



Internal Audit Department

O R A N G E C O U N T Y

AUDIT HIGHLIGHT FEBRUARY 19, 2014

INTERNAL CONTROL & COMPLIANCE AUDIT OC PUBLIC WORKS CHANGE ORDER AND CONTRACT AMENDMENT PROCESSES Audit No. 1225-B

WHAT WE DID

We audited **thirty-six (36) change orders/contract amendments totaling \$8.4 million** to evaluate the effectiveness of selected processes, policies and procedures pertaining to OC Public Works' Change Orders and Contract Amendments. We obtained a sample of Change Orders and Contract Amendments from Public Works and A-E Service contracts that exceeded \$1 million or more when awarded.

WHY THIS AUDIT IS IMPORTANT

Between July 1, 2009 and June 30, 2012, OC Public Works processed **635 change orders/contract amendments totaling \$39 million**. **Change Orders** are associated with *Public Works Contracts*, and **Contract Amendments** are associated with *A-E Service Contracts*. Both are written orders signed by the Department Head or designee directing the contractor to make a cost changes and/or time extensions to the original contract. **Public Works contracts** are defined in the 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." **A-E Service Contracts** include architectural, engineering, environmental, land surveying services, and related incidental services.

WHAT THE AUDITORS FOUND

Our audit found that responsibility for processing and approving Change Orders and Contract Amendments is delegated to OCPW Divisions with limited oversight by OCPW/Administrative Services. This delegated authority to the Divisions was not formalized in written policy. We found policies, procedures and forms varied between the Divisions. In addition, per the 2007 Contract Policy Manual, Deputy Purchasing Agents (DPAs) were to be the primary role in procuring Public Works contracts; however, these roles were assigned to non-DPAs in order to better assure that the requisite competence and experience necessary to properly manage the complex and technically challenging Change Orders/Contract Amendments is provided. The DPA requirement was formally changed in the 2012 Contract Policy Manual and no longer requires DPA's involvement in procuring Public Works contracts.

Audit Findings and Control Recommendations

Our audit identified **four (4) Control Findings** for OCPW to enhance policies and procedures by providing more detailed guidance and standardization of commonly used forms and supporting documents; formalizing delegated responsibility to the divisions; documenting technical qualifications for staff processing and approving Change Orders and Contract Amendments, and increasing central oversight by OCPW/Administration.