

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

Internal Control & Compliance Audit:

OC PUBLIC WORKS CHANGE ORDER AND CONTRACT AMENDMENT PROCESSES

For the Period July 1, 2009
through June 30, 2012

Key Control Audit

OC Public Works processed 635 Change Orders and Contract Amendments between July 1, 2009 and June 30, 2012 for initial contracts with a cost of \$1 million or greater. The cost of the 635 Change Orders and Contract Amendments totaled \$39 million.

We evaluated the effectiveness of selected processes, policies and procedures pertaining to OC Public Works' (OCPW) Change Order and Contract Amendments and noted four key areas where OCPW could enhance their policies and procedures by providing more detailed guidance and standardization of commonly used forms and supporting documents. In addition, we recommend OCPW formalize their delegated responsibility and required technical qualifications for the staff assigned to process and approve Change Orders and Contract Amendments.

We noted **four (4) Control Findings** where OCPW can enhance their policies and procedures largely by providing more detailed guidance and standardization of commonly used forms and supporting documents.

AUDIT NO: 1225-B
REPORT DATE: FEBRUARY 19, 2014

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Senior Audit Manager: Michael Goodwin, CPA, CIA
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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

 ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1225-B February 19, 2014

TO: Shane L. Silsby, Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control & Compliance Audit:
OC Public Works Change Order and
Contract Amendment Processes

We have completed an Internal Control & Compliance Audit of OC Public Works' Change Order and Contract Amendment Processes for the period July 1, 2009 through June 30, 2012. We performed this audit in accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

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OC Public Works Change Order and
Contract Amendment Processes
Audit No. 1225-B***

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Audit No. 1225-B

February 19, 2014

TO: Shane L. Silsby, Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control & Compliance Audit: OC Public Works
Change Order and Contract Amendment Processes

Audit Highlight

To support our evaluation of the effectiveness of selected processes, policies and procedures, we audited a sample of **thirty-six (36)** Change Orders and Contract Amendments **totaling \$8.4 million** that were processed over a three-year period on major Public Works and A-E Service contract awards that exceeded \$1 million.

Our detailed testing covered **22%** of the total dollar amount of Change Orders and Contract Amendments processed during the period for the major contracts identified. There were a total of **635 Change Orders/Contract Amendments totaling \$39 million stemming from large dollar contracts for the three years under review.**

OBJECTIVES

In accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, the Internal Audit Department conducted an Internal Control & Compliance Audit of OC Public Works (OCPW) Change Order and Contract Amendment Processes.

Our audit objectives included obtaining an understanding of and evaluating selected processes, policies and procedures pertaining to Change Orders and Contract Amendments; conducting limited testing of transactions for compliance with selected County Contract Policy Manual and OCPW policies and procedures; and evaluating associated process efficiencies and effectiveness. Our audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The objectives of this audit were to:

1. Evaluate the effectiveness of selected processes, policies and procedures pertaining to Change Orders and Contract Amendments.
2. Determine if OCPW's Change Order and Contract Amendment processes are efficient and effective (e.g., no backlogs, duplication of work or manual processes that could be automated).

RESULTS

Objective #1: We describe in **three (3) Control Findings** opportunities for OCPW to enhance their policies and procedures by providing more detailed guidance and standardization of commonly used forms and supporting documents and formalizing delegated responsibility and required technical qualifications for staff processing and approving Change Orders and Contract Amendments.

Objective #2: Our audit did not note any instances of duplication of work or processes that could be automated for OCPW's change order and contract amendment processes for Public Works and A-E Service contracts. We identified **one (1) Control Finding** recommending that OCPW/Administration increase its monitoring and oversight of the Change Order and Contract Amendment processes in the divisions.



The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management
1.	Control Finding	While the approvals exercised were clear and appropriate given OCPW's Organizational Chart, delegated authority by the Department Director to the OCPW Divisions for approving Change Orders and Contract Amendments was not documented in OCPW policy and procedures. (pg.7)	Formally document delegated authority for approving in policy and procedures. Maintain records (e.g., Authorized Signature Lists, Access Request Forms) to identify personnel authorized specifically to approve Change Orders and Contract Amendments.	Yes
2..	Control Finding	No documentation was maintained by OCPW showing the experience and qualifications of the employee responsible as the primary role for processing and approving Change Orders/Contract Amendments. (pgs.8-9)	Formalize the requirements necessary to qualify for the primary role and retain such evidence for each employee assigned this role.	Yes
3.	Control Finding	Policies, procedures and forms used to process Change Orders and Contract Amendments were not standardized and were varied in scope and content between OCPW Divisions. (pgs.9-10)	Develop standardized policies, procedures and forms for processing Change Orders and Contract Amendments, including forms for supporting documents such as for documenting price negotiations and preparing independent cost analyses.	Yes
4.	Control Finding Efficiency & Effectiveness	Responsibility for processing Change Orders and Contract Amendments is delegated to the OCPW Divisions with limited monitoring and oversight by OCPW/Administrative Services. (pgs.10-11)	Identify process by which OCPW/Administrative Services will provide oversight and monitoring of major Public Works and A-E Service contract Change Orders and Contract Amendments processed in the OCPW Divisions.	Yes



BACKGROUND

The primary mission of OC Public Works is to “ensure quality of service today and quality of life tomorrow.” OC Public Works accomplishes its missions and strategic objectives through a dedicated professional workforce that is organized in the following four divisions:

1. OC Engineering

Protects the public from the threat of floods by designing, constructing, operating, and maintaining major flood control channels, dams, retarding basins, and pump stations. The division also provides the public with highways and streets by designing, constructing, maintaining, and managing a road system in unincorporated areas and cities that contract with OCPW for services. OC Engineering includes OC Road, OC Flood, OC Survey and OC Inspections, where a majority of change orders are initiated.

2. OC Facilities

Provides the public and other County departments with support services that include building maintenance, parking facility administration, facilities operations, and public works projects.

3. OC Planning

Protects public safety and the environment by providing planning, environmental analysis, zoning, grading and building services in incorporated areas. OC Planning develops and implements water quality improvement strategies, enforces agricultural weed abatement and pesticide regulations; and implements weights and measures.

4. Administrative Services

This division is responsible for supporting all OCPW divisions by providing accounting, finance, information technology, purchasing, strategic planning and legislation, internal controls, communication, and policies and procedures.

County's Contract Policy Manual. The California Government Code authorizes the County Board of Supervisors to employ a **County Purchasing Agent** to perform certain duties on behalf of the County. Under the direction of the County Purchasing Agent, employees are trained and deputized as Deputy Purchasing Agents to perform in the County Purchasing Agent's capacity. Within the County Executive Office is the **County Procurement Office (CPO)** where the County Purchasing Agent administers procedures and methods over purchasing. A **Contract Policy Manual (CPM)**, updated July 2012, defines general responsibilities, rules and procedures, types of contracts, and methods of solicitation for County procurement. Our three-year audit period included Public Works and A-E service contracts subject to the 2007 CPM.

Public Works Contracts. Public Work projects are defined in Public Contract Code Section 22002 as any of the following: “construction, reconstruction, erection, alteration, renovation, improvement, demolition, and repair work involving any publicly owned, leased, or operated facility; and painting or repainting any publicly owned, leased, or operated facility.” Public Works contracts are issued in accordance with the Public Contract Code. OCPW reported the following Public Works contracts, each exceeding \$1 million, awarded between July 2009 and June 2012:

OCPW Section	Public Works Contracts	Value
OC Facilities Operations	2	\$10,657,881
OC Flood Santa Ana River	4	64,370,900
OC Road	9	69,191,342
Total	15	\$144,220,123



Architect-Engineer (A-E) Service Contracts. A-E Service contracts include architectural, engineering, environmental, land surveying services, and related incidental services. Environmental services are generally performed in connection with project development and permit processing to comply with federal and state environmental laws. A-E services can include investigations, designs, plans and specifications, reports cost estimates, shop drawings, supervision of construction, land surveying materials testing and other related services in support of an A-E project. OC Public Works reported the following A-E Service contracts that each exceeded \$1 million and were awarded between July 1, 2009 and June 30, 2012:

OCPW Section	Architect-Engineer Service Contracts	Value
OC Flood Santa Ana River	2	\$16,744,363
OCPW Procurement Services/OC Watersheds	14	23,100,000
Total	16	\$39,844,363

Change Orders and Contract Amendments. Change orders are changes made to Public Works contracts and contract amendments are changes made to A-E Service contracts. Change Orders/Contract Amendments are written orders signed by the Department Head or a Deputy Purchasing Agent (DPA) directing the contractor or consultant to make a change to the original contract. Change Orders/Contract Amendments occur from unanticipated increased costs or time extensions needed to complete the contract. OC Public Works reported the following Change Orders/Contract Amendments between July 1, 2009 and June 30, 2012 on contract awards that exceeded \$1 million:

OCPW Section	Change Orders and Contract Amendments	Value
OC Engineering Project Management	3	\$ 2,044,190
OC Facilities Operations	51	1,140,380
OC Flood Santa Ana River	6	2,855,098
OC Inspection	560	17,813,410
OCPW Procurement Services	15	15,012,000
Total	635	\$38,865,078

Note: OC Inspection processes the majority of Change Orders and Contract Amendments. These can be initiated in OC Inspections, OC Flood, OC Road, and OC Watershed.

SCOPE

Our audit covered the period July 1, 2009 through June 30, 2012, and included Change Orders and Contract Amendments on Public Works and A-E Service contracts awards exceeding \$1 million.

SCOPE EXCLUSIONS

We did not review Change Orders and Contract Amendments associated with agreements with an initial value **under \$1 million**. In addition, we **did not** assess, evaluate or obtain independent outside validation regarding the necessity, reasonableness, cost, time and justifications associated with the Change Orders and Contract Amendments we selected for review. In this regard we relied upon the authorizing signatures of the project personnel and OCPW management affixed on related documentation.



Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual Procedure, Section S-2 *Internal Control Systems*,

All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is **because management has primary responsibility for establishing and maintaining the internal control system**. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated (by Management) and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. **IAD's Internal Control Audit enhances and complements, but does not substitute for OC Public Works' continuing emphasis on control activities and self-assessment of control risks.**

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override of controls and policies and procedures, circumvention of controls by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in OC Public Works' operating procedures, practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by OC Public Works during our audit.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael B. Giancola, County Executive Officer
Mark Denny, Chief Operating Officer
Jessica O'Hare, Assistant to the Chief Operating Officer
Rob Richardson, County Purchasing Agent, County Procurement Office
Mary Fitzgerald, Director, Administrative Services, OCPW
Kevin Onuma, Interim Director/Chief Engineer, OC Engineering
Richard Sandzimier, Director, OC Planning, OCPW
Phillip Cook, Manager, OC Facilities Operations, OCPW
Octavio Rivas, Manager, OC Construction, OCPW
Vincent Gin, Manager, Project Management, OCPW
Ron Vienna, Manager, Procurement and Special Services, OCPW
Randi Dunlap, Manager, Policy and Compliance, OCPW
JC Squires, Manager, Central Quality Assurance, OCPW
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Macias, Gini & Co. LLP, County External Auditor



Audit Objective #1: Evaluate the effectiveness of selected processes, policies and procedures pertaining to OC Public Works' (OCPW) Change Order and Contract Amendments.

AUDIT STEPS AND RESULTS

To accomplish this objective, we audited internal controls over Change Order and Contract Amendment processes. We performed the following audit steps:

- ✓ Obtained an understanding of OCPW's Change Order and Contract Amendment processes for Public Works and A-E Service contracts and related internal controls through interviews and review of documents in:
 1. OC Facilities Operations
 2. OC Flood Santa Ana River
 3. OC Inspection
 4. OC Planning
 5. OC Road
 6. OCPW Procurement Services
- ✓ Tested a sample of **36 change orders totaling \$8.4 million** for the following:
 1. The Change Order/Contract Amendment request is documented.
 2. Justification for the Change Order/Contract Amendment's adjusted cost and/or time is documented to support the additional costs and/or time extension.
 3. Evidence by signature and or notes, comments and attachments that a County employee analyzed the cost for reasonableness.
 4. A Resident Engineer or Project Manager closely involved with the project reviewed and approved the change order or contract amendment.
 5. A Division Manager or designee reviewed and approved the change order or contract amendment.
 6. Change Orders/Contract Amendments meeting CPM policy dollar thresholds were properly submitted to the Board of Supervisors for approval.

CONCLUSION

We noted key areas described in our **three (3) Control Findings** where OCPW could enhance their policies and procedures by providing more detailed guidance and standardization of commonly used forms and supporting documents. In addition, we recommend formalizing delegated responsibility and required technical qualifications for staff processing and approving Change Orders and Contract Amendments.

Our audit found that responsibility for processing and approving Change Orders and Contract Amendments is delegated to OCPW Divisions with limited monitoring and oversight by OCPW/Administrative Services. This authority delegated by the OCPW Director to the Divisions was not specifically formalized in written policy. In addition, per the 2007 Contract Policy Manual, Deputy Purchasing Agents (DPAs) were to be the primary staff in procuring and modifying Public Works contracts; however, these roles were assigned to non-DPAs, with the approval by the County Procurement Office (CPO) in order to better assure that the requisite competence and experience necessary to properly manage the complex and technically challenging Change Orders/Contract Amendments were provided to such contracts. These individuals consisted of Division Managers, Resident Engineers, and Project Managers who were directly involved with the projects. The DPA requirement was formally changed in the 2012 Contract Policy Manual which no longer requires DPA's involvement in procuring Public Works contracts. Our three Control Findings are discussed below:



Finding No. 1 – Delegated Authority for Approving Change Orders Not Formally Documented (Control Finding)

Summary

Authority for approving Change Orders and Contract Amendments was organizationally delegated to OCPW Division Managers and designees by the Director of Public Works, but this authority is informal and not specifically documented in OCPW policies and procedures.

Details

We were informed that OCPW Division Managers have signature authority on behalf of the Director of Public Works to approve Change Orders and Contract Amendments. However, it was noted that OC Public Works did not document this delegation of authority in any written policy or procedures. According to the **2007 CPM, Section 3.5 – A-E service contracts**:

“Within the authority granted by the Board of Supervisors, the agency/department head may order changes, additions, and extensions in the work. Amendments must be used when changes exceed the agency/department head’s authority and must be submitted to the Board of Supervisors”

Signature approval authority is identified in the County by using manual Authorized Signature Lists (pre-CAPS+) or Access Request Forms - ARFs (CAPS+). **We noted that neither the Authorized Signature Lists nor the ARFs have a section specifically for approving Change Orders**, however, upon discussion with Auditor-Controller personnel we were informed that such authority can be designated in the ARFs under a “catch all” option titled “Department Head Delegated Authority.”

Our testing of 36 changes orders and contract amendments found 34 instances where six managers in the various OCPW Divisions approved Change Orders and Contract Amendments. Some of the approvers were Division Managers; others were designees of the Division Managers. However, we reviewed the ARFs for the managers and noted that none had the formal “Department Head Delegated Authority” noted under the “catch all” option. It is important to note that our observation does not challenge the competence, appropriateness or qualifications of the individuals authorizing these transactions. We are only bringing to management’s attention the benefit of formalizing such delegations.

Recommendation No. 1

OC Public Works create and maintain a policy to identify personnel authorized to approve Change Orders and Contract Amendments. This authority should be identified on the employee’s CAPS+ ARF as “Department Head Delegated Authority.”

OC Public Works Management Response:

Concur with recommendation. OCPW/Procurement Services will document delegated authority for approving Change Orders and Contract Amendments in order to ensure that only those individuals with appropriate authority delegated by the OCPW Department Head may execute Change Orders and Contract Amendments.



Finding No. 2 – Need to Formalize the Required Qualifications for Employees Appointed to Oversee Change Orders/Contract Amendments (Control Finding)

Summary

OC Public Works is now (since 2012) formally allowed to use non-Deputy Procurement Agents (DPAs) in the primary management role in processing Change Orders/Contract Amendments due to a revision to the 2012 CPM. This revision deleted the former requirement for Public Works to use DPAs and instead allows the use of County employees “possessing appropriate qualifications, training and technical experience” necessary to ensure compliance with Contract Policy Manual and Public Contract Code requirements. As a result of our review, we were informed by OCPW, and confirmed by the County Purchasing Agent, that they received an exemption regarding the use of DPAs from him well before 2012 for processing change orders and contract amendments.

Details

Our testing of Public Works change orders disclosed that DPAs were not part of the process or were minimally involved. According to the **2007 CPM, Section 3.6 – Public Works Contracts**:

“The agency/department Deputy Purchasing Agent shall have the primary role in the preparation and processing of the actual contract, subsequent changes to the contract, the development of purchase order contracting procedures, and monitoring of the contracting process for all contracts.”

We discussed this issue with the County Procurement Office. According to the County Purchasing Agent, through his discussions with County Counsel and their review of the Public Contract Code requirements, it was decided (prior to the 2012 revised CPM) that **DPAs did not** have to participate in the awarding of public works contracts and any subsequent contract changes due to the technical nature of public works contracts. On July 24, 2012, the Board of Supervisors approved a revised 2012 CPM. The revision **removed the requirement for a Deputy Purchasing Agent** to be involved with processing change orders for Public Works, Human Services and Real Estate contracts due to the technical nature and specifications of the contracts. Instead, the CPM now allows for oversight regarding Change Order/Contract Amendments to be provided by any County employee who possesses the appropriate experience, training, qualifications and technical expertise the Department deems appropriate.

Our review and testing of Public Works contract change orders confirmed that department personnel with knowledge of the project’s statutory and technical requirements processed change orders prior to the CPM revisions made in 2012. Additionally, in instances where change orders were large enough (\$100,000 and over) to require approval from the Board of Supervisors, OCPW’s Procurement Services Manager who is a DPA reviewed and authorized with his signature the Change Orders/Contract Amendments during the ASR process.

In the files we tested, however, no documentation was maintained by OCPW showing the experience and qualifications of the employee responsible as the primary role for monitoring. Since the requirement for participation from a DPA was removed from the 2012 CPM, it will be important for OC Public Works to ensure the employee in the primary role in processing Public Works’ Change Orders has the experience, training, qualifications and technical expertise, and is documented in the contract file.

Recommendation No. 2

OC Public Works establish the requirements and qualifications for staff assigned the primary role and retain evidence that staff assigned this role meet these qualifications in order to facilitate a subsequent review from either OCPW Administration or a third party such as Internal Audit.



OC Public Works Management Response:

Concur with recommendation. Change Orders relating to Public Works Contracts are vetted and approved through appropriate supervisory and management levels within OCPW and are typically subject matter experts in their respective fields. OCPW will document the experience and qualifications of the employees responsible for processing Change Orders and Contract Amendments to support their technical expertise and qualifications.

Finding No. 3 – Policies, Procedures, and Forms Not Standardized (Control Finding)

Summary

Internal policy and procedures for processing Change Orders and Contract Amendments were not consistent or standardized between the four OCPW Divisions. Specifically, we found in our test work that information, methodology and the amount of documentation presented to support the County's employee's assessment of the vendors' proposed cost, time estimate and justifications varied between the Divisions due to the fact that several divisions did not have such requirements in their procedures for processing Change Orders/Contract Amendments.

The current state of OCPW's internal policies and procedures made it challenging for Internal Audit as a third party reviewer to subsequently determine the Division's compliance with either the CPM or OCPW's expectations regarding the information, methodology and amount of documentation required to justify a Change Order/Contract Amendment.

Details

OCPW Divisions were delegated organizational authority for processing and approving Change Orders and Contract Amendments. Each division either had documented policies and procedures, or referred to the Contract Policy Manual requirements. However, there was *no OCPW department-wide policy and procedures that standardized the expectations for processing Change Orders and Contract Amendments*. This is despite the fact that the **2007 CPM, Section 3.6 – Public Works Contracts** states that:

“The contracting agency/department shall develop internal procedures for:

- *Reviewing change requests;*
- *Negotiating change order terms with the contractor;*
- *Obtaining legal review and approval of change orders, where appropriate, and;*
- *Preparing written documentation on change orders.*

Our audit found OCPW four Divisions' policies and procedures varied in detail and content. Among the four Divisions, we found **OC Inspections (the largest processor of Change Orders/Contract Amendments for OCPW totaling close to 50% of the dollar value of all such transactions)** to be the only Division with its own Manual. The other Divisions relied upon the CPM general directions for their guidance. We found that the OC Inspection's Manual is detailed and comprehensive. However, OC Inspection's Manual while speaking to the need for a County employee to justify both the necessity and the reasonableness of the vendors' proposed cost or pricing for their Change Order/Contract Amendment, the Manual provides limited detailed explanations and guidance and does not specifically address what is required to adequately provide what the manual refers to as an “independent cost analysis.”



Recommendation No. 3

OC Public Works develop standardized policies, procedures and forms for processing Change Orders and Contract Amendments in all four of its Divisions, including standard forms to be used as supporting documents for all price negotiations and independent cost analyses conducted. As part of this process, we strongly recommend management research industry best practices and retain such information as support and future reference.

OC Public Works Management Response:

Concur with recommendation. OCPW will develop a departmental policy and procedure concerning the processing of Change Orders relating to Public Works contracts and Contract Amendments and ensure that appropriate documentation supporting the Change Orders and Contract Amendments are retained in the project file.

Audit Objective #2: Determine if OCPW's Change Order and Contract Amendment processes are efficient and effective (e.g., no backlogs, duplication of work or manual processes that could be automated).

AUDIT STEPS AND RESULTS

To accomplish this objective, we used auditor inquiry and observation to determine if OCPW's processes for Change Orders and Contract Amendments were efficient and effective in the areas noted under this objective.

CONCLUSION

We did not note any instances of backlogs, duplication of work or manual processes that could be automated in OCPW's processes for Change Orders and Contract Amendments. We did identify **one (1) Control Finding** concerning OCPW/Administrative Services' monitoring and oversight of the divisions' Change Orders and Contract Amendments, which is discussed below.

Finding No. 4 – Limited Monitoring and Oversight by OCPW/Administrative Services (Control Finding)

Summary

OC Public Works delegated authority to the OCPW divisions for processing change orders. Because of this delegated authority, there is limited oversight and monitoring of Change Orders and Contract Amendments by OCPW/Administrative Services.

Details

Responsibility and authority for processing and approving Change Orders and Contract Amendments in OCPW was delegated to the OCPW Divisions and Procurement Services. As such, certain divisions process, review and approve Change Orders and Contract Amendments without review and approval by OCPW/Administrative Services, unless the Change Order or Contract Amendment requires approval from the Board of Supervisors. In those instances, the Change Order/Contract Amendment is routed to Administrative Services for review and approval. However, this delegated authority was not documented in a written OCPW policy and procedure.



Our audit also noted that OCPW/Administrative Services did not receive periodic management reports of Change Orders and Contract Amendments from the divisions to provide monitoring and oversight; did not maintain a master listing of all awarded Public Works and A-E Service contracts and related Change Orders and Contract Amendments; and furthermore did not conduct periodic compliance reviews in any of the Divisions. With authority and responsibility delegated to the divisions, centralized monitoring and oversight is needed to ensure adherence to County and OCPW policies, consistency between the divisions, and to be a centralized source of information for all Change Order and Contract Amendment activity occurring in OCPW. Providing oversight and monitoring of the divisions can help ensure consistency in change order and contract amendment processes.

Recommendation No. 4

OCPW/Administrative Services evaluate providing additional monitoring and oversight of the Change Orders and Contract Amendments. This can be achieved by receiving management reports regarding the number, dollar value, reasons and vendor, discussing such data with Division Managers, making site visits, and performing periodic compliance reviews.

OC Public Works Management Response:

Concur with recommendation. OC Public Works Central Quality Assurance will, on a post award basis, periodically test a sample of the decentralized change order files to ensure they properly document compliance with County and Department policies.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



ATTACHMENT B: OC Public Works Management Responses



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Memorandum

DATE: February 4, 2014
TO: Dr. Peter Hughes, Internal Audit Director
FROM: Shane L. Silsby, P.E., Director, OC Public Works
SUBJECT: Response to Internal Audit Report No. 1225 A-C

This memorandum provides OC Public Works' (OCPW) response to Internal Audit Report No. 1225 (A, B, & C) relating to the Control Findings and corresponding Report Recommendations.

A. Report No. 1225-A "Bid & Proposal Processes"

1. Recommendation No. 1 – "OC Public Works ensure Memorandums of Recommendation for proposals are signed by the entire evaluation committee and made part of the contract file as required by the Contract Policy Manual."

OC Public Works' Response: Concur with recommendation. Purchasing staff will ensure that memorandums are signed by each evaluation team member. For those situations where it is not possible to obtain all signatures on a single memorandum, staff will strive to have copies of the memorandum signed by each evaluation panel member and retain all signed originals in the Purchasing File. In the case of a missing signature, staff will document all attempts taken to obtain signatures.

2. Recommendation No. 2 – "OC Public Works establish the requirements and qualifications for staff assigned the primary role for procuring Public Works contracts and retain evidence that staff assigned this role meet these qualifications in order to facilitate a subsequent review from either OCPW Administration or a third party such as Internal Audit."

OC Public Works' Response: Concur with recommendation. OCPW Procurement will work with each appropriate Division to create a central file that includes the qualifications for each employee responsible for procuring Public Works contracts. The file would document those qualifications on an employee assignment matrix. The matrix would then be added to the project file.

3. Recommendation No. 3 – "OC Public Works evaluate whether Administrative Services should provide additional monitoring and oversight of the bid & proposal process for Public Works and A-E Service contracts."

OC Public Works' Response: Concur with recommendation. Procurement Services will, on a post award basis, periodically test a sample of the decentralized formal and informal bid and selection files to ensure they properly document compliance with County and Department policies. In addition, the Department's Central Quality Assurance Division, as an independent third party, will conduct random reviews of



ATTACHMENT B: OC Public Works Management Responses (continued)

Public Works and A-E Service contract files to ensure compliance with County procurement procedures.

B. Report No. 1225-B “Change Order and Contract Amendment Processes”

1. Recommendation No. 1 – *“OC Public Works create and maintain a policy to identify personnel authorized to approve Change Orders and Contract Amendments. This authority should be identified on the employee’s CAPS+ ARF as “Department Head Delegated Authority.”*

OC Public Works’ Response: Concur with recommendation. OCPW/Procurement Services will document delegated authority for approving Change Orders and Contract Amendments in order to ensure that only those individuals with appropriate authority delegated by the OCPW Department Head may execute Change Orders and Contract Amendments.

2. Recommendation No. 2 – *“OC Public Works establish the requirements and qualifications for staff assigned the primary role and retain evidence that staff assigned this role meet these qualifications in order to facilitate a subsequent review from either OCPW Administration or a third party such as Internal Audit.”*

OC Public Works’ Response: Concur with recommendation. Change Orders relating to Public Works Contracts are vetted and approved through appropriate supervisory and management levels within OCPW and are typically subject matter experts in their respective fields. OCPW will document the experience and qualifications of the employees responsible for processing Change Orders and Contract Amendments to support their technical expertise and qualifications.

3. Recommendation No. 3 – *“OC Public Works develop standardized policies, procedures and forms for processing Change Orders and Contract Amendments in all four of its Divisions, including standard forms to be used as supporting documents for all price negotiations and independent cost analyses conducted. As part of this process, we strongly recommend management research industry best practices and retain such information as support and future reference.”*

OC Public Works’ Response: Concur with recommendation. OCPW will develop a departmental policy and procedure concerning the processing of Change Orders relating to Public Works contracts and Contract Amendments and ensure that appropriate documentation supporting the Change Orders and Contract Amendments are retained in the project file.

4. Recommendation No. 4 – *“OCPW/Administrative Services evaluate providing additional monitoring and oversight of the Change Orders and Contract Amendments. This can be achieved by receiving management reports regarding the numbers, dollar value, reasons and vendor, discussing such data with Division Managers, making site visits, and performing periodic compliance reviews.”*



ATTACHMENT B: OC Public Works Management Responses (continued)

OC Public Works' Response: Concur with recommendation. OC Public Works Central Quality Assurance will, on a post award basis, periodically test a sample of the decentralized change order files to ensure they properly document compliance with County and Department policies.

C. Report No. 1225-C "OC Public Works Sole Source Contracts"

1. Recommendation No. 1 – *"OC Public Works ensure procedures are in place to ensure Sole Source Justification Forms are prepared and approved prior to sole source contract approval."*

OC Public Works' Response: Concur with recommendation. OCPW/Procurement will work with the Department's Central Quality Assurance Division to develop a written policy and procedure for processing sole source contracts.

2. Recommendation No. 2 – *"OC Public Works ensure that sole source justification is clearly explained for researching and comparing vendor's prices or fees to determine if they are offered within market guidelines for comparable services and supplies."*

OC Public Works' Response: Concur with recommendation. OCPW/Procurement will ensure that sole source justifications include quotes for similar services where available or provide additional explanation in the contract file.

3. Recommendation No. 3 – *"OC Public Works evaluate converting their existing manual Authorized Signature Lists for sole source authorization to the CAPS+ Access Request Forms, and establish policies and procedures to update the Access Request Forms in a timely manner when an employee's duties and responsibilities change."*

OC Public Works' Response: Concur with Recommendation. OCPW is in the process of converting the existing *Authorized Signature Lists* to the *CAPS+ Access Request Forms*. As staffing changes or changes in responsibilities occur, *CAPS+ Access Request Forms* will be updated timely.

4. Recommendation No. 4 – *"OC Public Works establish policies and procedures to ensure contracts exceeding \$50,000 are properly forwarded in Bidsync for County Procurement Office approval."*

OC Public Works' Response: Concur with Recommendation. County policy requires that all Sole Source Contracts exceeding \$50,000 be reviewed and approved by the County Procurement Office prior to submittal to the Board of Supervisors. The Purchasing Staff attend regular purchasing trainings and Best Practice Meetings provided by the County Procurement Office. In addition, a copy of the *Contract Policy Manual (2012)* has been provided to each purchasing staff member and the specific sole source policy discussed.

cc: Mary Fitzgerald, Deputy Director, Administrative Services
Ron Vienna, Manager, Procurement and Special Services
Jessica O'Hare, County Executive Office
Theresa Stanberry, County Executive Office