



# AUDIT REPORT



*To preserve the public trust as guardians of the people's records and assets*

**DATE** June 14, 2022

**NO.** 2022-003

## CHANGE ORDERS

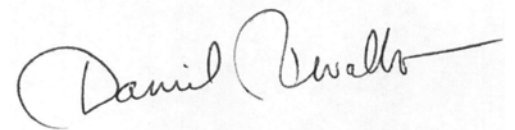
INTERNAL AUDIT DIVISION  
ROGER D. EATON  
CLERK OF THE CIRCUIT COURT AND COUNTY COMPTROLLER  
CHARLOTTE COUNTY FLORIDA

Honorable Roger D. Eaton  
Charlotte County Clerk of the Circuit Court and Comptroller  
350 East Marion Avenue  
Punta Gorda, Florida 33950

We have completed an audit of change orders. The purpose of this audit was to ensure adequate controls exist and are operating effectively over the funding process.

The report details the current control environment and includes our comments and recommendations. Management responses have been included and immediately follow the audit report.

Respectfully submitted,

A handwritten signature in black ink that reads "Daniel Revallo". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Daniel Revallo  
Internal Audit Director

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## EXECUTIVE SUMMARY

The Internal Audit Division completed a review of construction change orders and related controls. The audit considered the change orders on two (2) specific, construction projects. The projects selected included the Olean Boulevard Widening project and the Burnt Store Road Widening – Phase II project. Both of the contracts were awarded by the Charlotte County Board of County Commissioners on September 10, 2019.

A few specific control weaknesses were noted; generally however, controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

**Based upon the results of our audit, we offer a summary of recommendations. These recommendations are discussed in detail later in this report:**

1. **We recommend** disclosing subcontractors with bids, or submitting substituted/added contractors in writing for approval by the County.
2. **We recommend** that management implement a secondary review that considers the appropriateness and accuracy of change order costs.
3. **We recommend** that management ensure that change order documents are completed in their entirety and are accurate.

## BACKGROUND

Charlotte County Government enters into formal contractual agreements with outside vendors/contractors on a number of significant projects each fiscal year in order to meet various obligations. It is not uncommon for large construction projects to experience changes in their original construction plans, which can increase or reduce the original cost of the project. Such changes typically occur as a result of design alterations, unanticipated conditions, circumstances at the construction site, or changes in various materials' quantity amounts. When these changes occur, they are accounted for with change orders.

Change orders are formal documents that describe the nature and necessity of project changes and the impact of these changes to a project's overall cost and completion date. Once requested, change orders must be authorized by various levels of management and either approved administratively or approved by the Board of County Commissioners (BCC).

Upon award of a construction contract by the Board of County Commissioners, a contingency reserve shall be established, which will be five percent (5%) of the awarded bid price (unless otherwise modified by contract). Any change order or unit modification that results as an increase to the approved contract amount less than \$160,000, or a decrease to the contract for any amount, that is within the contract budgeted amount, including the 5% contingency reserve, may be authorized and approved administratively by the County Administrator or his/her designee, the Senior Division Manager -

Purchasing, and the requesting Department Director or Department Head of the department for whom the construction contract is for.

Unit modifications or change orders for \$160,000 or more may only be approved by the Charlotte County BCC. This limit of authority increases without further legislative action, by five thousand dollars (\$5,000) each year, commencing on October 1, 2020, and increasing on the first day of October of each year thereafter. This was initially enacted on October 1, 2004 for \$75,000.

Unit modifications are defined as those changes specifically related to unit bid quantities.

Emergency change orders are defined as those changes which were not detectable prior to the implementation of the work and which require an immediate approval in order to prevent costly delays to projects or are threats to the public health, safety and welfare requiring immediate attention.

Improved value change orders are defined as those changes specifically related to types of materials used, methods of construction and/or design, which will have a project performance enhancement, cost advantage, or both, and which were not detected prior to the implementation of the work.

Increases or decreases in contract completion time resulting from change orders approved are included as part of the change request and duly documented.

Change orders that are approved administratively are routed through the approval process by SharePoint. Change orders that are approved by the Charlotte County BCC are routed through the approval process by Legistar. The Purchasing Division maintains all transactional activity for projects and approved change orders, using the contract management feature in the Eden Financial System. Bid agreements consummated by purchase orders are considered contracts.

### **AUDIT OBJECTIVES**

1. Determine if change orders are necessary and appropriate to the project, and covered work within the scope of the base contract.
2. Determine if change orders are authorized, complete, and agree with contract specifications.
3. Determine if the amounts charged for change orders are the responsibility of Charlotte County and not due to design deficiencies and/or vendor/contractor error.
4. Determine if change orders contain the necessary support and pricing details to allow for proper analysis to protect the County from excessive cost prior to being approved.

### **SCOPE AND METHODOLOGY**

The audit scope considered the change orders on two (2) specific, construction projects. The projects selected included the Olean Boulevard Widening project and the Burnt Store Road Widening – Phase II project.

Both contracts were awarded by the Charlotte County Board of County Commissioners on September 10, 2019, with the project start dates occurring early 2020. Both projects were active with anticipated completion dates of October 26, 2021 and February 12, 2022, respectively.

The Olean Boulevard project had five (5) approved change orders, which due to the removal of some work, reduced the overall project costs by \$670,313.34. The Burnt Store Road project had twelve (12) approved change orders, which increased the overall project costs by \$625,556.38.

To meet the objectives of the audit, audit procedures performed included:

- Interviews with key personnel.
- Review of related policies and procedures.
- Review of change order documentation and approvals.
- Review of bidding documentation and scopes.

## COMMENTS AND RECOMMENDATIONS

### 1. Subcontractors are not disclosed or approved outside of the project manager.

The reviewed projects did not have subcontractors identified. Internal Audit was told this is a function of the project manager.

Upon request, the project manager provided us with a list of 22 subcontractors for the Burnt Store Road Project. The project manager informed us that many of these contractors have been used on other projects throughout the county. The project manager stated, "The approval process is generally done by professional experience with the contractors – either working with them in the past or knowing someone that can provide them a reference. Typically, this is not a formal process."

Instructions to bidders in the bid package state, "AA. Subcontractors - The Contractor shall provide a list of subcontractors with his bid for approval. The Contractor agrees that he is as fully responsible to the County for the acts and omissions of his subcontractors and of persons either directly or indirectly employed by them as he is for the acts and omissions of persons directly employed by him. Nothing contained in the Contract Documents shall create any contractual relation between any subcontractor and the County. Substitutions must be submitted in writing and shall be subject to approval by the County. To insure proper execution of his subcontractor's work, the Contractor shall measure work already in place and shall at once report to the County any discrepancy between the executed work and the drawings."

The project manager is the person in overall charge of the planning and execution of a particular process. Disclosure and approvals should take place outside the planning and execution process. In line with the underlined sections of the instructions above, providing a written list of subcontractors to Purchasing, either with the bid or as a substitution will allow for review and approval by Purchasing or another designated party.

Alternatively, the risk of the current process are bid-rigging schemes, where a competitor agrees to submit a losing bid, or not to bid, to receive a subcontract on the project. As an example, one of the subcontractors listed for the project was also the second lowest of the four project bidders.

**We recommend** disclosing subcontractors with bids, or submitting substituted/added subcontractors in writing for approval by the County.

### 2. Change order requests are not sufficiently reviewed outside the project manager.

We noted that 6 of 12 change orders for the Burnt Store Road Project had mathematical errors, and 2 of 12 change orders were negotiated lump sums without details. These are summarized below:

- a) Change order #1 was a negotiated lump sum, without any details, which makes it difficult to evaluate if the cost was reasonable and fair. This lump sum change order started at \$10-11 thousand, but was negotiated down to \$6,000.
- b) Change order #3 was negotiated at a credit of (\$33,438.38) but was finalized at a credit of (\$33,475.50) for a variance of \$37.12 in the County's favor.
- c) Change order #4 support document "description of work" from subcontractor included a total price adjustment of \$85.50, which when recalculated should have been \$171. This was in the County's favor.
- d) Change order #5 included a unit cost deletion under "Part IV - Force Main" for \$97.90 per unit, for 155 units, but should have been \$101.77 per unit, per the original contract. The variance of \$599.85 was not in the County's favor.
- e) Change order #6 added 460 items at \$76.35 each which should have been added at the contract price of \$66.48 each for an overpayment of \$4,540.20. This was not in the County's favor.

Change order #6 also included a unit cost deletion for 2 units at \$1,146.62 each which should have been deleted at the contract price of \$1,552.18 each for an overpayment of \$811.12. This was not in the County's favor.

- f) Change order #7 added 2 items at \$1,146.62 each which should have been added at \$1,552.18 each for an underpayment of \$811.12. This was in the County's favor.
- g) Change order #9 added 195 items at \$90.75 each which should have been added at \$76.99 each for an overpayment of \$2,683.20. This was not in the County's favor.

Change order #9 also added 1 item at \$7,511.23 which should have been added at \$7,080.83 for an overpayment of \$430.40. This was not in the County's favor.

- h) Change order #10 adds a lump sum cost of \$12,893.04 to include labor, tap, sleeve and value, which makes it difficult to evaluate if the cost was reasonable and fair.

A secondary review with an accounting background ensures that mathematical errors are caught whether in the County's favor or not.

**We recommend** that management implement a secondary review that considers the appropriateness and accuracy of change order costs.



### 3. **Some form completion deficiencies were identified.**

Some portions of the Administrative Change Order Approval Form (the formal document) are not being completed accurately or consistently. Specifically; out of seventeen (17) Change Order Approval Forms, we noted the following:

- a) There were seven (7) instances where the "Previous Contingency Changes" section was incorrectly stated.
- b) There were five (5) instances where the "New Contingency Balance" section was incorrectly stated.
- c) We noted two (2) instances where the "Original Contract Time" amount was incorrectly stated.

Additionally, some portions of the Public Works Change Order Form Checklist were incomplete or not completed correctly. Specifically; out of seventeen (17) Public Works Change Order Form Checklists, we noted the following:

- a) We noted one (1) instance where the checklist was not completed.
- b) We noted three (3) instances where the checklist was incomplete, as question #11 was left unanswered.
- c) We noted eleven (11) instances where the checklist referenced the purchase order number versus the contract number.

**We recommend** that management ensure that change order documents are completed in their entirety and are accurate.

### **CONCLUSION**

A few specific control weaknesses were noted; generally however, controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

### **ACKNOWLEDGEMENT**

We would like to thank the Charlotte County Utilities, Administration, Public Works, and Purchasing Divisions for their assistance in the completion of this audit.

Audit performed by:

Misti Payette

Internal Auditor II

Charlotte County Clerk of Court and Comptroller



## MEMORANDUM

Date: May 16, 2022

To: Dan Revallo, Director Internal Audit, Charlotte County Clerk of the Circuit Court and County Comptroller

From: Claire Jubb, Assistant County Administrator

Subject: Change Order Audit Response

Please find below the response to the recommendations highlighted during the internal audit on construction change orders and related controls.

### Recommendation #1

#### **Subcontractors are not disclosed or approved outside of project management.**

The concern is around the need for a more formalized process for listing, reviewing and tracking the subcontractors working on a project.

**Response:** the following language shall be included in the county's Capital Project Delivery Program under the subsection entitled "Subcontractor's"

The Contractor is required to submit a list of identified subcontractors as part of the bid package. However, the nature of construction means that this list will most likely change multiple times throughout the project. The contractor is ultimately responsible for the subcontractors they use on the job site, but they have a requirement to notify the County should a subcontractor be added or removed from the project.

### **ADMINISTRATION**

Therefore, the following procedure shall be implemented on all county construction projects:

- 1) Contractor shall provide a list of all subcontractors with their bid package or note to be determined in their bid submission.
- 2) At the official pre-construction meeting, the contractor shall ensure that the previously supplied list is accurate or, if changes are to be made, shall provide the Project Manager and Purchasing with a complete list of subcontractors to be used on the project.
- 3) The Project Manager and the Purchasing Department shall review the list to ensure there are no issues with the selected subcontractors. If there is a concern, the Project Manager shall contact the Contractor to resolve the issue.
- 4) Any changes to subcontractors during construction shall be immediately submitted, in writing, to the Project Manager and Purchasing for review. If this change results in a new subcontractor being added, the Contractor shall receive approval from the Project Manager to add the subcontractor prior to making the change.
- 5) The Project Manager will ensure sub-contractor changes are an agenda item or discussed at each regularly scheduled project update meeting.
- 6) All documentation around the subcontractors shall be retained with the project file.

## Recommendation #2

### **Change Orders are not sufficiently reviewed outside the Project Manager**

Concern surrounds the lack of details included in the change orders along with some mathematical errors.

**Response:** The following language shall be included in the county's Capital Project Delivery Program under the subsection entitled "Change Management"

Change orders are the purview of the Project Manager and the Project Manager has the responsibility to ensure proper handling, analysis and documentation exist prior to approving the change order.

To ensure this is handled consistently across all departments, the following procedure shall be followed by all project management staff when handling change orders.

- 1) The request for the change order shall be forwarded to the Project Manager for approval prior to payment.
- 2) The Project Manager shall ensure all items included in the change order are accurately described and delineated. If the change order is negotiated, the results of this negotiation and a summary of the negotiation should be included in the back-up documents provided with the change order request.
- 3) The Project Manager shall review the terms of the change order to ensure consistency with contract and any subsequent amendments to that contract.
- 4) The Project Manager shall ensure any calculations are verified by the department's fiscal analyst or other department fiscal staff prior to approving the change order.

5) All requests and back-up documentation surrounding the change order request shall be retained with the project file.

Recommendation #3

**Some form completion deficiencies were identified.**

The concern is ensuring that change order documents are completed in their entirety and are accurate.

**Response:** Purchasing is researching an opportunity to put the form in an excel format to assist with the calculations, thus minimizing any deficiencies. Also, as part of the approval process a further calculation verification will be performed at the management level.

cc: Hector Flores, County Administrator  
Gordon Burger, Budget & Administrative Services Director  
Kim Corbett, Senior Division Mgr-Purchasing



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