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**MICHAEL POST, C.P.A., M.B.A.  
HARRIS COUNTY AUDITOR**

July 8, 2022

Dear Dr. Milton Rahman, County Engineer, Harris County Engineering Department:

The Harris County Auditor's Office Audit Division has completed an audit of the County Engineer's Road and Bridge Division change in contract process for construction projects. The results of our audit are included in the attached report.

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post".

Michael Post  
County Auditor

Report Copies:

District Judges  
County Judge Lina Hidalgo  
Commissioners:  
R. Jack Cagle  
Rodney Ellis  
Adrian Garcia  
Tom Ramsey  
Christian Menefee  
David Berry



INTERNAL AUDIT REPORT  
**CHANGE IN CONTRACT PROCESSES FOR ROAD AND  
BRIDGE DIVISION'S PROJECTS**

JULY 8, 2022

## Executive Summary

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### OVERALL CONCLUSION

Overall, the controls related to County Engineer's Road and Bridge Division (Road and Bridge) change in contract processes, which include change orders and final adjustments, were found to be effective. However, opportunities for improvement were noted regarding proper authorization of change orders and final adjustments on the Change in Contract form, and the lack of meeting minutes for the monthly project status meetings. A related opportunity for improvement was identified in the Accounts Payable Audit regarding proper authorization of the Construction Pay Estimate forms, which we are presenting in this audit report for efficiency. These issues were discussed with management and action plans were developed that will address the issues identified by October 31, 2022.

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### SCOPE AND OBJECTIVE

The Audit Division evaluated the design and effectiveness of the Road and Bridge's controls to determine whether change orders and final adjustments were adequately documented, approved, and monitored for the one-year period ending January 31, 2022.

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### SUMMARY OF AUDIT ISSUES

- Proper authorization by the accountable parties on the Change in Contract and Pay Estimate forms is not enforced.
- Project status meeting minutes are not recorded.

The audit issues, management's action plan to address the issues, and background information regarding this audit are discussed in more detail on the following pages. Each audit issue is ranked based on the likelihood and impact of the risk to Harris County.

## AUDIT ISSUES

### **ISSUE #1: Lack of Proper Authorization on the Change in Contract and Pay Estimate Forms [HIGH]**

**What is the Issue:** Change in Contract and Pay Estimate forms are not consistently authorized by the appropriate parties. A sample of 26 Change in Contract forms lacked approval by one or more of the required parties as follows:

- Four forms lacked proper approval by the County Engineer, Architect/Engineer, and the Commissioner or department.
- All forms lacked the Architect/Engineer's approval. However, 18 of the 26 transactions had evidence of a review by the Architect/Engineer in the project management software, e-Builder. The remaining eight lacked any evidence of approval or review by the Architect/Engineer.

Although all Pay Estimate forms were properly approved by the Director/Designee, 14 of the 18 (78%) forms lacked approval by one or more of the required parties as follows:

- All 14 forms lacked approval from the respective County department.
- One form lacked approval from the Architect/Engineer, County department, and the Project Manager.
- One form lacked approval from the Project Manager.
- Six forms lacked approval from the Architect/Engineer.

**Why it Happened:** The County Engineer does not have policies or procedures that require segregation of duties for change order, final adjustment and pay estimate authorization. In addition, employees feel pressured to expedite authorization processes to meet Commissioner Court's agenda deadlines.

**Why it Matters:** Fraud and inappropriate change order or final adjustment risks are increased when segregation of duties controls are not properly designed or operating effectively. Proper authorization of County forms facilitates accountability and reasonableness.

**What is Expected:** Change in Contract forms require the approval of the County Engineer, the independent Architect/Engineer (typically a third party), and the Commissioner or department. Pay Estimate forms require the approval of the independent Architect/Engineer, Director or Designee, County Department, and the Project Manager. The required authorizations are to ensure accountability and awareness of change orders, final adjustments, and progress billing payments released to contractors.

**What Action(s) are Suggested:** Management should develop policies and procedures that define segregation of duties, proper authorization of County forms, and accountability by contractors and department personnel. Employees should be trained and held accountable to comply with these policies and procedures.

### **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Susan Fraser, Assistant County Engineer

County Engineer Management agrees with the issue. We are currently in the process of creating a change order policies and procedures team. The team will focus on creating policies and procedures that define personnel roles, develop authorization levels, and outline the accountability requirements for both contractors and departmental personnel.



Once the team has established the initial policies and procedures, a training and development plan for department personnel will be established.

**Due Date:** October 31, 2022

**ISSUE #2: Meeting Minutes are Not Recorded for the Monthly Project Status Meetings [LOW]**

**What is the Issue:** Management is not documenting meeting minutes for monthly project status meetings.

**Why it Happened:** Management does not have any procedures requiring meeting minutes to be documented and maintained.

**Why it Matters:** Not requiring meeting minutes impairs management’s ability to review key decisions made during project status meetings.

**What is Expected:** As a best practice, meetings should be formally documented and maintained for accountability and to facilitate communications.

**What Action(s) are Suggested:** Management should develop and implement procedures that require meeting minutes to be documented and maintained.

**MANAGEMENT’S ACTION PLAN**

**Responsible Party:** Susan Fraser, Assistant County Engineer

County Engineer Management agrees with the issue. The policy and procedures committee will establish a policy requiring meetings to be documented. The policy will include a section regarding the importance of identifying key decisions and action items developed during the meeting and the appropriate level of documentation.

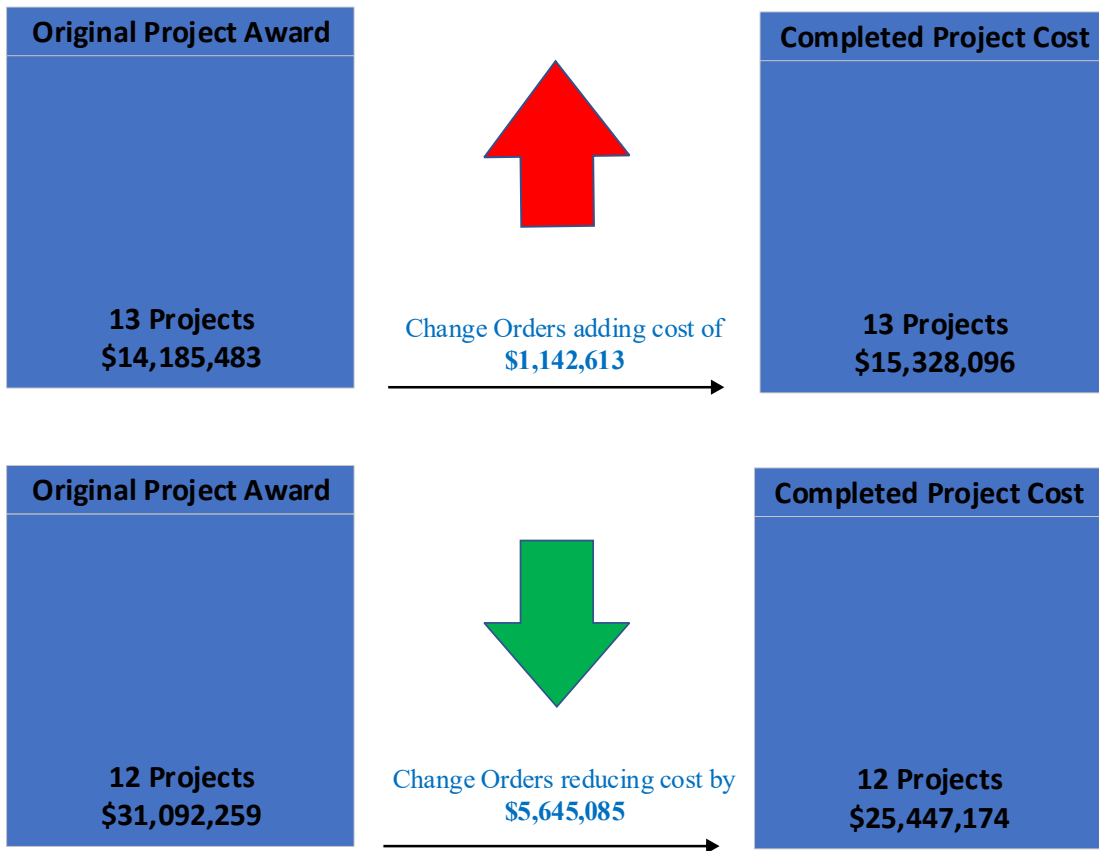
**Due Date:** October 31, 2022



## BACKGROUND

The County Engineer has two divisions that manage construction projects: 1) Facilities and Property Management Construction Services and 2) Road and Bridge. Facilities and Property Management Construction Services is responsible for the County's construction and renovation of buildings. Road and Bridge is responsible for the design, construction, and maintenance of the County's road and bridge infrastructure.

The Audit Division compiled data from 25 Road and Bridge projects completed during the 1-year period ending January 31, 2022. See the results below:



## ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

The engagement's scope did not include a detailed inspection of all transactions. There is a risk that fraud or errors were not detected during this engagement. Therefore, the official retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

