INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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INTERNAL CONTROL REVIEW
OF
RESOURCES AND DEVELOPMENT MANAGEMENT DEPARTMENT

FACILITIES OPERATIONS CONTRACT ADMINISTRATION AND CASH DISBURSEMENTS

For the Period
July 1, 2005 through September 30, 2006

AUDIT NUMBER: 2632 **REPORT DATE: MAY 22, 2007**

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Deputy Director:	**Eli Littner, CPA, CIA**
Senior Audit Manager:	**Michael Goodwin, CPA, CIA**
Senior Auditor:	**Abdul Khan, CPA**

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

Internal Control Review of
Resources and Development Management Department/Facilities Operations
Contract Administration and Cash Disbursements

For the Period
July 1, 2005 through September 30, 2006

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Transmittal Letter

Audit No. 2632

May 22, 2007

TO: Bryan Speegle, Director
Resources and Development Management Department

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Internal Control Review of RDMD/Facilities Operations Contract Administration and Cash Disbursements

We have completed our Internal Control Review of RDMD/Facilities Operations contract administration and cash disbursement processes for the period July 1, 2005 through September 30, 2006. The final report is attached along with your responses to our recommendations.

Please note, we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our **first Follow-Up Audit** will now begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will now begin at 12 months from the release of the original report, by which time ***all*** audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a Follow-Up Audit Report Form. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

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.

As always, the Internal Audit Department is available to partner with you so that RDMD/Facilities Operations can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will request your department complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final report.

Attachments

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Alisa Drakodaidis, Deputy CEO/Infrastructure & Environmental Services
Steve Danley, Director, RDMD/Administration
Bob Wilson, Director, RDMD/Internal Services
Gus Fischer, Manager, RDMD/Facilities Operations
Mark Morgan, Chief, RDMD/Facilities Operations/Business, Administration and Purchasing
Bob Zuhlke, Principal F.O. Project Manager, RDMD/Facilities Operations
Mary Fitzgerald, Manager, RDMD/Accounting Services
Tony Bernard, Manager, RDMD/Purchasing and Contract Services
Debra Lakin, Chief, RDMD/Central Quality Assurance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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AUTUMN MCKINNEY, CPA, CIA, CGFM, SENIOR AUDIT MANAGER

INTERNAL AUDITOR'S REPORT

Audit No. 2632

May 22, 2007

TO: Bryan Speegle, Director
Resources and Development Management Department

SUBJECT: Internal Control Review of RDMD/Facilities Operations
Contract Administration and Cash Disbursements

Scope of Review
We have completed our Internal Control Review of Resources and Development Management Department (RDMD) Facilities Operations contract administration and cash disbursement processes for the period July 1, 2005 through September 30, 2006. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors.

Results
Based on our audit, **no material weaknesses or significant issues were identified.** However, we did identify **five Control Findings** with corresponding recommendations to enhance controls and processes as discussed in the Detailed Observations, Recommendations and Management Responses section of this report. See *Attachment A* for a description of Report Item Classifications.

Management's Responsibilities for Internal Controls
In accordance with the Auditor-Controller's County Accounting Manual section S-2 - *Internal Control Systems*, "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because *management has primary responsibility* for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated and weaknesses, when detected, must be promptly corrected." The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Internal Audit's review enhances and complements, but does not substitute for RDMD's continuing emphasis on control activities and self-assessment of control risks.

While our report indicates the specific areas where our observations are directly applicable, **RDMD should implement the recommendations in other contract administration and cash disbursement processes they find applicable.** An expectation of the Board of Supervisors is that departments and agencies will view this report as a "lessons learned" opportunity to guide them in proactively self-assessing other similar operations or processes.

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

Inherent Limitations in Any System of Internal Control
Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our review made for the purpose described above *would not necessarily disclose all weaknesses* in RDMD/Facilities Operations' operating procedures, accounting practices and compliance with County policy.

Acknowledgment
We appreciate the courtesy and cooperation extended to us during the audit by the personnel of RDMD/Facilities Operations, Purchasing and Contract Services, and Accounting Services. If we can be of further assistance, please contact me or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Senior Audit Manager at (714) 834-6066.

Respectfully Submitted,

Peter Hughes, Ph.D., CPA
Director, Internal Audit

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Alisa Drakodaidis, Deputy CEO/Infrastructure & Environmental Services
Steve Danley, Director, RDMD/Administration
Bob Wilson, Director, RDMD/Internal Services
Gus Fischer, Manager, RDMD/Facilities Operations
Mark Morgan, Chief, RDMD/Facilities Operations/Business, Administration and Purchasing
Bob Zuhlke, Principal F.O. Project Manager, RDMD/Facilities Operations
Mary Fitzgerald, Manager, RDMD/Accounting Services
Tony Bernard, Manager, RDMD/Purchasing and Contract Services
Debra Lakin, Chief, RDMD/Central Quality Assurance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted an Internal Control Review of contract administration and cash disbursements at RDMD/Facilities Operations that included in its scope a limited review of the accuracy of the financial and accounting records; the adequacy and integrity of internal controls; compliance with applicable rules, regulations and department policies; and evidence of process efficiencies and effectiveness. The objectives of our audit were to determine whether internal controls are in place and operating to ensure that:

- Facilities Operations contracts are appropriately monitored to prevent overruns; contract expenditures are appropriately reviewed and approved prior to payment; adequate supporting documentation exists for work/services performed, and expenditures are allowable in accordance with contractual requirements.

- Contract payments are processed completely, accurately, timely, and in compliance with management's authorization.

- Business processes are efficient and effective as related to Facilities Operations contract administration and cash disbursements.

BACKGROUND

The primary mission of RDMD is to provide, operate and maintain quality public facilities and regional resources for the residents of Orange County, and safeguard the high quality of life in unincorporated Orange County through stewardship of the environment, application and enforcement of building, water and grading regulations, and planning of strategically balanced communities.

The Facilities Operations Division is an organizational division of the Internal Services Function of RDMD. Facilities Operations provides support services to County departments/agencies by operating and maintaining facilities and managing capital projects. Services provided by Facilities Operations include the following:

- General building maintenance and repair
- Heating, ventilating, and air conditioning
- Plumbing, mechanical, structural, electrical, and lighting
- Locksmith and County Master Key System
- Environmental controls, building automation, and key-card access
- Janitorial services in the Civic Center
- Management of assigned and requested Capital Projects
- Operation of Central Utility Facility
- Managing utility accounts for electrical, natural gas, and water/sewer

Types of Contracts

Facilities Operations classifies their contracts into three categories: Standing, Purchase Order, and Board Approved Public Works Contracts.

<u>Standing Contracts</u>

Standing Contracts are commodities, services, and public works contracts for regular, recurring services and supplies, such as janitorial services, landscaping, and plumbing. They include Board approved contracts for services greater than $50,000. Standing contracts are classified as follows:

- RDMD-wide Standing Contracts: These contracts are initiated by RDMD/Purchasing and Contracts for use by various divisions within RDMD to provide countywide services. Facilities Operations is only responsible for administering their portion of these contracts. At the time of our audit, there were **26 contracts totaling $2,533,847.**

- Facilities Operations Standing Contracts: These contracts are initiated and administered by Facilities Operations to provide countywide services. At the time of our audit, there were **47 contracts totaling $2,142,035.**

- CEO Master Standing Contracts: These contracts are initiated by CEO/Purchasing for use by different County departments/agencies to provide countywide services. Facilities Operations is responsible for administering their portion of the contracts. At the time of our audit, there were **10 contracts totaling $74,100.**

- Court Standing Contracts: These contracts are initiated by the Superior Courts to provide goods and services for the Court. Facilities Operations is responsible for administering their portion of the contracts. At the time of our audit, there were **12 contracts totaling $413,328.**

Purchase Order Contracts

Purchase Order Contracts are commodities, services, and public works contracts for one-time, specific services and supplies, such as computer services, equipment repair, and painting. These contracts are initiated and administered by Facilities Operations to provide countywide services and include Board approved contracts for services greater than $25,000. At the time of our audit, there were **1,174 contracts totaling $4,312,265.**

Board Approved Public Works Contracts

Board Approved Public Works Contracts are public works contracts greater than $75,000. These contracts are initiated and administered in Facilities Operations and are used to provide countywide services. At the time of our audit, there were **30 contracts totaling $10,302,678.**

Invoice Processing and Cash Disbursements

Invoices for contract payments are initially received, reviewed and approved by contract administrators and user department representatives who sign off on the invoices and submit them for payment authorization. Based on the type of contract, invoices are forwarded to either Facilities Operations/Purchasing, RDMD/Purchasing and Contract Services, or RDMD/Accounting Services for further processing and approval, and then are submitted to the Auditor-Controller for check issuance.

SCOPE

Our audit was limited to evaluating controls and processes over Facilities Operations contract administration and cash disbursements for the period July 1, 2005 through September 30, 2006. Our review included RDMD-wide Standing Contracts, Facilities Operations Standing Contracts, Purchase Order Contracts, and Board Approved Public Works Contracts and excluded CEO Master Standing Contracts and Court Standing Contracts. We reviewed cash disbursement processes for contract payments in both RDMD/Purchasing and Contract Services and RDMD/Accounting Services. We did not review the contract development process such as for competitive bidding or contract renewal. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation.

RESULTS

No material weaknesses or significant issues were noted. Based upon the objectives of our audit, we noted the following:

Objective: *To determine if Facilities Operations contracts are appropriately monitored to prevent overruns; contract expenditures are appropriately reviewed and approved prior to payment; adequate supporting documentation exists for work/services performed, and expenditures are allowable in accordance with contractual requirements.*

Results: Controls and processes are in place to ensure contracts are monitored, contract expenditures are reviewed and approved, supporting documentation exists for contract payments, and expenditures are allowable in accordance with contractual requirements. Overall, we noted that Facilities Operations maintains spreadsheets to monitor status and payments; duties of contract approval, receipt of goods/services, and payment authorization are properly segregated; and invoices contain proper supporting documentation. We note in our audit report where enhancements need to be made concerning administration of *Change Orders* and *Notices of Completion*. These are considered **Control Findings** and are discussed in the Detailed Observations, Recommendations and Management Reponses section of this report.

Objective: *To determine if contract payments are processed completely, accurately, timely, and in compliance with management's authorization.*

Results: Controls and processes are in place to ensure cash disbursements for contract payments are processed completely, accurately, and in compliance with management's directives. We noted that Facilities Operations, Purchasing and Contract Services, and Accounting Services had processes and controls in place for processing contract payments accurately and completely. We note in our audit report where enhancement is needed in Facilities Operations concerning *invoice approval and processing times* for Standing Contracts. These are considered **Control Findings**.

Objective: *To determine if business processes are efficient and effective as related to Facilities Operations contract administration and cash disbursements.*

Results: No inefficient or ineffective procedures were noted or came to our attention during fieldwork in Facilities Operations, Purchasing and Contract Services, and Accounting Services related to Facilities Operations contract administration and cash disbursements.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Board Approved Public Works Contracts

Board Approved Public Works contracts are public works contracts greater than $75,000. These contracts are initiated and administered in Facilities Operations and are used to provide countywide services. We noted the following observations concerning the administration of Change Orders and Notices of Completion.

Change Order Administration

Change Orders are supplemental agreements to original contracts usually resulting from changes in the scope of work or from unforeseen events. Change Orders can be monetary for additional construction costs, or non-monetary to allow extra time for project completion. We noted the following observations concerning the administration of Change Orders:

1. **Processing Change Orders.** We noted several instances where Change Orders were dated and approved from three weeks up to a year after the original or adjusted contract completion dates specified in the contracts. In these instances, Changes Orders were needed for both monetary and time extension changes.

   Facilities Operations indicated there is no requirement for Change Orders to be processed at a particular time because the contractor remains bound by the contract to complete the work despite delays. However, Facilities Operations agrees that, based on best practices, they need to adopt a stronger policy on Change Orders and ensure there is proper documentation of project delays and to approve Change Orders prior to the specified contract completion dates.

   Recommendation No. 1

   We recommend Facilities Operations enhance their policy on Change Orders so they are processed and approved in a timely manner before the contract completion dates. Any exceptions to the policy should be documented in writing.

   RDMD Management Response:

   Concur. In most instances, Change Orders to extend the contract completion dates will be executed prior to the expiration of the original or adjusted contract completion date. However, if negotiations with the contractor are on-going due to legal issues (settlements, stop work orders, termination actions, etc.) or by direction of counsel, the extended contract completion date will be included as part of the final negotiations and executed at the time of the Change Order approval. All exceptions to this policy will be documented in the project file. An enhanced policy documenting these requirements will be completed by July 1, 2007.

2. **Support Documentation for Time Extensions.** When a Change Order is needed, supporting documentation is prepared by the contractor and Project Manager, which gets approved by authorized individuals in Facilities Operations, or the Board, based on the amount of the Change Order. Although we found no exceptions in the supporting documentation for monetary changes, we noted several instances where there was no written justification by the contractor and Project Manager requesting time extensions, which in our sample ranged between 20 to 429 days.

Facilities Operations indicated that there are several factors associated with such delays, for example, weather, delays by the County, delays in material shipment, etc. Additionally, it was indicated the standard 21-day timeframe for submission of contractor's insurance and bond documents is tight and sometimes results in delays. However, Facilities Operations indicated they will ensure that both contractors and Project Managers prepare supporting documentation noting such delays and justification for time extension requests.

Recommendation No. 2
We recommend Facilities Operations ensure that supporting documentation for Change Order time extension requests is prepared by contractors and Project Managers, including the reasons for extending contract completion dates.

RDMD Management Response:
Concur. All Change Orders to extend contract completion dates will include a detailed explanation and/or justification for the contract extension as part of the Change Order. An enhanced policy documenting these requirements will be completed by July 1, 2007.

Notices of Completion
Upon completion of a project, the Project Manager prepares a Public Works Contract Notice of Completion to close out the project. A final payment (retention amount) is paid to the contractor and the Notice of Completion is filed for future reference.

3. **Processing Notices of Completion.** We noted three contracts where the "work complete and acceptable" dates on the Notices of Completion were dated <u>before</u> the related Change Order "approval" dates. We also noted one instance where the "work began" date on the Notice of Completion was dated <u>after</u> the contract completion date noted on the Change Order.

   Facilities Operations stated that there are instances when the final amount or date of completion is unknown until the very last minute, which can affect the approval of the Change Order. However, they concurred that Project Managers should be aware of the delays, which should be documented and approved well in advance of the Notices of Completion.

   Recommendation No. 3
   We recommend Facilities Operations ensure that related Change Orders and Notices of Completion are reviewed and dated in accordance with the actual timing and completion of projects. This should be incorporated as part of the enhanced policy on Change Orders as indicated above in Recommendation No. 1.

   RDMD Management Response:
   Concur. All Change Orders will be processed before the Notice of Completion. However, if negotiations with the contractor are on-going due to legal issues (settlements, stop work orders, termination actions, etc.) or by direction of counsel, the extended contract completion date will be included as part of the final negotiations and executed at the time of the Change Order approval. Upon Change Order approval, the Notice of Completion will be processed in tandem with payment of the 5% retention. An enhanced policy documenting these requirements will be completed by July 1, 2007.

Standing Contracts – Invoice Approval and Processing Times

4. **Approval of Invoices.** Facilities Operations' policy for approving invoices for payment is to have an authorized individual in either the user department or Facilities Operations review and approve the invoice, which in essence demonstrates satisfactory completion of contracted services. We tested 15 standing contract invoices and noted the following:

   - Five invoices for Facilities Operations Standing Contracts were not approved by the user County department verifying that services were satisfactorily received, but were approved by authorized individuals in Facilities Operations.

   - Seven invoices were approved by authorized individuals in user County departments, but were not approved in Facilities Operations. Three invoices were for Facilities Operations Standing Contracts and four invoices were for RDMD-wide Standing Contracts.

   - One Facilities Operations Standing Contract invoice was not signed by either authorized individual in the user County department or in Facilities Operations.

   In the instance with the 1st bullet above, contracted services were not consistently verified at the off-site user level but were approved in Facilities Operations. We believe it is important to verify the satisfactory completion of contract services to justify related invoice payments and to ensure they are made for services in accordance with contract requirements.

   Because Facilities Operations has several standing contracts for facilities spread throughout the County, we acknowledge it is not practicable to verify completion of services at each County user site, which can be performed on a daily or monthly basis. In addition, we were informed there are no designated "end users" at some facilities to verify completion of services. Therefore, it has been Facilities Operations' practice to have the contract administrators approve these invoices without verifying the services, and to rely on building occupants to inform them if services are not being provided.

   We encourage Facilities Operations to evaluate this issue further and consider developing a process by which certain standing contract services (which can be identified and prioritized by Facilities Operations based on their business objectives and available resources) are periodically verified for satisfactory completion. This could be accomplished through documented phone or email inquiries, surveys of site users, or periodic site visits. Once the verification process has been established, it should be formalized into a written policy on invoice processing.

   Recommendation No. 4
   We recommend Facilities Operations evaluate the invoice approval process for standing contracts and develop a process by which there is periodic verification of contracted services at the user level. Once the process is defined, it should be documented in a written procedure.

   RDMD Management Response:
   Concur. Due to the limited number of inspection staff, a matrix will be developed. The matrix will indicate who will be responsible for verifying that work has been completed and specify the frequency and rotational schedule for verifying work completion for selected types of contracts (e.g., landscaping, custodial, elevator maintenance, etc.). For contracts where there are hundreds of sites where services are being provided and where contractor non-performance would be obvious (e.g., trash, utility, out-lying custodial, etc.), Facilities Operations will continue to rely on the building occupants to notify us if the service is not being provided. An enhanced policy documenting these requirements will be completed by July 1, 2007.

5. **Invoice Processing Times.**

For Facilities Operations Standing Contracts, invoices are received and processed in Facilities Operations, and then transferred to RDMD/Purchasing and Contract Services to process payment requests and send them to Auditor-Controller/Claims and Disbursing for payment. Facilities Operations' policy is to process and send invoices to RDMD/Purchasing and Contract Services within 30 days of the receipt of invoice.

We noted in our testing instances when the 30-day timeframe was not accomplished, although the delays only ranged from a few days up to two weeks. Needing additional information from the contractor was cited as a cause for some of the delays. Because invoice processing is a countywide issue where many departments/agencies are exploring ways to enhance processing times, we believe that Facilities Operations could also benefit from reviewing its invoice processing times for any potential enhancements.

Recommendation No. 5

We recommend Facilities Operations evaluate the 30-day practice for processing invoices and determine if enhancements can be made to meet invoice processing timeframes as per management's expectations.

RDMD Management Response:

Concur. In many instances, contractors with standing contracts submit invoices at the beginning of the month while the contract terms require payment in arrears. These invoices are now being returned to the contractor requesting that an invoice be submitted only after the monthly services are provided per the contract terms. All other invoices will continue to be date stamped when received by Facilities Operations. Invoices will be processed for payment upon verification of work as being complete. Invoices that have been verified as incomplete will not be retained by Facilities Operations and will be returned to the contractor. In cases where invoice processing time will exceed 30 days, an explanation documenting the reasons will be included with the invoice. An enhanced policy documenting these requirements will be completed by July 1, 2007.

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we classify audit report items into three distinct categories:

- **Material Weaknesses:**
  Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.

- **Significant Issues:**
  Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

- **Control Findings:**
  Audit findings that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.

COUNTY OF ORANGE

RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

Bryan Speegle, Director
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RECEIVED
INTERNAL AUDIT DEPARTMENT
2007 MAY 21 PM 1:37

DATE: May 17, 2007

TO: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

FROM: Director, Resources & Development Management Department (RDMD)

SUBJECT: Response to Internal Control Review of RDMD/Facilities Operations Contract Administration and Cash Disbursements Audit No. 2632

I am pleased to provide RDMD's response to the Internal Control Review of RDMD/Facilities Operations Contract Administration and Cash Disbursements completed by the Internal Audit Department. Our response has been approved and reviewed by the County Executive Office.

I would like to express my appreciation for the professionalism of the Internal Audit Department staff that conducted this audit.

While there were no material weaknesses or significant issues, we will work to implement the Internal Audit Department's recommendations as indicated in our following responses.

Recommendation No. 1
We recommend Facilities Operations enhance their policy on Change Orders so they are processed and approved in a timely manner before the contract completion dates. Any exceptions to the policy should be documented in writing.

RDMD Management Response:
Concur. In most instances, Change Orders to extend the contract completion dates will be executed prior to the expiration of the original or adjusted contract completion date. However, if negotiations with the contractor are on-going due to legal issues (settlements, stop work orders, termination actions, etc.) or by direction of counsel, the extended contract completion date will be included as part of the final negotiations and executed at the time of the Change Order approval. All exceptions to this policy will be documented in the project file. An enhanced policy documenting these requirements will be completed by July 1, 2007.

Recommendation No. 2
We recommend Facilities Operations ensure that supporting documentation for Change Order time extension requests is prepared by contractors and Project Managers, including the reasons for extending contract completion dates.

RDMD Management Response:
Concur. All Change Orders to extend contract completion dates will include a detailed explanation and/or justification for the contract extension as part of the Change Order. An enhanced policy documenting these requirements will be completed by July 1, 2007.

Recommendation No. 3
We recommend Facilities Operations ensure that related Change Orders and Notices of Completion are reviewed and dated in accordance with the actual timing and completion of projects. This should be incorporated as part of the enhanced policy on Change Orders as indicated above in Recommendation No. 1.

RDMD Management Response:
Concur. All Change Orders will be processed before the Notice of Completion. However, if negotiations with the contractor are on-going due to legal issues (settlements, stop work orders, termination actions, etc.) or by direction of counsel, the extended contract completion date will be included as part of the final negotiations and executed at the time of the Change Order approval. Upon Change Order approval, the Notice of Completion will be processed in tandem with payment of the 5% retention. An enhanced policy documenting these requirements will be completed by July 1, 2007.

Recommendation No. 4
We recommend Facilities Operations evaluate the invoice approval process for standing contracts and develop a process by which there is periodic verification of contracted services at the user level. Once the process is defined, it should be documented in a written procedure.

RDMD Management Response:
Concur. Due to the limited number of inspection staff, a matrix will be developed. The matrix will indicate who will be responsible for verifying that work has been completed and specify the frequency and rotational schedule for verifying work completion for selected types of contracts (e.g., landscaping, custodial, elevator maintenance, etc.). For contracts where there are hundreds of sites where services are being provided and where contractor non-performance would be obvious (e.g., trash, utility, out-lying custodial, etc.), Facilities Operations will continue to rely on the building occupants to notify us if the service is not being provided. An enhanced policy documenting these requirements will be completed by July 1, 2007.

Recommendation No. 5
We recommend Facilities Operations evaluate the 30-day practice for processing invoices and determine if enhancements can be made to meet invoice processing timeframes as per management's expectations.

RDMD Management Response:
Concur. In many instances, contractors with standing contracts submit invoices at the beginning of the month while the contract terms require payment in arrears. These invoices are now being

returned to the contractor requesting that an invoice be submitted only after the monthly services are provided per the contract terms. All other invoices will continue to be date stamped when received by Facilities Operations. Invoices will be processed for payment upon verification of work as being complete. Invoices that have been verified as incomplete will not be retained by Facilities Operations and will be returned to the contractor. In cases where invoice processing time will exceed 30 days, an explanation documenting the reasons will be included with the invoice. An enhanced policy documenting these requirements will be completed by July 1, 2007.

Should you have any questions regarding RDMD's responses to the Internal Audit Department's recommendations, or require additional information on these items, please contact Debra Lakin, Chief, RDMD/Central Quality Assurance at (714) 834-5593. Thank you.

Bryan Speegle, Director

cc: Thomas G. Mauk, County Executive Officer
William Mahoney, Deputy County Executive Officer
Bob Wilson, Director, RDMD/Internal Services
Steve Danley, Director, RDMD/Administration
Debra Lakin, Chief, RDMD/Central Quality Assurance
Gus Fischer, Manager, RDMD/Facilities Operations
Mark Morgan, Chief, RDMD/Facilities Operations
Bob Zuhlke, Principal F.O. Project Manager, RDMD/Facilities Operations
Mary Fitzgerald, Manager, RDMD/Accounting Services
Tony Bernard, Manager, RDMD/Purchasing and Contract Services
Eli Littner, Deputy Director, Internal Audit Department
Michael Goodwin, Senior Audit Manager, Internal Audit Department
Abdul Khan, Senior Auditor, Internal Audit Department