

**County of Solano
Office of the Auditor-Controller**



**Internal Control Review of
Change Order Process for Capital Projects**

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TABLE OF CONTENTS

	<i>Page</i>
INTRODUCTION.....	1
OBJECTIVE.....	1
BACKGROUND	1
SCOPE AND METHODOLOGY	2
AUDIT RESULTS.....	2
CONCLUSION.....	2

INTRODUCTION

In accordance with the Internal Audit Division's Fiscal Year 2024/25 Audit Plan, we initiated the internal control review of Solano County's change order process for capital projects. We conducted our review in accordance with *Global Internal Audit Standards* as developed by the Institute of Internal Auditors.

OBJECTIVE

The objective of our review was to determine if the internal controls over change orders for capital projects are sufficient to maintain compliance with applicable federal and state laws and regulations and county policies.

BACKGROUND

A capital project refers to significant improvements, renovations or new construction that substantially enhance County facilities. Capital projects are similar to public works projects; however, public works projects are generally for public use such as roads and bridges, while capital projects are for county use such as office buildings. Solano County manages the two functions separately. Public Works is a division within the Department of Resource Management. Capital Projects is a division within the Department of General Services (General Services).

General Services uses a Capital Facilities Improvement Plan to identify, present, and coordinate capital projects. This plan is updated on an annual basis. Project approval and funding occurs with the Board of Supervisor's adoption of the annual budget. The budget process maintains control over the funding available to complete individual projects.

A change order is a formal written document used to modify the original terms of a contract typically in a construction project outlining changes to the scope, schedule, or budget. It must be approved by all parties involved. Examples of a change order request are a contract extension, removal of unneeded services, and adding tasks to the project.

The County's standard procurement process requires contracts for more than \$50,000 to undergo a competitive bidding process, with one winning bidder selected. The procurement process for capital projects differs from the standard practice by awarding master service agreements (MSA) and/or job order contracting (JOC) agreements to multiple bidders.

After the Board of Supervisors approves the list of vendors, General Services assigns work based on factors such as availability, expertise, and results of prior work assignments. When the county assigns work to a vendor under an MSA, they use an Adjusted Services Authorization (ASA). When the county assigns work to a vendor under a JOC, they use a change order. Both ASAs and change orders have a structured process of approvals. The review process may include a work group, steering committee, and executive committee dependent on the size and complexity of the project. Additionally, changes must be approved by the project manager, the vendor, the capital

projects manager, the assistant department head, the department head, county counsel, and the County Administrator if the cost exceeds \$7,500.

SCOPE AND METHODOLOGY

The scope of the audit included the review of the open capital projects for Fiscal Year 2023-2024 and excluded the public works projects, which are managed by the Department of Resource Management.

We preformed the following procedures:

- Conducted interviews with staff from the General Services Capital Projects Management and Administration divisions to understand the applicable processes.
- Confirmed a sample of change orders obtained the appropriate approval.
- Reviewed a sample of vendors' invoices for evidence of work commencing prior to approval of the change order.

AUDIT RESULTS

We received the capital project list for Fiscal Year 2023-2024 from General Service's Capital Project team.

- The capital projects list included 106 projects; 93 open projects and 13 pending closeout.
- We selected 15 of the 93 open projects (16%) to confirm the approval process.
- Of the 15 projects in the sample there were 30 change orders for the projects.
- We confirmed all 30 change orders went through the appropriate approval process.

We reviewed a sample of eight vendor invoices to confirm work did not commence prior to approval of the change order. General Services requires vendors to use a standardized invoice form from the American Institution of Architects. The form does not include specific periods of performance; however, there was no evidence work commenced prior to approval of a change order.

CONCLUSION:

We determined that internal controls over change orders for capital projects are sufficient to maintain compliance with state and federal laws and regulations and county policy.

MANAGEMENT RESPONSE:

General Services Department/Capital Projects agrees with the internal control review audit.