

AUDIT OF CHANGE ORDER PROCESSES

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EXECUTIVE SUMMARY

OPPORTUNITIES FOR IMPROVEMENT

As part of the Annual Audit Plan, the Clerk of Circuit Court and County Comptroller's *Internal Audit Department and Office of the Inspector General* conducted an independent audit of Change Order Processes.

- Internal Audit obtained an understanding of the process of issuing change orders for existing purchase orders.
- Between October 1, 2014 and September 30, 2016, there were a total of 1,609 purchase orders where change orders were subsequently issued for those purchase orders. Approximately 2,400 change orders were issued during the same time period.
- Internal Audit selected a statistical random sample of 321 purchase orders with subsequent change orders, which included a total of 442 change orders.
- Based on the procedures performed, overall, the Procurement Department appears to have an appropriate internal control structure in place to mitigate risks. However, certain processes could be enhanced. Additionally, there appears to be issues of non-compliance with the guidelines as found in the Procurement Manual and Standard Operating Procedures developed to ensure compliance with the Sarasota County Procurement Code.
- Identified opportunities for improvement.

Non-Compliance ~ Policies and Procedures

- Twenty-six (26) approved change orders were not in compliance with Standard Operating Procedure #46.
- Sixteen (16) approved change orders were not in compliance with Standard Operating Procedure #7.
- One (1) change order related to a procurement exemption approved by someone other than the Procurement Official.
- Two (2) instances where purchase orders were issued that exceeded the authorized spend limit.
- One (1) approved change order related to a work assignment not approved by the Department Director.



BACKGROUND AND OBJECTIVES

The Clerk of the Circuit Court and County Comptroller's *Internal Audit Department and Office of the Inspector General* has completed an audit of Change Order Processes. The audit was planned and conducted in accordance with the *International Standards for the Professional Practice of Internal 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 objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of the audit was to review compliance with applicable county ordinances, and policies and procedures related to processing change orders.

Background

The Board of County Commissioners Sarasota County Ordinance No. 2016-019, known as the County Procurement Code (Procurement Code), establishes the policy for the procurement of goods and services for the County, in accordance with Chapter 125, Florida Statutes. The Procurement Code delegates all rights, powers, duties and authority related to the procurement and contracting of goods and/or services, including change orders, to the Sarasota County Administrator, who is also responsible for the appointment of a Procurement Official and the preparation of a Procurement Manual. Chapter 4 of the Procurement Manual delegates the authority for the procurement and contracting of goods and services to the appointed Procurement Official.

The Procurement Department provides centralized support and services for procuring goods and services, and works closely with business units from the initial purchase request to the issuance of the purchase order or the award of a contract. Modifications to issued purchase orders (change orders) are considered a normal part of doing business and are needed for various reasons, including, but not limited to:

- Change in the needs of the business unit,
- True-ups for actual need versus estimates,
- Revision of specifications for major projects, and,
- Correction of administrative errors.

The Procurement Department has developed Standard Operating Procedures (SOPs) for procurement processes, including change order processes, to be used in conjunction with the guidance provided in the Procurement Manual to ensure compliance with the Procurement Code.

Procurement records indicate that between the dates of October 1, 2014 through September 30, 2016, Sarasota County issued 1,609 purchase orders that were subsequently modified with change orders. There were approximately 2,400 change orders related to the 1,609 purchase orders.

Objectives, Scope and Methodology

The objectives of this audit were to determine if the Procurement Department's internal controls related to reviewing, approving, and processing change orders are operating effectively and if they are in compliance with the Procurement Code, the Procurement Manual, and relevant Standard Operating Procedures.

The scope of the audit included a review of purchase orders that were later modified using the change order process during the time period of October 1, 2014, through September 16, 2016.

To meet the objectives of the audit, the procedures performed included, but were not limited to, the following:

- Obtained an understanding of the Sarasota County Procurement Code, Procurement Manual, Standard Operating Procedure #47 – *Requesting Change Orders*, and Standard Operating Procedure #7 – *Processing Change Orders*.
- Walkthrough of the change order process.
- Inquiries of county personnel.
- Examined a statistical sample of purchase orders with subsequent change orders:
 - For procurements of less than \$5,000, a statistical sample of 15 purchase orders was examined from a population of 76, which included 17 subsequent change orders.
 - For procurements of between \$5,000 and \$25,000, the population of 16 purchase orders was examined, which included 20 subsequent change orders.
 - For procurements of more than \$25,000, including procurements that resulted in term contracts, a statistical sample of 87 purchase orders was examined from a population of 455, which included 122 subsequent change orders.
 - For procurements using sole/single source exemptions, a statistical sample of 30 purchase orders was examined from a population of 87, which included 48 subsequent change orders.
 - For procurements using waivers of competition, a statistical sample of 30 purchase orders was examined from a population of 88, which included 49 subsequent change orders.
 - For procurements using cooperative purchasing agreements, a statistical sample of 38 purchase orders was examined from a population of 161, which included 48 subsequent change orders.
 - For procurements using Professional Services Library work assignments, a statistical sample of 20 purchase orders was examined from a population of 46, which included 25 subsequent change orders.

- For procurements with BCC contracts, a statistical sample of 63 purchase orders was examined from a population of 658, which included 82 subsequent change orders.
- For after the fact procurements, the population of 5 purchase orders was examined, which included 5 subsequent change orders.
- For procurements using claims, the population of 2 purchase orders was examined, which included 2 subsequent change orders.
- For emergency procurements, the population of 8 purchase orders was examined, which included 10 subsequent change orders.
- For exemptions approved prior to March 25, 2013, the population of 7 purchase orders was examined, which included 14 subsequent change orders that occurred during the audit period.



OPPORTUNITIES FOR IMPROVEMENT AND MANAGEMENT RESPONSES

The audit disclosed certain policies, procedures, and/or practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. As a result of the audit, observations and recommendations identified below are related to *Standard*:

- (Standard 2130.A1) Adequacy and effectiveness of controls, particularly compliance with policies, procedures, and contracts.

The **Opportunities for Improvement** presented in this report may not be all-inclusive of areas where improvement may be needed. There were five (5) *Opportunities for Improvement* identified as a result of the audit:

1. **Compliance with SOP #46 – Requesting Change Orders**
2. **Compliance with SOP #7 – Processing Change Orders**
3. **Written delegated authority**
4. **Payments exceeded authorized spend limit**
5. **Appropriate approval of Professional Services Library work assignments**

1. Compliance with SOP #46 – Requesting Change Orders.

Observation

SOP #46 requires a Change Order Request Form to be completed by the requesting department in order to initiate a modification to a previously issued purchase order. The following information is required to be included on the form:

- Purchase Order number,
- Name of person completing form, and a
- Detailed description of the line item changes.

During review of the 442 approved Change Orders in the sample, the auditor identified twenty-five (25) Change Order Request Forms that did not include the name of the individual that completed the form.

Additionally, there was one (1) instance where the Change Order Request Form could not be obtained.

Recommendation

Develop and implement a quality assurance process to ensure that the requirements of SOP #46 are completed prior to approving and processing change orders.

Management Response

SOP #46 will be updated to clarify that the “Form Entered By” field is optional.

Beginning in FY18, Departments will initiate new Purchase Requests in OneSolution to initiate Change Orders, eliminating the need for the Change Order Request Form and the Help Ticket.

May 19, 2017 –SOP #46 was revised

June 2017 – Department requestors will be notified of revisions to SOP #46. Affected Procurement staff will receive refresher training regarding the Change Order Process.

October 2017 – SOP for Processing Change Orders in OneSolution will be adopted. Departments and Procurement staff will receive training prior to October 1, 2017.

2. Compliance with SOP #7 – Processing Change Orders.

Observation

SOP #7 stipulates that when a procurement analyst is notified of a Change Order request assignment via the electronic Help System, the Change Order Request Form and supporting documentation are to be downloaded and saved in the departmental electronic filing system. The procurement analyst is responsible for reviewing the documents, verifying that the supporting documentation matches the request and the contract's fee schedule, if applicable. Validating that the request, if processed, would not exceed the procurement amount that was approved or the not-to-exceed amount, if applicable, is to occur.

Additionally, SOP #7 requires that if the request is to reduce a line item on the purchase order, the procurement analyst is responsible for verifying that if the change order was processed, the amount on the line item would not be reduced by more than the payments already made for that line item. If the change order is to increase the amount of an issued purchase order with an associated Term Contract, the procurement analyst must ensure that a Term Contract Authorization Form (TCAF), signed by the Financial Agent responsible for managing the Term Contract, has been submitted via the Help System.

During review of the 442 change orders in the sample, the auditor identified:

- nine (9) processed change orders lacked documentation to support the approval of the change order.
- two (2) instances where the processed change order did not match the Change Order Request Form.
- two (2) instances where the processed change order reduced a line item by more than the payments already made for the line item.
- three (3) instances where the change order request did not include the required TCAF.

Recommendation

To ensure compliance with SOP #7, develop and implement quality assurance processes to ensure that:

- adequate documentation is received and retained to support change order requests,
- processed change orders match the Change Order Request Form,
- requests to reduce a line item by more than payments already made on that line item are not processed, and,
- requests to increase an issued purchase order associated with a Term Contract includes an approved TCAF.

Management Response

SOP #7 will be replaced with an SOP for Processing Change Order in OneSolution. The new SOP will:

- Require a notation if the Procurement Analyst makes a change that differs from the request form.
- Require Procurement to save a copy of the OneSolution Report (Purchase Order Status with Receiving) as part of the Change Order documentation when processing changes that reduce line items.

Procurement Staff responsible for processing change orders will receive training to reaffirm the need to confirm and retain required documentation and the need to run reports prior to reducing line items.

May 2017 – New SOP for processing Change Orders in OneSolution will be adopted, and Procurement staff will receive training regarding new documentation requirements.

August/September 2017 –SOP for processing Change Orders in OneSolution will be modified to include initiation of Change Orders by Departments in OneSolution. Procurement staff and Departments will receive training for implementation on October 1, 2017.

October 2017 – New process for initiating Change Orders in OneSolution will be adopted.

3. Written delegated authority.

Observation

The Procurement Manual, Chapter 4.1.E.1 states, "The County Administrator delegates to the Procurement Official authority to approve Procurement contracts, amendments, renewals, extensions and other ancillary documents in accordance with Resolution No. 2016-055 ..." Chapter 4.1.E.9 states, "The Procurement Official may delegate this authority in writing."

During testing of change orders related to procurements exempted from the competitive processes, the auditor identified six (6) instances where the exemption was approved by an individual other than the Procurement Official. Of the six (6), documentation of written delegated authority could not be obtained for one (1).

Recommendation

To ensure compliance with the Procurement Manual, the Procurement Official should maintain documentation of the written delegated authority for every occurrence.

Management Response

The Procurement Official will draft a memo, delegating authority to the Procurement Manager, for the approval of certain documents on his/her behalf for a period of not more than one year. This will provide written documentation of the delegation of authority, ensuring continuance of operations during any unforeseen absence by the Procurement Official.

Expected date of implementation is June 2017.

4. Payments exceeded authorized spend limit.

Observation

- The Procurement Manual, Chapter 7.8 authorizes emergency procurements when a purchase needs to be made for an unexpected and urgent request where health and safety or the conservation of public resources is at risk. An Emergency Procurement Approval Form is approved by the Procurement Official and the County Administrator, an estimated cost is determined, and the BCC is notified.

During review of the ten (10) approved Change Orders in the population of emergency procurements, the auditor identified two (2) instances where purchase orders issued exceeded the limits authorized by the County Administrator. Both instances were related to purchase orders issued for emergency procurements that exceeded the cost specified within the Emergency Procurement Approval forms.

Recommendation

Develop and implement monitoring processes to ensure that purchase orders issued for emergency procurements do not exceed the amount approved on the Emergency Procurement Approval forms.

Management Response

Procurement will revise the Emergency Procurement Form to include “estimated” costs.

SOP #53 will be revised to include a process for notifying the County Administrator if Emergency Procurements exceed the estimated expenditures by more than 10% for Emergency Procurements estimated to be in excess of \$100,000.

May 2017 – Revise SOP #53 and the Emergency Procurement Form.

5. Appropriate approval of Professional Services Library work assignments.

Observation

The Procurement Manual, Chapter 4.1.F states that Department Directors are delegated to approve Professional Services Library Agreement work assignments up to \$150,000 and Unit Price Contract work assignments up to \$100,000, for previously approved BCC contracts. The auditor determined that there were 25 Change Orders associated with the 20 Purchase Orders in the statistical sample for work assignments.

During review of the 25 approved Change Orders related to work assignments in the statistical sample, the auditor identified one (1) instance where the Department Director did not approve the work assignment that supported the Purchase Order or the Change Order. The work assignment was approved by someone other than the Department Director.

Recommendation

Develop and implement a quality assurance process to ensure that work assignments are approved by the Department Director prior to approving and processing Purchase Orders and any subsequent Change Orders.

Management Response

SOP #34 (Purchase Requisition Process) will be revised to include verification that Work Assignments are approved by the Department Director or Designee prior to submittal of PR.

SOP #79 (Purchase Order Approval Process in OneSolution) will be revised to include verification that Work Assignments have proper approval authority.

To ensure proper tracking of delegations, Department Directors will be advised to formally delegate authority for signing work assignments to a single person in their absence, and to provide Procurement with copies of any such delegations.

Expected date of implementation is June 2017.

