

Internal Audit Department

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

FINAL CLOSE-OUT

FIRST FOLLOW-UP INTERNAL CONTROL & COMPLIANCE AUDIT:

OC PUBLIC WORKS CHANGE ORDER AND CONTRACT AMENDMENT PROCESSES

AS OF APRIL 30, 2015

Our First Follow-Up Audit found that OC Public Works implemented the four (4) recommendations from our original audit report dated February 19, 2014.


We audited OC Public Works' change orders and contract amendments for Public Works and A-E service contracts that exceeded \$1 million when awarded to determine compliance with the County's Contract Policy Manual and OC Public Works' policies and procedures. During the original three-year audit period, OCPW 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 \$38 million.

AUDIT NO: 1225B-F1
(REFERENCE 1429)
ORIGINAL AUDIT NO. 1225-B


REPORT DATE: JUNE 24, 2015


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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013
 Member of AICPA® 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, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Transmittal Letter



Audit No. 1225B-F1 June 24, 2015

TO: Shane Silsby, Director
OC Public Works

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

SUBJECT: **First and Final Close-Out** Follow-Up Internal Control & Compliance Audit:
OC Public Works Change Order and Contract Amendment Processes, Original Audit No. 1225-B, Issued February 19, 2014

We have completed a First and Final Close-Out Follow-Up Internal Control & Compliance Audit of OC Public Works Change Order and Contract Amendment Processes. Our audit was limited to reviewing, as of April 30, 2015, actions taken to implement the **four (4) recommendations** from our original audit report. We conducted this First Follow-Up Audit in accordance with the *FY 14-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. We are pleased to report that our First Follow-Up Audit found that OC Public Works has **implemented all four (4) recommendations** from our original audit report. **As such, this report represents the final close-out of the original audit.**

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.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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OC Public Works Change Order and Contract Amendment Processes
Audit No. 1225B-F1*

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OC Internal Auditor's Report



Audit No. 1225B-F1

June 24, 2015

TO: Shane Silsby, Director
OC Public Works

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

SUBJECT: **First and Final Close-Out** Follow-Up Internal Control & Compliance Audit:
OC Public Works Change Order and Contract Amendment Processes
Original Audit No. 1225-B, Issued February 19, 2014

Scope of Review

We have completed a First Follow-Up Audit of OC Public Works (OCPW) Change Order and Contract Amendment Processes. Our audit was limited to reviewing actions taken, as of April 30, 2015, to implement the **four (4) recommendations** from our original audit report.

Background

Our original audit evaluated the effectiveness of selected processes, policies and procedures pertaining to OCPW's 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 recommended that OCPW formalize their delegated responsibility and required technical qualifications for the staff assigned to process and approve change orders and contract amendments. During the original three-year audit period, OCPW processed **635 change orders and contract amendments** for initial contracts with a cost of \$1 million or greater. The cost of the 635 change orders and contract amendments totaled **\$38 million**. We noted **four (4) Control Findings** where OCPW could enhance their policies and procedures largely by providing more detailed guidance and standardization of commonly used forms and supporting documents.

Subsequent to our original audit, the Board of Supervisors (BOS) approved the OCPW restructuring plan effective July 1, 2014. The plan included centralizing department-wide procurement activities to Procurement Service within OCPW/Administrative Services. In January 2015, the BOS approved to delegate authority for the procurement of all County A-E and Public Works construction contracts to either the Director of OC Public Works, Sheriff-Coroner, or the Director of John Wayne Airport, or their designees, and approved OCPW's 2015 Design and Construction Procurement Policy Manual, which contains standardized policies and procedures over these types of contracts. Due to these recent changes, we conducted our follow-up audit based on the new organizational structure, and used the 2015 Design and Construction Procurement Policy Manual, in addition to the County Contract Policy Manual, as a guideline.

Results

Our First Follow-Up Audit found OCPW has **implemented all four (4) recommendations**. Based on our First Follow-Up Audit, the following is the status of the four (4) original recommendations:

1. Delegated Authority for Approving Change Orders Not Formally Documented

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."



Current Status: Implemented. In our original audit, OCPW had four major divisions and each had delegated authority over approving change orders and contract amendments, and separate policies and procedures. Our original audit noted that this delegated authority had not been documented in manual Authorized Signature Lists or Access Request Forms (ARFs).

The recent Board approved OCPW restructuring plan included establishing additional divisions and centralizing department-wide procurement activities to Procurement Services within OCPW/Administrative Services. Procurement Services has 35 positions, including Administrative Managers, Buyers and Procurement Contract Specialists that are now responsible for processing and approving change orders and contract amendments. Based on job classification and duties, OCPW staff is assigned with an appropriate user role and/or approval authority for processing and approving procurement activities in CAPS+. These roles and authorities are granted by four individuals with "Designated Department Head Authority" role in OCPW.

Subsequent to the issuance of our audit report, the Auditor-Controller implemented Access Request Approval (ARA) to allow users to request access and/or approval authority to four (4) County systems, including CAPS+ Financial/Purchasing. ARA replaces ARFs and the manual Authorized Signature Lists. Under ARA, each access request is reviewed and approved by individual with the "Designated Department Head Authority" role in the Agency/Department. Once the role has been established, the user profile will be maintained in the system. The approval of a transaction goes through a workflow process.

We selected six employees in Procurement Services and reviewed their role and approval level in CAPS+ Financial/Purchasing and found that user roles were adequately assigned based on job responsibilities. Because the OCPW restructure and recent Board action centralized the processing of public works and A-E service contracts and related change orders and contract amendments, and ARA has been used to ensure appropriate user access and approval authority, we determined this recommendation has been implemented.

2. Need to Formalize the Required Qualifications for Employees Appointed to Oversee Change Orders/Contract Amendments

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.

Current Status: Implemented. As noted above, the BOS approved the OCPW restructuring plan effective July 1, 2014. The plan included centralizing department-wide procurement activities to OCPW/Administrative Services to increase consistency and balance workload between procurement of goods and services, architect-engineering services and public works construction contracts. Procurement Services is a work unit within Administrative Services and consists of 35 positions responsible for procurement of commodities & services, public works and architect-engineering contracts.

Further, on January 27, 2015, the BOS adopted Resolution No. 15-004 to delegate authority to the Director of OC Public Works, Sheriff-Coroner, and the Director of John Wayne Airport, or their designees to enter into architect-engineering (A-E) service contracts and public works contracts on behalf of all County and District departments up to the limits set by State Law. In addition, the BOS approved the 2015 Design & Construction Procurement Policy Manual (DCPM) and authorized the Director of OC Public Works or designee to execute and implement the DCPM.



The 2012 Contract Policy Manual does not require Deputy Purchasing Agents (DPAs) to be primarily responsible for procuring public works contracts and for processing change orders and contract amendments. Instead, OCPW department personnel with knowledge of the project's statutory and technical requirements had the primary role in the procurements. As part of the restructuring, all A-E and public works contracts will go through OCPW/Procurement Services, which has DPAs that will be involved. DPAs receive trainings on public procurement principles, best practices and County policies, including dollar thresholds for certain types of procurement. However, because public works contracts and change orders and contract amendments may require special technical knowledge or background for the project, OCPW/Procurement Services staff will continue to work collaboratively with end-users/subject-matter experts in the various divisions and in other County departments/agencies when processing change orders and contract amendments.

Based on the actions taken by OCPW, the processing of A-E service and public works change orders and contract amendments is now centralized under OCPW/Procurement Services. OCPW/Procurement Services is staffed with DPAs and will continue to use technical knowledge experts as needed. Because of these actions taken by OCPW, we determined that this recommendation has been implemented.

3. **Policies, Procedures and Forms Not Standardized**

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.

Current Status: Implemented. In our original audit, OCPW had four major divisions and were delegated organizational authority for processing and approving change orders and contract amendments. There was no department-wide policy and procedures that standardized the expectations for processing each had different policies, procedures delegated authority over approving change orders and contract amendments, and separate policies and procedures.

The recent Board approved restructuring of OCPW in July centralized procurements services including change orders and contract amendment to Procurement Services, within OCPW/Administrative Services. Further, the Board of Supervisors approved the 2015 Design & Construction Procurement Policy Manual (DCP) and authorized the Director of OC Public Works or designee to execute and implement the DCP countywide. Our review of the DCP found that it standardizes policies and procedures processing change orders and contract amendments. In addition, all change orders and contract amendments will be processed in OCPW/Procurement Services and will help ensure standardization. Because OCPW took corrective action by standardizing policies and procedures for processing change orders and contract amendments, we determined this recommendation has been implemented.

4. **Limited Monitoring and Oversight by OCPW/Administrative Services**

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 Internal Auditor's Report



Current Status: **Implemented.** The restructuring of OCPW in July 2014 centralized all procurement activities to Procurement Services, which is a work unit within OCPW/Administrative Services. This action results in providing central oversight of the change order and contract amendment processes. Because of the actions taken by OCPW, we determined our recommendation has been implemented.

We appreciate the assistance extended to us by OC Public Works personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Assistant Director/Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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