Region (BANCRO)	16	4	104	3,711,514
Northern/Central Region (NCRO)	31	3	140	2,850,263
Total	58	11	430	14,085,155

Maintenance Vendors

List of Contractors and the Dollar Amount Encumbered in the Contracts

Region	Contract #	Contractor	Original Contract Effective Date	Total Amount Encumbered Including Extensions and Amendments Effective Dates Ranging from 2009 to 2011			Contract Termination Date
				Total Amount Encumbered to Date	Amendment Number	Effective Date of Amendments	
SRO	1010044	Jacobs Project Management Co.*	4/1/2006	\$ 73,784,072	34	9/16/2011	12/31/2011
BANCRO	1015994	Jacobs Project Management Co.+	4/1/2008	54,381,605	22	9/16/2011	12/31/2011
NCRO	1010042	Aleut Facilities Management, Inc. ¥	3/1/2006	26,319,897	19	9/21/2009	See Contract # 1019945
	1019945	Aleut Facilities Management, Inc. ¥	12/15/2009	23,646,822	12	9/12/2011	
Total				\$ 178,132,396			

*The contract was assigned on November 16, 2009 by Jacobs Facilities Inc. to Jacobs Project Management Co.

+ The contract was assigned on December 7, 2009 by Jacobs Field Services North America, Inc. to Jacobs Project Management Co.

¥The Contract was originally signed in 2006 with Tekstar, LLC, and Tekstar's name was subsequently changed to Aleut Global Solutions, LLC. In December 2009, due to a change in some of the contract provisions because of the Contractor's limited liability status, this contract was replaced by a new contract with the same company. In March 2010, this new contract was assigned to another related entity, Aleut Facilities Management, Inc. (AFM) to take advantage of AFM's class "B" contractor's license.

Vendor Compensation - Contract

- Direct cost work
 - Total labor costs
 - Direct work materials reimbursement
 - Travel reimbursement
 - Management fee (20% to 24%)
 - Performance based compensation (5% to 7%)
- Fixed price basis



Service Work Orders

Fiscal Year 10-11

SRO	33,992	\$19.6M
BANCRO	26,147	\$18.3M
NCRO	22,322	\$9.9M

Management Summary

- Contract compliance audit and performance review
- Review of Service Work Orders (SWOs)
 - 102 SWOs for 13 month period
 - 13 SWOs for specific CPR statutory review



Management Summary

Overall

- Numerous instances of non-compliance with key contractual terms and with statutory provisions
- Need for improvements in operational processes

Facility Mgmt Unit Processes

- Improvements needed over SWO “audit” processes (1.1)
 - Increased reviews needed
- Enhancements needed over SWO authorization and approval process (1.2)
 - Policies and procedures
 - Approval matrices
 - CAFM functionality

Facility Mgmt Unit Processes

- Enhancements needed over SWO close-out processes (1.3)
- Increased monitoring of contractor and sub-contractor compliance with prevailing wages laws needed (1.4)
 - Report non-compliance pursuant to LC section 1726(a)
 - AOCs IAS Unit reported non-compliance to DIR on March 29, 2011 (June 2012 DIR issued a "Civil Wage and Penalty Assessment" to one vendor for \$630K)

Facility Mgmt Unit Processes

- Improvements needed in documenting that the best value was obtained (1.6)
 - Documentation necessary to verify appropriate lowest cost procurements
- Improvements needed in monitoring subcontractor costs (labor and material) (1.7)

General Prevailing Wages (Issue 2.1)

Several areas of possible non-compliance with prevailing wage laws

- Potential payments of less than the general prevailing rates of per diem wages
- Possible non-compliance with apprenticeship standards
- Inadequate employee craft classifications reported in the CPRs



General Prevailing Wages (Issue 2.1)

- Incomplete CPRs including inadequate certifications of the CPRs
- Inconsistent information in CPRs, SWOs and the payroll records.

Additionally, documentation requested from vendors under Labor Code section 1726(a) not fully provided

Table: The Number of CPRs Where Issue # 1 to 5 Were Noted

Region		SRO	BANCRO	NCRO	Total
	The number of service work orders selected as samples	13	8	24	45
	The number of CPRs submitted by the Contractors and their teammate/non-teammate subcontractors selected for review	13	8	34	55
Issue #	Descriptions of Issues Noted	The Number of CPRs Where Issues # 1 to 5 were Noted			
	Potential payments of less than the general prevailing wage rates:				
	Incomplete reporting of employer payments	13	8	21	42
1	Contractor self-identified that the base rate paid to employees is less than the prevailing rate of wages and not all employer payments were made	0	0	1	1
2	Inadequate reporting of employee craft classifications	13	8	17	38
3	Incomplete data elements in the CPRs	13	8	30	51
4	Missing phrase "Under the Penalty of Perjury" in the CPR certification language	0	0	4	4
5	Information in the CPRs did not reconcile to SWOs or payroll records	8	2	5	15

Contractors' General Building "B" License Status (3.1)

- Licenses required by contract during the term of the contract.
 - Not verified at signing of contracts
 - Not monitored periodically

Requests for Documents from the Contractors (issue 4.1)

Under contracts documentation supporting invoices to be retained by contractors and submitted upon request.

January 18, 2011 and March 4, 2011 Requests for Documentation

Table C: Recap of IAS' Requests for Documentation

Date of Request	The Number of SWO Selected as Samples for Review				Costs Associated with the SWOs Selected for Review	Documentation Requested
	SRO	BANCRO	NCRO	Total		
January 18, 2011 Request	41	30	31	102	\$ 7,235,730	All supporting documentation to support the charges reported in the service work orders (SWOs) including the associated Certified Payroll Records (CPRs).
March 4, 2011 Request	5	4	4	13	752,327	Request was limited to the CPRs associated with the SWOs.
Total	46	34	35	115	\$ 7,988,057	

The costs reported in the SWOs supporting documentation including CPRs that were not received from the Contractor totaled \$3.8 million:

Table E: Costs Associated with the SWOs Requested Information was not Received by IAS

Request for Information	SRO		BANCRO		Total	
	Number of SWOs	Dollar Amount	Number of SWOs	Dollar Amount	Number of SWOs	Dollar Amount
January 18, 2011 Request	27	\$ 1,272,964	15	\$ 1,913,108.00	42	\$ 3,186,072.00
March 4, 2011 Request	5	472,604	4	147,740	9	620,344
Total	32	\$ 1,745,568	19	\$ 2,060,848.00	51	\$ 3,806,416.00

As a result, the Contractor for both the SRO and BANCRO regions is not in compliance with the contract provisions to provide upon request all financial data related to the performance and billing under the contract. Therefore, Internal Audit Services cannot determine the sufficiency of the documents to support the approximately \$3.8 million charged to the AOC.

Direct Labor Charges (5.1)

- “Escort and other similar type services” appear to be non-allowable contractual charges

“All Contractor and subcontractor personnel needing unescorted access to facilities will be subject to an AOC background check.”

Escort and Other Similar Type Services

- High level review of entire data base for a 12 month period was performed.
- Extract based on key words was used to obtain a perspective with respect to the extent of the issue.

Escort and Other Similar Type Services

Key Word	SRO		BANCRO		NCRO		Total	
	Hours	Labor Costs*	Hours	Labor Costs*	Hours	Labor Costs*	Hours	Labor Costs*
Escort	1,760	\$ 156,673	2,277	\$ 210,706	3,443	\$ 248,573	7,480	\$ 615,952
Access	6,656	600,620	2,768	269,440	2,630	189,898	12,054	1,059,958
Monitor	1,694	149,338	771	77,050	910	65,900	3,375	292,288
Observe	99	8,553	92	7,530	149	10,459	340	26,542
Supervise	48	4,326	27	3,096	10	587	85	8,009
Attendant	-		30	2,481	-		30	2,481
Total	10,257	\$ 919,510	5,965	\$ 570,303	7,142	\$ 515,417	23,364	\$ 2,005,230

*Including management fee and the potentially available Performance Based Compensation (PBC)

Contractor Management and Support Activities (5.2)

- Contract requirement in Exhibit C (Payment Provisions)

“Management and support activities shall not be included in charges to Direct Cost Work.”

- Management Fee according to Exhibit C was to compensate the Contractors for “all overhead and administrative expenses in support of Direct Cost Work, including without limitation, all management work”

Contractor Management and Support Activities (5.2)

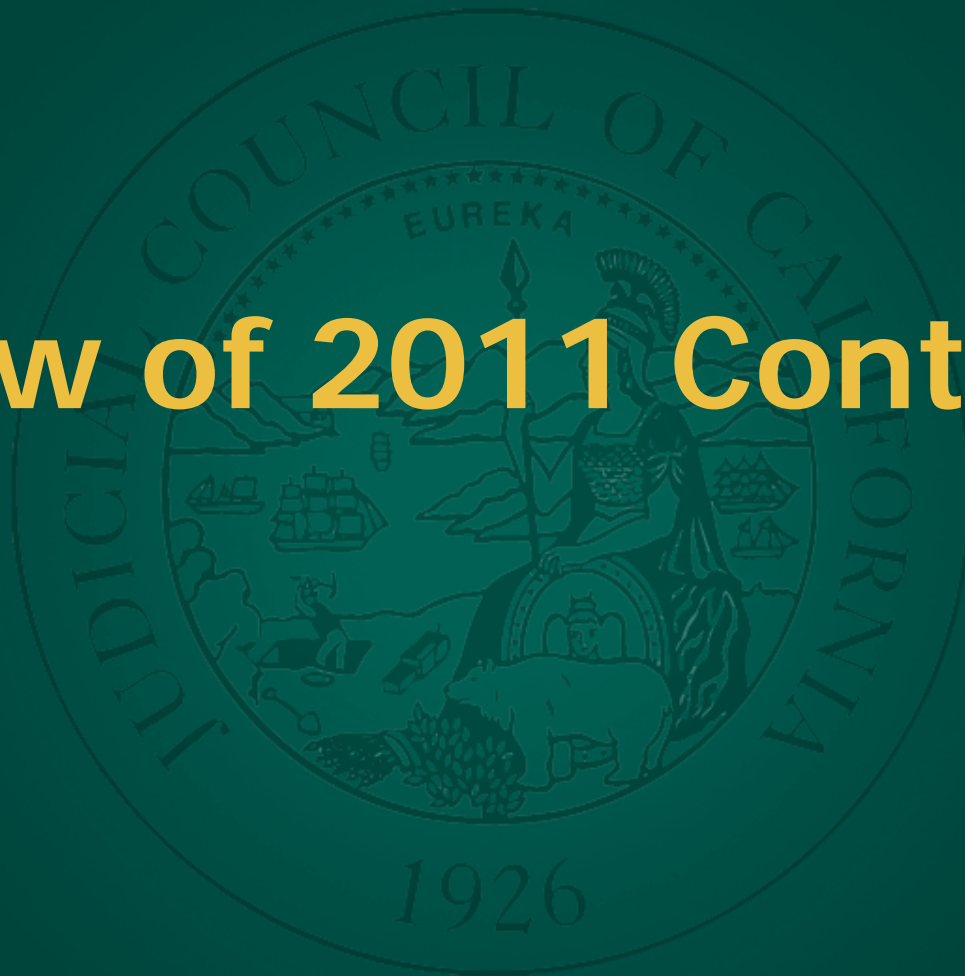
Review performed of CAFM data base for a 13 month period noted what appeared to be numerous labor charges for “Direct Cost Work” by contractor management and support personnel contrary to contract provisions.

- Using job titles and the associated labor costs in the SWOs including the management fee and the potentially available PBC the amount is approximately \$2.2M.

Direct Labor Charges - Overtime (5.3)

- Contract provisions appear in conflict with one another or inconsistent.
- Overtime paid based on 'total labor costs' that include benefits not at the 'basic rate of pay' per labor code section 1815.
- Potential excess payment for 13 month period reviewed -- approx. \$330,000.

Review of 2011 Contracts



Review of 2011 Contracts

Phase-In and Phase-Out Contractual Sections

- Contracts as amended in 2006 do not provide for full accountability and transparency
 - Reporting and review and approval provisions adjusted.
 - Payments made of approximately \$3.5 million.
- New 2011 contracts contain some similar issues

New Contract Cost Model for Firm Fixed Price Tier

- Movement from a cost plus to a significant firm fixed priced tier contract requires obtaining data to determine if value is being obtained.

9.1 Phase-In and Phase-Out Contractual Sections Continue to Not Provide Full Accountability and Transparency

- Contract payments for Phase-In and Phase-Out (chart on page 99)
- New contract concerns
 - Review and approval of phase-in and phase-out costs
 - Page 101 -- \$3,000 'ruggedized tablet' computers

PHASE IN AND PHASE OUT COSTS BY CONTRACT AND CONTRACTOR				
	2006 - 2011 Contracts			
	Jacobs --SRO	Jacobs -- BANCRO	Aleut -- NCRO	Total
Phase In	1,300,000	1,025,000	400,000	2,725,000
Phase Out	400,000	400,000	20,000	820,000
	1,700,000	1,425,000	420,000	3,545,000
	2011- 2015 Contracts			
	ABM -- SRO	Enovity -- BANCRO	Pride -- NCRO	Total
Phase In	210,000	816,000	396,000	1,422,000
Phase Out	72,000	150,000	79,000	301,000
	282,000	966,000	475,000	1,723,000

Note: The amounts in the table above are dollars that are rounded to the nearest thousand.



9.2 Contract Cost Model for the Firm Fixed Price Tier Does Not provide for Accurate Determination of Whether Fair Value Was Received

Moved from primarily cost-plus to firm fixed price contract.



9.2 Contract Cost Model for the Firm Fixed Price Tier Does Not provide for Accurate Determination of Whether Fair Value Was Received

- Concerns:
 - Historical data on court maintenance flawed
 - Unique single use facilities
 - Use competitive bidding
 - Industry standards
- Request made of Contractors' to supply data and analyze over time



9.2 Contract Cost Model for the Firm Fixed Price Tier Does Not provide for Accurate Determination of Whether Fair Value Was Received

Gathering of data from contractors for a 1 year period to end mid-year 2013.

- Assess at that point the data and make a recommendation.

The seal of the Judicial Council of California is a circular emblem. It features a central figure of a woman holding a scale of justice, with a mountain range in the background. The text "JUDICIAL COUNCIL OF CALIFORNIA" is written around the perimeter, and "EUREKA" is written above the central figure. The year "1926" is at the bottom. The seal is rendered in a light blue color on a dark blue background.

End of Presentation

Questions?