Our First Follow-Up Audit found that John Wayne Airport fully implemented all seven (7) recommendations from our original audit report dated April 2, 2013.

During the original audit period, John Wayne Airport processed 1,451 change orders totaling $58 million for the Airport Improvement Program.

**Audit No:** 1125-F1  
(Reference 1339)  
(Original Audit No. 1125)

**Report Date:** December 9, 2013

**Director:** Dr. Peter Hughes, MBA, CPA, CIA  
**Senior Audit Manager:** Alan Marcum, CPA, CIA  
**Audit Manager:** Kenneth Wong, CPA, CIA

**Risk Based Auditing**  
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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

**Dr. Peter Hughes**  
Director  
Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA  
Certified Compliance & Ethics Professional (CCEP)  
Certified Information Technology Professional (CITP)  
Certified Internal Auditor (CIA)  
Certified Fraud Examiner (CFE)  
Certified in Financial Forensics (CFF)  
Chartered Global Management Accountant (CGMA)  
E-mail: peter.hughes@iad.ocgov.com

**Michael Goodwin**  
Senior Audit Manager  
CPA, CIA

**Alan Marcum**  
Senior Audit Manager  
MBA, CPA, CIA, CFE

**Hall of Finance & Records**  
12 Civic Center Plaza, Room 232  
Santa Ana, CA  92701

Phone: (714) 834-5475  
Fax: (714) 834-2880

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OC Fraud Hotline (714) 834-3608
Transmittal Letter

Audit No. 1125-F1  December 9, 2013
(Reference 1339)

TO: Alan L. Murphy, Director
    John Wayne Airport

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

SUBJECT: First and Final Follow-Up Internal Control Audit: John Wayne Airport Change Order Process for the Airport Improvement Program, Original Audit No. 1125, Issued April 2, 2013

We have completed a First Follow-Up Audit of John Wayne Airport Change Order Process for the Airport Improvement Program. Our audit was limited to reviewing, as of October 31, 2013, actions taken to implement the seven (7) recommendations from our original audit report dated April 2, 2013. We conducted this First Follow-Up Audit in accordance with the FY 13-14 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. Because satisfactory corrective action has been taken for the seven (7) recommendations, 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.
First and Final Close-Out Follow-Up Internal Control Audit: John Wayne Airport Change Order Process for the Airport Improvement Program
Audit No. 1125-F1
(Reference 1339)
As of October 31, 2013

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We have completed a First Follow-Up Audit of John Wayne Airport Change Order Process for the Airport Improvement Program. Our audit was limited to reviewing actions taken, as of October 31, 2013, to implement the seven (7) recommendations from our original audit report.

Background
We conducted an Internal Control Audit of John Wayne Airport’s change order process for the Airport Improvement Program, which included an evaluation of internal controls for processing and approving change orders; a determination of compliance with County and JWA policies and procedures; and an evaluation of the efficiency and effectiveness of JWA’s change order process. During the original audit period, John Wayne Airport processed 1,451 change orders totaling $58 million.

The original audit identified five (5) Control Findings resulting in seven (7) recommendations concerning incomplete documentation to support the evaluation of change order costs for Architect-Engineer service contracts; the reason for overriding an outside technical advisor’s opinion was not documented; separate change order logs were not reconciled; select policies and procedures were not updated; and where compliance with JWA policies and procedures should be improved for Architect-Engineer service contracts.

Results
Our First Follow-Up Audit indicated John Wayne Airport fully implemented seven (7) recommendations. Based on our First Follow-Up Audit, the following is the implementation status of the seven (7) original recommendations:

1. Documentation Needs to be Improved to Support the Evaluation of Change Order Costs for Architect-Engineer Service Contracts (Control Finding)
   We recommend that John Wayne Airport ensure that the Memorandum (Record) of Negotiations contain sufficient information that someone not connected with the change order can understand the process for negotiating the agreed-upon cost.

   Current Status: Fully Implemented. JWA reminded project management staff that the Memorandum (Record) of Negotiation must contain sufficient information describing how the fair and reasonable change in contract price was arrived at.
We tested a sample of five (5) change orders executed between July 2013 and October 2013 and found that all five (5) change orders were supported with a Memorandum (Record) of Negotiation showing sufficient information to understand the process for negotiating the agree-upon cost. Since JWA took actions in this area, we consider this recommendation implemented.

2. **Reason for Overriding an Outside Technical Advisor’s Opinion was not Documented (Control Finding)**

We recommend that John Wayne Airport ensure disputes with the outside technical advisor are thoroughly documented and detailed explanations are provided as to why a change order is issued that conflicts with the field representative’s opinion.

Current Status: **Fully Implemented.** JWA informed project management staff that any change orders approved against the field representative’s recommendation are required to include a complete explanation. We tested a sample of five (5) change orders executed between July 2013 and October 2013 and found that JWA did not override an outside technical advisor’s assessment on merit on any of the five (5) change orders. Since JWA took actions in this area, we consider this recommendation implemented.

3. **Separate Change Order Logs were not Reconciled (Control Finding)**

We recommend that John Wayne Airport consider reconciling the change order log maintained in Skire Unifier with JWA Accounting’s change order log.

Current Status: **Fully Implemented.** JWA considered reconciling the separate change order logs by evaluating processes and controls for change orders. JWA believes the change order processes and controls are appropriate to ensure encumbrances are sufficient to cover project expenditures and expenditures are accurate and within budget. JWA concluded that the current processes and controls are sufficient to provide assurance for change orders when considering the level of resources utilized. Since JWA took actions in this area, we consider this recommendation implemented.

4. **Written Policies and Procedures Need to be Updated (Control Finding)**

We recommend that John Wayne Airport revise their internal policy and procedure, ADS P&P B-14-0, *Architect-Engineer Agreement Changes* to remove the step that the Project Manager prepares an independent cost estimate for each change order unless mandated by law or sponsor agreement.

Current Status: **Fully Implemented.** JWA revised their internal policy and procedure for *Architect-Engineer Agreement Changes*. The amended policy and procedure waives the requirement for an independent cost estimate if the Architect-Engineer (A-E) agreement is based predominately on time and materials, including estimated levels of effort in units of time of the A-E’s professional staff for services over the term of the agreement when levels of effort are defined and the staff’s hourly rates were already established in the initial or prior amendment. Since JWA took actions in this area, we consider this recommendation implemented.

5.A. **Non-Compliance with JWA Architect & Engineer Policies and Procedures (Control Finding)**

We recommend that John Wayne Airport ensure change orders are supported with a Memorandum (Record) of Negotiation.
Current Status: **Fully Implemented.** JWA reminded project management staff that change orders are required to be supported with a Memorandum (Record) of Negotiation. We tested a sample of five (5) change orders executed between July 2013 and October 2013 and found that all five (5) change orders were supported with a Memorandum (Record) of Negotiation. Since JWA took actions in this area, we consider this recommendation implemented.

5.B. Non-Compliance with JWA Architect & Engineer Policies and Procedures (Control Finding)

We recommend that John Wayne Airport ensure the review of the Memorandum (Record) of Negotiations by delegated management is documented.

Current Status: **Fully Implemented.** JWA revised their internal policy and procedure for Architect-Engineer Agreement Changes. The amended policy and procedure removed the requirement for the Deputy Airport Director to sign the Memorandum (Record) of Negotiation. The Deputy Airport Director continues to review the change order and supporting documentation and documents review and approval by electronically authorizing the change order. The project management system maintains an audit trail with the electronic authorization. Since JWA took actions in this area, we consider this recommendation implemented.

5.C. Non-Compliance with JWA Architect & Engineer Policies and Procedures (Control Finding)

We recommend that John Wayne Airport ensure change orders are supported with a cost proposal from the contractor with any exceptions documented on the Memorandum (Record) of Negotiation.

Current Status: **Fully Implemented.** JWA reminded project management staff that change orders are required to be supported with a cost proposal from the contractor. We tested a sample of five (5) change orders executed between July 2013 and October 2013 and found that all five (5) change orders were supported with a cost proposal from the contractor. Since JWA took actions in this area, we consider this recommendation implemented.

We appreciate the assistance extended to us by John Wayne Airport personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Alan Marcum, Senior Audit Manager at 834-4119.

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 Chief Operating Officer
- Larry Serafini, Deputy Airport Director, Facilities, JWA
- Samer Marei, Airport Development Manager, JWA
- Mariane Teschner, Deputy Airport Director, Finance & Administration, JWA
- Jason Brown, Budget Manager, JWA
- Lisa Kawashima, Accounting Services Manager, JWA
- Scott Suzuki, Internal Audit Manager, JWA
- Foreperson, Grand Jury
- Susan Novak, Clerk of the Board of Supervisors
- Macias Gini & O’Connell LLP, County External Auditor