



## **Corrective Action Plan Follow-up Review: Bond Construction Costs Audit: Change Orders**

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### **Final Follow-up Report**

**Audit Plan Code: 21-01**

Management implemented a corrective action plan (CAP) with two (2) activities to address the findings and recommendations in the original audit report. As such, this report represents the close-out of the CAP.



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## Abbreviations

CAP	Corrective Action Plan
CEA	Contingency Expenditure Authorizations
CO	Change Orders
IIA	Institute of Internal Auditors
SP	Subcontractor Proposals



# Follow-up Review

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## Background

The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, Performance Standard 2500 - Monitoring Progress, require we "...establish and maintain a system to monitor the disposition of results communicated to management." Internal Audit has established the Corrective Action Plan (CAP) process to meet this requirement. The process includes monitoring and reporting whether management has implemented corrective actions to address audit findings, observations, and recommendations.

Internal Audit issued the Bond Construction Costs: Change Orders Audit Report to District management and administration on July 2, 2020. We performed the audit as part of the Board approved 2019-2020 Internal Audit Plan. The objective of the audit was to determine whether changes in work for 2016 Bond projects were accurate, allowable, and approved as required in Board policy, District procedures, and the General Construction Agreements. The scope of the audit included construction projects managed by Jacobs that were more than 40% completed. In summary, our audit found that change orders for the 2016 Bond construction projects managed by Jacobs were accurate, allowable, and approved as required in Board policy, District procedures, and the General Construction Agreements. We did not identify systemic issues in the change order process. Rather, we found isolated instances of non-compliance such as (i) an instance of supervision fees in a change order and (ii) subcontractor proposals not itemized in detail to satisfy contract requirements.

The original audit report included two (2) findings and two (2) recommendations. For reference, a summary of original audit report findings is provided on **Exhibit A**. District management and administration agreed with our recommendations and developed a corrective action plan (CAP) with two (2) activities.

## Objective and Scope

The objective and scope of this follow-up review was to determine whether management implemented the two (2) CAP activities or took other actions to address the two (2) findings and two (2) recommendations outlined in the Bond Construction Costs: Change Orders Audit Report.

## Methodology

To achieve our follow-up review objective, we:

- Held meetings and communicated with persons responsible for carrying out the CAP activities.
- Reviewed supporting documentation maintained by management as evidence of completion of the CAP activities provided to Internal Audit.

## Inherent Limitations

This was a limited scope follow-up review covering only the actions taken by administration to address the original audit findings and recommendations stated in the Objective and Scope section of this report. No representations of assurance are made to other areas or periods not covered by this follow-up review.

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## Summary of Results

CAP Activities	Implemented	Overall CAP Status
2	2	Closed

Management implemented a corrective action plan with two (2) activities to address the two (2) findings and two (2) recommendations in the original audit report.

This report represents the close-out of the corrective action plan.

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## Original Recommendations and Status of CAP Activities

The original recommendations, the person(s) responsible, and the status of the CAP activities are outlined below:

1

**Original Recommendation:** We recommend for the Facilities and Construction Department develop procedures to outline the steps/process administration should follow to obtain and document approval for change orders that include costs that may not align with the general construction agreement requirements.

**Management and Leadership Response:** Agreed with recommendation and incorporated into the CAP as activity one (1):

**Activity 1:** Develop and implement procedures that outline the process to follow to obtain and document approval for change order costs that may not align with the general construction agreement requirements.

**Person Responsible:** Executive Director of Facilities and Construction

**Status:** Implemented

2

**Original Recommendation:** We recommend Jacobs (i) continue enforcing a thorough review of subcontractor proposals for proper itemization prior to approving a change order and (ii) incorporate checking for detailed itemization into their bi-annual audit in order to identify and correct any instances where proposals were not itemized properly.

**Management and Leadership Response** Agreed with recommendation and incorporated into the CAP as activity two (2).

**Activity 2:** The District shall have Jacobs incorporate into the change order process additional steps that will focus on: i) enforcing a thorough review of subcontractor proposals for proper itemization prior to recommending a change order for approval; and ii) incorporate checking for detailed itemization into the Jacob's bi-annual audit to identify and correct any instances where proposals were not properly itemized.

**Persons Responsible:** Executive Director of Facilities and Construction

**Status:** Implemented



## Exhibit A – Summary of Original Audit Results

Finding	Summary Finding
1	Supervision fees of \$34,719 within general conditions for an approved change order were not in alignment with the general construction agreement. Article XII Changes in the Work section 12.5.3.2 of the general construction agreement states “Such labor costs shall include labor required for performance of the changed Work only, and may include working foremen; all other supervisors shall be excluded and shall be considered as a part of field supervision that is covered by the allowable markup percentages stated in 12.1.7”. According to District administration and Jacobs staff, change orders that include supervision fees are not a common occurrence, however, in this case, supervision fees were needed.
2	Subcontractor proposals (SP) in five (5) out of 10 approved change orders (CO) and contingency expenditure authorizations (CEA) were not itemized in detail to satisfy the general construction agreement requirements. Per section 12.8.2 of the contract, “the Contractor shall provide a detailed labor and material breakdown of the proposed pricing for the Work specified in the Proposal Request.”



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