

City Auditor's Office
Construction Contract Change
Order Follow-Up Audit

September 2019

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City Auditor's Office

September 25, 2019

Honorable Mayor and Members of the City Council:

The City Auditor's Office has completed the Construction Contract Change Order Follow-Up Audit. The audit objective was to determine the implementation status of the audit recommendations presented in the original audit report.

The City Auditor's Office made seven recommendations to Asset Management and six recommendations to Public Works and Transportation. Asset Management concurred with all seven recommendations and Public Works and Transportation concurred with five of the six recommendations. Audit follow-up procedures indicate Asset Management has fully implemented four of the prior audit recommendations, has made progress implementing two of the recommendations, and one recommendation was not implemented. Public Works and Transportation fully implemented five of the prior audit recommendations.

We would like to thank staff from Public Works and Transportation and Asset Management for their assistance and cooperation in completing this audit.

Lori Brooks Jaquess

Lori Brooks Jaquess, CPA, CIA, CGAP, CRMA
City Auditor

cc: Trey Yelverton, City Manager
Jim Parajon, Deputy City Manager
Gilbert Perales, Deputy City Manager
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Mindy Carmichael, Director Public Works and Transportation
Nora Coronado, Senior Asset Officer

Construction Contract Change Order Follow-Up Audit

Table of Contents

	<u>Page</u>
Background	2
Audit Scope and Methodology	2
Status of Prior Audit Recommendations Matrix.....	3

Background

As part of the 2019 Annual Audit Plan, the City Auditor’s Office conducted a follow-up audit of the Construction Contract Change Order Audit completed in October 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to determine the implementation status of the prior audit recommendations.

Audit Scope and Methodology

The scope of the project was limited to following up on management’s implementation of the previous audit recommendations. Our methodology included obtaining updated status reports from management regarding the implementation of the audit recommendations and reviewing relevant supporting documentation.

The matrix on the following pages illustrates the results of the follow-up procedures.

Status of Prior Audit Recommendations

PRIOR AUDIT RECOMMENDATION	CONCUR/ DO NOT CONCUR	PRIOR MANAGEMENT RESPONSE	RESPONSIBLE PARTY	DUE DATE	CURRENT MANAGEMENT RESPONSE/ IMPLEMENTATION STATUS	AUDIT CONCLUSION
<p><i>1. The City Auditor’s Office recommends that the Public Works and Transportation and Asset Management Departments review and update policies and procedures related to change orders to assure that all aspects of the change order process are included.</i></p>	Concur	Public Works will update its policies and procedures for change orders to assure that all aspects of the change order process are included.	Keith Brooks/Amy Cannon	11/16/18	Policy was reviewed and updated.	Implemented
	Concur	Asset Management’s Building Design and Construction team is currently working to update its policies and procedures and will assure that all aspects of the change order process are included.	Alf Bumgardner/ Stefanie Spivey	January 2019	Policy was reviewed and updated.	Implemented

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<p>2. <i>The City Auditor’s Office recommends that the Public Works and Transportation and Asset Management Departments eliminate the manual process of reviewing change orders and use e-Builder to facilitate an electronic review and approval of change orders. Additionally, all project documents should be stored within e-Builder.</i></p>	Concur	Public Works already is using e-Builder to facilitate an electronic review and approval of change orders.	N/A	N/A	N/A	Implemented
	Concur	Asset Management will use e-Builder to facilitate electronic review and approval of change orders, and make sure back-up documents are saved in e-Builder. (This will involve working with the City Attorney’s Office which has required the team to obtain original signatures on all contract documents.)	Alf Bumgardner	January 2019	We do not use e-Builder to approve change orders because the approval process in e-Builder is only designed to approve the transfer of funds to pay for approved change orders.	Not Implemented

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<p>3. <i>The City Auditor’s Office recommends that the Public Works and Transportation and Asset Management Departments change the options listed in e-Builder from which the cause for the change order is chosen. The options should only include actual reasons for the change, not what funding source is being used to pay for the change order.</i></p>	Concur	Public Works will work with IT to remove “Contingency” from the drop-down list.	Keith Brooks/Amy Cannon	3/31/19	The e-Builder process has been updated, “Contingency” is no longer a choice. Added Reason Codes highlighted: The (\$0) codes take the CM process through short-approval (Manager Approval) as do Data Entry Error and Project Close-out.	Implemented
	Concur	Asset Management agrees with Public Works’ response.	N/A	N/A	Asset Management does not use the funding source as a reason.	Implemented

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<p>4. <i>The City Auditor's Office recommends the Asset Management Department enter all change orders into e-Builder, regardless of the source of funds being used to pay them.</i></p>	<p>Concur</p>	<p>Asset Management will enter all change orders into e-Builder.</p>	<p>Alf Bumgardner</p>	<p>Now and moving forward</p>	<p>Asset Management now enters all change orders into e-Builder. We do not use the funding source as a reason.</p> <p><i>Auditor's Comment: Internal Audit was unable to verify implementation, as Asset Management has not processed any change orders since they changed their procedures.</i></p>	<p>In Progress</p>
<p>5. <i>The City Auditor's Office recommends that the Public Works and Transportation and Asset Management Departments update controls in e-Builder to assure that an employee cannot approve change orders that they created.</i></p>	<p>Concur</p>	<p>Public Works will update roles and controls in e-Builder and add a statement in its policy and procedures prohibiting this action.</p>	<p>Keith Brooks/Amy Cannon</p>	<p>11/16/18</p>	<p>The e-Builder roles on most (if not all) projects have been updated so the PM is not also the Manager. Policy and procedures have been updated with a statement that a CM is not to be submitted and approved by a single employee.</p>	<p>Implemented</p>
	<p>Concur</p>	<p>Asset Management agrees with Public Works' response and will do the same.</p>	<p>N/A</p>	<p>January 2019</p>	<p>Asset Management does not allow one person to enter and approve change orders.</p>	<p>Implemented</p>

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<p>6. <i>The City Auditor's Office recommends that the Public Works and Transportation and Asset Management Departments notify the IT Department when an e-Builder user either no longer needs access to e-Builder and/or ceases employment with the city.</i></p>	<p>Concur</p>	<p>When an employee leaves the City, a list is distributed by HR to multiple recipients; including the e-Builder administrator who then removes access for the users that have left the City's employment. Also, twice a year the e-Builder Administrator removes users who haven't logged into the system within that six-month period. PWT will update its policies and procedures to notify IT when users change positions within the City.</p>	<p>Keith Brooks/Amy Cannon</p>	<p>11/16/18</p>	<p>IT is notified when users change positions.</p>	<p>Implemented</p>

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	Concur	Asset Management agrees with Public Works' response and also will do the same.	N/A	January 2019	IT is notified when users change positions.	Implemented
<p>7. <i>The City Auditor's Office recommends that the Public Works and Transportation and Asset Management Departments consider obtaining professional construction audits for larger projects.</i></p>	Do Not Concur	Public Works constructs horizontal projects consisting of paving, drainage, water and sewer line placement. The work is inspected by PW for workmanship and measured for payment at the time it is placed. Since utilities are placed underground and covered with pavement, it would be unreasonable to audit this installation after the fact.	N/A	N/A	N/A	N/A

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	Concur	Asset Management will consider this moving forward.	Alf Bumgardner	N/A	Budgets on current larger projects were developed prior to the Change Order Audit and did not include funds for a professional construction audit firm. We will share this recommendation with the City Manager's office on future projects prior to establishing the budget.	In Progress