



Construction Change Orders Review

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ORANGE COUNTY SANITATION DISTRICT

Submitted By:

Eide Bailly LLP

eidebailly.com



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Executive Summary

Eide Bailly LLP (referred to as "we," "our," or "us") was engaged by the Orange County Sanitation District (OC San, or "District") to conduct a review of construction change orders. This engagement was initiated at the request of the District's leadership to determine whether the internal controls surrounding construction change orders are designed and operating efficiently to mitigate risks and ensure compliance with relevant guidelines and standards.

Our assessment confirmed the District maintains an efficient internal control framework relating to the management of construction change orders, ensuring the adequacy, accuracy, and timeliness of change order requests. This framework includes having qualified personnel responsible for activities including the submission of change orders, the reviewing of change order documentation, and approving the change order through the change order management system, PMWeb. While overall operations were deemed effective, we have identified one (1) key area that warrants attention for enhancing operations. This observation presents an opportunity for the District to refine practices, while enhancing operational efficiency and effectiveness.

We express our gratitude to management and staff for their valuable contributions in providing insights and enhancing our understanding of change order management processes and control points.

Background Information

The Orange County Sanitation District (OC San) relies on construction change orders to manage the dynamic aspects of its capital improvement projects, which are essential for upgrading and maintaining its wastewater collection and treatment systems. Construction projects are used to build, reconstruct, improve, or maintain OC San infrastructure assets. Unanticipated issues that develop during projects may result in the need for change orders that authorize an addition, deletion, or revision of the contract price and/or contract time (days to complete). These change orders are crucial for addressing unforeseen conditions, such as unexpected soil or groundwater issues, design modifications to resolve issues or incorporate improvements, compliance with new regulatory requirements, client requests for operational enhancements, and corrections of design errors or omissions.

The process begins with the identification and documentation of the need for a change order by field personnel or project managers. Detailed descriptions, justifications, and supporting evidence are created and placed into PMWeb, the system used to manage capital projects. A formal change order request is then submitted through PMWeb, where it undergoes review by project managers, engineers, and others according to the system workflow. Potential impacts on the project's budget and schedule are analyzed, with cost estimates and revised timelines being carefully considered. PMWeb facilitates a structured approach, ensuring that all necessary approvals are obtained, changes are tracked efficiently, and that roles are restricted, and access is limited.

This system enables OC San to maintain transparency, accountability, and control over its construction projects, ensuring they are completed within budget and on schedule while meeting all required standards.

Objective & Scope

The **Objective** of the Construction Change Order review was to determine whether the internal controls surrounding construction change orders are designed and operating efficiently to mitigate risks and ensure compliance with relevant guidelines and standards.

The **Scope** of the engagement encompassed the primary functions of managing construction change orders, covering the period from July 1, 2023 – June 30, 2024 (Fiscal Year 2024).

The engagement was performed under the Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA). We did not provide audit, review, compilation or financial statement preparation services to any historical or prospective financial information or provide attestation services under the AICPA Statements on Standards for Attestation Engagements and assume no responsibility for any such information.

Methodology

In alignment with the stated objectives, our procedures included, but were not limited to, the following activities:

- Obtained and reviewed the organization chart to identify positions related to change order management, such as project managers, contract administrators, and procurement officers.
- Received copies of relevant policies and procedures related to change orders including the change order policy, contract administration policy, approval authority matrix, and any communication protocols.
- Conducted interviews and process walkthrough with key personnel to gain an understanding of the process under review and identify internal controls that are designed to prevent errors, ensure accurate documentation, and mitigate risks of fraud or unauthorized changes.
- Gained a thorough understanding of the change order management process, including how change orders are initiated, approved, documented, and communicated throughout the organization.
- Obtained the population listing for construction contracts and compared with list of change orders issued and followed up on the identified change orders without a contract listed.
- Tested a sample of construction change orders within the review period and performed the following:
 - Compared each change order to approval sign offs from authorized personnel.
 - Inspected approvals for timeliness by comparing the dates of change order initiation and approval.
 - Examined detailed cost estimate documentation for the proposed changes for completeness and accuracy.
 - Reviewed the comprehensive justifications for the changes and potential impact on timeliness for reasonableness.
 - Assessed the extent to which monitoring and reporting mechanisms are utilized and documented.
 - Reviewed copies of the selected contracts and amendments; reviewed the contracts clauses, sections, or provisions pertaining to change orders, variations, or modifications to the original scope of work.

Results of Construction Change Orders Review

The Orange County Sanitation District has established efficient processes, procedures, and internal controls over the management of construction change orders. The controls are designed and are operating efficiently in order to mitigate risks and ensure compliance with relevant guidelines and standards. This review identified one (1)

finding that presents an opportunity for improvement. Addressing this observation will positively enhance the District's change order management processes.

FINDING – PMWeb System Audit

The PMWeb system, which is integral to managing capital improvement projects, has not undergone an independent assessment since 2021¹ to ensure the integrity, reliability, and security to adequately support operational and financial reporting objectives. The previous audit did not cover change management procedures, or data backup and recovery activities. The lack of a routine audit increases the risk of the system's data integrity, compliance with regulatory requirements, security measures, and overall effectiveness in managing project workflows and financial controls. Without regular audits, there is an increased risk of undetected discrepancies, data breaches, and non-compliance with internal and external standards.

Recommendation

To address the finding, it is recommended to implement an Information Technology General Controls (ITGC) framework and conduct ITGC audits on an annual basis, which is a standard best practice. These ITGC assessments would evaluate access controls, change management procedures, data backup and recovery, system development and maintenance, evaluate incident management, and evaluate the effectiveness of Information Technology operations management. Benefits of ITGC assessments include improved security, increased efficiency, risk mitigation, and informed decision making.

Management Response

OC San will conduct periodic ITGC audits on the PMWeb system, OC San's IT Manager will ensure the first audit is complete before June 30, 2025. OC San also currently has the following systems in place:

- *Change Advisory Board to review all IT system changes and plan the smooth implementation.*
- *ServiceNow system for incident management and response.*
- *PMWeb has a detailed backup and disaster recovery plan that is tested quarterly.*

¹ An Information Technology Cyber Security Assessment was performed in June 2021 that included the PMWeb. Although there is overlap between cybersecurity assessment and ITGC evaluations, only focusing on cybersecurity can leave out essential controls and processes that ensure the overall integrity, accountability, and effectiveness of IT operations.