

TC (13) Work Step

Review and assess the internal controls related to Change Orders and Vendor "Add Services" to ensure they are adequate, thorough, transparent and financially sound. Perform a test of these controls to assess overall effectiveness.

Results of Testing**Construction Change Orders:**

The District has established an updated set of procedures and internal controls related to construction change orders. During interviews with District staff related to the change order process, it was communicated to VLS that the updated processes were implemented in approximately July 2015; therefore, the sample selected was from the period 7/1/2015 to 2/29/2016. However, based on the testing performed, although the controls had been designed, there were controls that had not yet been implemented. See TC13-1 recommendation for this area.

VLS tested 46 change orders and the following deficiencies were identified:⁵⁹

- None of the change orders included documentation that indicates the Director of Contract Administration and the Chief Engineering Officer reviewed the change order prior to it going to the Board for approval. In practice, these positions review the packet prior to sending it to the Associate Superintendent of Operations and Bond Program, who prepares the document for the Board. According to discussions with District staff, these reviews are performed informally and are not documented within the change order packet. When the packet is emailed to the Associate Superintendent of Operations and Bond Program, this signifies that the review has occurred. See TC13-2 recommendation for this area.
- Eight of the change orders included Proposed Change Orders (PCOs) that were not signed by either the District Project Manager (for amounts up to \$20,000) or the Chief Engineering Officer (for amounts over \$20,000).⁶⁰ Without these signatures, there is no

⁵⁹ VLS had originally selected a total of 49 change orders. Two of the change orders were related to Information Technology (IT) and the documentation was never provided to VLS as this information was maintained outside of the control of the Bond Program department. VLS made multiple requests for the documentation; however, it was never provided. Additionally, one change order was voided and disbursements were never made to the vendor related to the change order.

⁶⁰ The forms provided and reviewed indicate that the District Project Manager can review and sign proposed change orders up to \$20,000. Additionally, based on the testing performed, it appears that this threshold amount is followed. However, during interviews conducted of District Project Managers, it was communicated that the dollar limit, in practice, is actually \$25,000.

- evidence that these PCOs were properly reviewed by the District prior to inclusion as a change order.⁶¹ See TC13-3 recommendation for this area.
- Thirty-four of the change orders did not contain the required signatures on the change order document or were not signed at the appropriate time:⁶²
 - Twenty eight were signed by the Bond Program Manager (BPM), which was SGI, after Board approval. However, District policy states that the BPM should sign prior to the change order going to the Board for approval.
 - One change order was never signed by the BPM.
 - Four change orders were not signed by the Architect of Record (AOR).
 - One change order was signed by neither the Construction Manager nor the District Project Manager.
 - One change order was signed by the General Contractor after Board approval and not before, as policy states.
 - The cover sheet retained with the change order support has a line reserved for the Board approval date. However, none of the change orders tested had the date of Board approval entered on the provided line. VLS verified the Board approval of the change orders by looking through Board minutes. See TC13-4 recommendation for this area.
 - Five change orders were credit (deductive) change orders and were not properly recorded in Munis. According to discussions with District staff, Munis is not designed to accept credit (deductive) change orders. Preferably, a credit (deductive) change order should be entered so that it reduces the total contract amount while retaining the history of the original contract amount. VLS observed that the District used two alternative methods to record a credit (deductive) change order in Munis. The method used was determined by the person entering the information, and there are not clear guidelines/procedures established for District staff to follow.⁶³ See TC13-11 recommendation for this area.

⁶¹ A PCO is one proposed change that must be reviewed and approved by the District Project Manager as well as the Chief Engineering Officer (if it's over \$20,000). Once approved, a PCO can be moved forward as a single change order, or be combined with other PCOs to form one change order, that will eventually go to the Board for approval/ratification.

⁶² Multiple deficiencies identified may exist on the same change order; therefore, the number of unique change orders may be fewer than the quantities listed in the bulleted list when summed.

⁶³ One method is used when there are multiple change orders being entered at the same time on one contract. The credit (deductive) change order is offset against the additive change orders, and the net

It was communicated to VLS by the District that the implementation of the updated controls has been slow and the strength of the controls will improve over time. VLS did note that there were fewer findings at the end of the testing period (March 2016) compared to the beginning of the testing period (July 2015). For example, all six of the change orders tested that were approved in July 2015 had findings. The five change orders tested that were approved in March 2016 had no findings related to a deviation from policy.⁶⁴ This demonstrates that the deviations from policy related to change orders decreased over time.

The controls tested were based on the process communicated to VLS during District staff interviews as the current change order process/procedure documents do not reflect current practices. District staff communicated that the goal was to have these documents updated by 6/30/2016.

Professional Add-Services:

The District has established an updated set of procedures and internal controls related to the approval of professional add-services (increases to professional services contracts). District staff communicated to VLS that the updated processes related to professional add-services were implemented in approximately July 2015; therefore, the sample selected was from the period 7/1/2015 to 2/29/2016. However, based on the testing performed, there are areas where these procedures were not implemented or followed. See TC13-6 recommendation for this area.

VLS tested 13 add-services and the following deficiencies were identified:⁶⁵

- None of the add-service proposals were signed by the Bond Program Manager (SGI), the District Project Manager (PM), the Director of Contract Administration (CA), or the Chief Engineering Officer (EO). According to the process communicated to VLS by District staff, these individuals should receive and review the add-service proposals. The Proposal Approval Checklist Form, which is supposed to be completed for each proposal

amount is entered into Munis. For example, if one contract has an additive change order of \$10,000 and a credit (deductive) change order of \$5,000, the net amount of \$5,000 is entered in Munis as the total change order amount. The other method used involves District staff reducing the original contract amount in Munis by the credit (deductive) change order amount so that only the net amount appears in Munis. This method does not retain the history of the original contract amount.

⁶⁴ While there were no findings that indicate a departure from policy, there are recommendations for improving the policies and processes that are used to approve change orders. For example, as mentioned above, the District process communicated to VLS did not require the Chief Engineering Officer and Director of Contract Administration to sign or initial the documents indicating their review of the change order prior to it going to the Associate Superintendent of Operations and Bond Program. Therefore, the lack of their signature or initial is not a deviation from policy; however, VLS has identified it as a deficiency in the process as any reviews performed that are relied upon by management should be documented.

⁶⁵ VLS had originally selected a total of 16 add-services. Two of the add-services were for SGI and the documentation was never provided to VLS. VLS made multiple requests for the documentation; however, it was never provided. One add-service was never approved as it was rejected by the vendor.

received, includes signature lines for the PM, CA, and EO. The add-services tested did not include the Proposal Approval Checklist Form as the process indicates, nor were signatures included on any of the support retained with the add-services. Therefore, there is no documentation that a review by these individuals was performed. See TC13-7 recommendation for this area.

- For add-services over \$50,000 (which must be Board approved), none of the add-services tested included the initials or signature of the Associate Superintendent of Operations and Bond Program (ASO) indicating that the add-service was reviewed prior to going to the Board for approval. In practice, the ASO will review the add-service packet prior to sending it to the Board; however, there is no location on the packet or the Proposal Approval Checklist Form for the ASO to initial and date that this review was performed. Therefore, VLS was unable to verify that this review occurred. See TC13-8 recommendation for this area.

It was communicated to VLS by the District that the implementation of the updated controls has been slow and the strength of the controls will improve over time. VLS did not see an improvement in the add-services documentation and controls during the period tested.⁶⁶

The controls tested were based on the process communicated to VLS during District staff interviews as the current add-services process/procedure documents do not reflect the current practices. District staff communicated that the goal was to have these documents updated by 6/30/2016.

Communication to the Board:

The District has put processes in place to communicate to the Board the cumulative amount of construction change orders for each contract. This process includes providing the Board with a Change Order Summary that includes the dollar amount of construction change orders pending and the percent of cumulative change orders. This process was tested and found to be completed for all of the construction change orders tested. However, neither this process nor the Change Order Summary form is included in the written process/procedure documents.

At the time of testing, the process for communicating professional add-services to the Board had not been updated. The District included an add-service cover sheet when the add-service was provided to the Board for approval; however, this is an outdated form. The District should be including the Proposal Approval Checklist Form, which is the new form that should be used internally by the District when reviewing add-service proposals. The documentation included for the Board does not provide information on historical add-services for the vendor and contract.

⁶⁶ VLS performed the control testing in April and May 2016.

New Score

Medium

Recommendations**Construction Change Orders:**

TC13-1. Develop detailed, written procedures for the change order review and approval process.

The written procedures should:

- a. Identify each step in the review and approval process.
- b. Identify all forms to be used in the change order process, the purpose and work flow of the forms, and the proper review and approval signatures required on the forms.
- c. Identify what documents should be maintained as support with the change order packet.
- d. Incorporate appropriate sections in the written procedures to address all recommendations included below.

Detailed, written procedure documents will provide clear guidelines for District staff to follow and consistency when there is staff turnover.

TC13-2. Require the Director of Contract Administration and Chief Engineering Officer to initial and date the change order packet (or a separate, attached form) to document the review that is performed prior to the change order going to the Associate Superintendent of Operations and Bond Program in preparation for Board approval. This will provide the proper audit trail to document that this review took place.

TC13-3. Create updated forms to reflect the approval signatures that are required. Some forms contain signature lines for individuals whose signature is not required nor typically given. For example, the PCO Summary form contains lines for the “Scheduler” and the “Deputy Program Manager,” neither of which seems to be part of the policies/procedures in practice.

TC13-4. Consider including the Board Précis and Change Order Summary in the change order support packet to provide a clean audit trail.

TC13-5. Consider implementing the use of a change order work flow check list that is completed with each change order. The check list would include a list of documents and signatures required at various steps in the process. This could assist District staff in ensuring that all necessary documents and signatures are obtained and document when key dates are entered into Munis.

Professional Add–Services:

TC13-6. Develop detailed, written procedures for the add-service review and approval process.

The written procedures should:

- a. Identify each step in the review and approval process.
- b. Identify all forms to be used in the add-service approval process, the purpose and work flow of the forms, and the proper review and approval signatures required on the forms.
- c. Identify what documents should be maintained as support with the add-service packet.
- d. Incorporate appropriate sections in the written procedures to address all recommendations included below.

Detailed, written procedure documents will provide clear guidelines for District staff to follow and consistency when there is staff turnover.

TC13-7. Ensure that the Proposal Approval Checklist Form is used with every add-service proposal. Add appropriate sections to the form to include the necessary signature/initials of the Associate Superintendent of Operations and Bond Program to allow documentation of recommendations TC13-8 and TC13-9.

TC13-8. If the add-service proposal is over \$50,000, require the Associate Superintendent of Operations and Bond Program (ASO) to initial and date the add-service Proposal Approval Checklist Form (or a separate, attached form) to document the review that is performed prior the add-service going to the Board.

TC13-9. When submitting an add-service request to the Board for approval, include historical information related to add-services that have previously been approved for the vendor contract.

General:

TC13-10. Within six months after full implementation of the updated processes and policies for change orders and add-services, the District should perform a follow-up review to determine whether procedures are being followed.

TC13-11. Work with Tyler Technologies (the company that licenses the Munis software) to determine if there is a way to properly record credit (deductive) change orders and add-services. If this is not possible, develop one standard method that is used by all staff to enter and track all credit (deductive) change orders and add-services to provide consistency. Train all staff on this process to ensure that it is followed.

Response by District**Change Orders:**

TC13-1. The District will update the written procedure for change order review and approval. The District has implemented a change order checklist to ensure proper approvals are provided or a written explanation clarifies why the signature is not provided for example unilateral change orders are not signed by the general contractor.

TC13-2. The District will document the change order précis approval process by initialing the change order summary.

TC13-3. The Change order cover sheets are created within Primavera and print automatically. The District is working with the Master Scheduler to develop controls that will automatically populate signature approvals only when required by the process. For example, the scheduler's signature line will only be populated when there is a change in schedule.

TC13-4. The District is currently including the Change order summary in the change order support packet prior to circulating for signatures after Board Approval.

TC13-5. The change order checklist is currently being implemented by the District.

Professional Add-Services:

TC13-6. The District will update the written procedure for add-service review and approval.

TC13-7. The District will update the proposal approval checklist form to include the signature of the Associate Superintendent of Operations.

TC13-8. For add-service proposals greater than \$50,000, upon Board approval staff drafts a contract or amendment using standard contract forms prepared and approved by legal. The drafted agreement is sent to the vendor to complete along with required certifications and insurance. Once all required documents are received and accepted,

the agreement is prepared for the Associate Superintendent's signature using the Agreement checklist certifying that all required documents are on file. Once the agreement is signed by the Associate Superintendent it is executed and attached in the financial system so the contract can be released into workflow for contract approval.

TC13-9. The District is in the process of developing a more detailed add-service Board précis that will include historical information related to add-services that have previously been approved.

General:

TC13-10. The District agrees.

TC13-11. The Principal Accountant for the Bond Program sent out an email confirmation of the process on July 12, 2016 stating *"When Board approves the reduction of contract amount, we shall adjust the original amount or previous CO amount as below screen due to no negative amount can be entered in Munis Contract. This is confirmed by Luis Freese on 7/11/16, Mark Bonnett on 7/12/16, and Melissa Payne on 7/12/16."* The District will incorporate this email into the detailed process being updated for the change order process.

VLS's Assessment of Response by District

VLS reviewed the District's responses and agrees that the response and planned action is appropriate to address the recommendations made by VLS.