Todd Spitzer District 2nd District – John M.W. Moorlach 1st District - Janet Nguyen

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FINAL CLOSE-OUT FIRST FOLLOW-UP INTERNAL CONTROL AUDIT:

JOHN WAYNE AIRPORT CHANGE ORDER PROCESS FOR THE AIRPORT IMPROVEMENT PROGRAM

AS OF OCTOBER 31, 2013

Our First Follow-Up Audit found that John Wayne Airport fully implemented all seven (7) recommendations from our original audit report dated April 2, 2013.

During the original audit period, John Wayne Airport processed 1,451 change orders totaling \$58 million for the Airport Improvement Program.

AUDIT NO: 1125-F1 (REFERENCE 1339) (ORIGINAL AUDIT NO. 1125)

REPORT DATE: DECEMBER 9, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA Senior Audit Manager: Alan Marcum, CPA, CIA Audit Manager: Kenneth Wong, CPA, CIA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management









GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA

Director Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)

Certified Fraud Examiner (CFE)

Certified in Financial Forensics (CFF)

Chartered Global Management Accountant (CGMA)

E-mail: peter.hughes@iad.ocgov.com

Michael Goodwin CPA, CIA

Senior Audit Manager

Alan Marcum MBA

MBA, CPA, CIA, CFE

Senior Audit Manager

Hall of Finance & Records

12 Civic Center Plaza, Room 232 Santa Ana, CA 92701

Phone: (714) 834-5475 Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 1125-F1 December 9, 2013 (Reference 1339)

TO: Alan L. Murphy, Director John Wayne Airport

FROM: Dr. Peter Hughes, CPA, Director Internal Audit Department

SUBJECT: First and Final Follow-Up Internal Control

Audit: John Wayne Airport Change Order Process for the Airport Improvement Program, Original Audit No. 1125, Issued

April 2, 2013

We have completed a First Follow-Up Audit of John Wayne Airport Change Order Process for the Airport Improvement Program. Our audit was limited to reviewing, as of October 31, 2013, actions taken to implement the **seven (7) recommendations** from our original audit report dated April 2, 2013. We conducted this First Follow-Up Audit in accordance with the *FY 13-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the seven (7) recommendations, this report represents the final close-out of the original audit.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the OC Internal Auditor's Report on page 3.

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OC Internal Auditor's Report



Audit No. 1125-F1 December 9, 2013

TO: Alan L. Murphy, Director

John Wayne Airport

FROM: Dr. Peter Hughes, CPA, Director,

Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up Internal Control Audit: John Wayne Airport

Change Order Process for the Airport Improvement Program, Original Audit No.

te Hughes

1125, Issued April 2, 2013

Scope of Review

We have completed a First Follow-Up Audit of John Wayne Airport Change Order Process for the Airport Improvement Program. Our audit was limited to reviewing actions taken, as of October 31, 2013, to implement the **seven (7) recommendations** from our original audit report.

Background

We conducted an Internal Control Audit of John Wayne Airport's change order process for the Airport Improvement Program, which included an evaluation of internal controls for processing and approving change orders; a determination of compliance with County and JWA policies and procedures; and an evaluation of the efficiency and effectiveness of JWA's change order process. During the original audit period, John Wayne Airport processed 1,451 change orders totaling \$58 million.

The original audit identified **five (5) Control Findings** resulting in **seven (7) recommendations** concerning incomplete documentation to support the evaluation of change order costs for Architect-Engineer service contracts; the reason for overriding an outside technical advisor's opinion was not documented; separate change order logs were not reconciled; select policies and procedures were not updated; and where compliance with JWA policies and procedures should be improved for Architect-Engineer service contracts.

Results

Our First Follow-Up Audit indicated John Wayne Airport fully **implemented seven (7) recommendations**. Based on our First Follow-Up Audit, the following is the implementation status of the seven (7) original recommendations:

1. <u>Documentation Needs to be Improved to Support the Evaluation of Change Order Costs for Architect-Engineer Service Contracts</u> (Control Finding)

We recommend that John Wayne Airport ensure that the Memorandum (Record) of Negotiations contain sufficient information that someone not connected with the change order can understand the process for negotiating the agreed-upon cost.

<u>Current Status:</u> **Fully Implemented**. JWA reminded project management staff that the Memorandum (Record) of Negotiation must contain sufficient information describing how the fair and reasonable change in contract price was arrived at.

OC Internal Auditor's Report



We tested a sample of five (5) change orders executed between July 2013 and October 2013 and found that all five (5) change orders were supported with a Memorandum (Record) of Negotiation showing sufficient information to understand the process for negotiating the agree-upon cost. Since JWA took actions in this area, we consider this recommendation implemented.

2. Reason for Overriding an Outside Technical Advisor's Opinion was not Documented (Control Finding)

We recommend that John Wayne Airport ensure disputes with the outside technical advisor are thoroughly documented and detailed explanations are provided as to why a change order is issued that conflicts with the field representative's opinion.

<u>Current Status</u>: **Fully Implemented.** JWA informed project management staff that any change orders approved against the field representative's recommendation are required to include a complete explanation. We tested a sample of five (5) change orders executed between July 2013 and October 2013 and found that JWA did not override an outside technical advisor's assessment on merit on any of the five (5) change orders. Since JWA took actions in this area, we consider this recommendation implemented.

3. <u>Separate Change Order Logs were not Reconciled</u> (Control Finding)

We recommend that John Wayne Airport consider reconciling the change order log maintained in Skire Unifier with JWA Accounting's change order log.

<u>Current Status</u>: **Fully Implemented.** JWA considered reconciling the separate change order logs by evaluating processes and controls for change orders. JWA believes the change order processes and controls are appropriate to ensure encumbrances are sufficient to cover project expenditures and expenditures are accurate and within budget. JWA concluded that the current processes and controls are sufficient to provide assurance for change orders when considering the level of resources utilized. Since JWA took actions in this area, we consider this recommendation implemented.

4. Written Policies and Procedures Need to be Updated (Control Finding)

We recommend that John Wayne Airport revise their internal policy and procedure, ADS P&P B-14-0, *Architect-Engineer Agreement Changes* to remove the step that the Project Manager prepares an independent cost estimate for each change order unless mandated by law or sponsor agreement.

<u>Current Status</u>: **Fully Implemented.** JWA revised their internal policy and procedure for *Architect-Engineer Agreement Changes*. The amended policy and procedure waives the requirement for an independent cost estimate if the Architect-Engineer (A-E) agreement is based predominately on time and materials, including estimated levels of effort in units of time of the A-E's professional staff for services over the term of the agreement when levels of effort are defined and the staff's hourly rates were already established in the initial or prior amendment. Since JWA took actions in this area, we consider this recommendation implemented.

5.A. Non-Compliance with JWA Architect & Engineer Policies and Procedures

(Control Finding)

We recommend that John Wayne Airport ensure change orders are supported with a Memorandum (Record) of Negotiation.

OC Internal Auditor's Report



<u>Current Status</u>: **Fully Implemented.** JWA reminded project management staff that change orders are required to be supported with a Memorandum (Record) of Negotiation. We tested a sample of five (5) change orders executed between July 2013 and October 2013 and found that all five (5) change orders were supported with a Memorandum (Record) of Negotiation. Since JWA took actions in this area, we consider this recommendation implemented.

5.B. Non-Compliance with JWA Architect & Engineer Policies and Procedures

(Control Finding)

We recommend that John Wayne Airport ensure the review of the Memorandum (Record) of Negotiations by delegated management is documented.

<u>Current Status</u>: **Fully Implemented.** JWA revised their internal policy and procedure for *Architect-Engineer Agreement Changes*. The amended policy and procedure removed the requirement for the Deputy Airport Director to sign the Memorandum (Record) of Negotiation. The Deputy Airport Director continues to review the change order and supporting documentation and documents review and approval by electronically authorizing the change order. The project management system maintains an audit trail with the electronic authorization. Since JWA took actions in this area, we consider this recommendation implemented.

5.C.Non-Compliance with JWA Architect & Engineer Policies and Procedures

(Control Finding)

We recommend that John Wayne Airport ensure change orders are supported with a cost proposal from the contractor with any exceptions documented on the Memorandum (Record) of Negotiation.

<u>Current Status</u>: **Fully Implemented.** JWA reminded project management staff that change orders are required to be supported with a cost proposal from the contractor. We tested a sample of five (5) change orders executed between July 2013 and October 2013 and found that all five (5) change orders were supported with a cost proposal from the contractor. Since JWA took actions in this area, we consider this recommendation implemented.

We appreciate the assistance extended to us by John Wayne Airport personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Alan Marcum, Senior Audit Manager at 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors

Members, Audit Oversight Committee

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Mark Denny, Chief Operating Officer

Jessica O'Hare, Assistant Chief Operating Officer

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Samer Marei, Airport Development Manager, JWA

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Foreperson, Grand Jury

Susan Novak, Clerk of the Board of Supervisors

Macias Gini & O'Connell LLP, County External Auditor