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

November 4, 2022

Dear Dr. Tina Petersen:

The Harris County Auditor's Office Audit Division has completed an audit of the Harris County Flood Control District's change order and contingency processes for construction contracts. 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". The signature is written in a cursive style with a long horizontal stroke at the end.

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  
**FLOOD CONTROL DISTRICT'S CONSTRUCTION CONTRACT  
CHANGE ORDER AND CONTINGENCY PROCESS**

NOVEMBER 4, 2022

## Executive Summary

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### OVERALL CONCLUSION

The overall controls related to the change order and contingency processes were found to be effective. Opportunities for improvement were identified regarding establishing policies and procedures for monitoring contingencies and improving user access controls for the construction project management software Primavera Unifier (Unifier). The issues were discussed with Flood Control District's Management and management action plans have been developed, which will address the issues identified by February 28, 2023.

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### SCOPE AND OBJECTIVE

The audit scope included processes and records for the 12 months ended May 31, 2022. The objective was to evaluate the design and effectiveness of internal controls to determine the following:

- Reasonableness of change orders impacting the cost and/or time of contracts and if they were adequately documented, approved, and monitored.
- Compliance with Texas Local Government Codes §262.031 and §271.06.
- Utilizations of contract contingencies were adequately documented, approved, and monitored.
- Appropriateness of user access administration within Unifier.

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### SUMMARY OF AUDIT ISSUES

Our audit identified the following:

- Insufficient user access controls over Unifier.
- Lack of procedures for change order and contingency processes.

The audit issues, management's action plans 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 the Flood Control District.

## AUDIT ISSUES

### **ISSUE #1: Insufficient System Access Controls [MODERATE]**

**What is the Issue:** System access controls for Unifier need improvement to address the following issues:

- A formal review of administrative Unifier privilege assignments has not been performed since implementation.
- Five active Unifier user accounts were not deactivated timely after the employees' separations. The Flood Control District has disabled the five user accounts identified during the audit.

**Why it Happened:** Periodic monitoring of Unifier access was not being performed to verify that users were granted access according to the principle of least privilege and that terminated user accounts were timely deactivated.

**Why it Matters:** By not maintaining the principle of least privilege and disabling terminated user accounts timely, certain Unifier users may have access to confidential data and privileges to perform activities in excess of those necessary to perform their respective job functions.

**What is Expected:** The Harris County Information Security Access Policy sections:

- *C.1.1 Authorized User Access Rights* states that "following the principle of least privilege, individuals must only be granted access to the systems, applications and data required to perform their respective job functions."
- *C.1.11 Access Certification* states that "Business Owners must verify the membership, access and contents of the systems, applications and/or resources for which they have primary responsibility on a regular basis (at least once per year), to ensure that only authorized members maintain access to and permissions for the systems, applications and/or resources involved."
- *C.1.9 User Termination* states that "all user privileges to Harris County systems and applications must be disabled immediately or, in any event, no later than 24 hours after an employee or non-employee termination."
- *E.1.7 Privileged Account Maintenance* states that "privileged account owners must verify the membership, access and contents of the resources for which they are responsible frequently (at minimum quarterly), to ensure that only authorized members maintain access and permissions."

**What Action(s) are Suggested:** Management should enhance preventative and detective controls for maintaining access that adheres to the County's policies and expectations to ensure access is appropriately provisioned, deprovisioned, authorized, and monitored. The assignment of high privilege access should be minimized to reduce security risk as these accounts are often targeted by hackers. In the future, user access should be removed for terminated employees in accordance with the security access policy.

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

**Responsible Party:** Kasey McCall, Chief Operations Officer

The Flood Control District acknowledges this issue and a full review was completed to ensure all non-active employees and contractors have been removed from Unifier. Additionally, the District will implement standard operating procedures and policies that align with the County's security and access requirements. The policies will address user privileges, access, and quality assurance standards. Once the policies and procedures are complete, training will be provided.

**Due Date:** February 28, 2023



## **ISSUE #2: Lack of Procedures for Change Orders and Contingencies [LOW]**

**What is the Issue:** Contingency utilizations totaling \$125,000 were not authorized by the Executive Director.

### **Why it Happened:**

- Management does not have procedures that outline the required approvals, monitoring, and documentation of contingency utilizations.
- Procedures for change orders have not been updated to reflect the current system of record and management processes.

**Why it Matters:** Not formally documenting procedures that outline the expectations for approving, monitoring, and documenting change orders and contingencies could lead to unauthorized construction project activity that results in a financial loss to the County.

**What is Expected:** County Auditor's Form 1258, *Change in Contract*, used for change orders and contingency utilizations, requires the Executive Director's approval. In addition, departmental procedures should clearly list processes that warrant documented approval and how the system of record is to be utilized, including requirements to track and monitor contingency balances.

**What Actions are Suggested:** Management should develop and communicate procedures that define proper authorization of County forms, monitoring activities, and documentation requirements. Employees should be trained and held accountable to comply with these procedures.

## **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Nathan Hayden, Construction Division Director

The Flood Control District acknowledges this issue and will implement standard operating procedures and policies for contingency utilization and contract changes. The policies will standardize the use of contingency, establish required documentation, define approval requirements, and set quality assurance standards. Once the policies and procedures are complete, training will be provided.

**Due Date:** February 28, 2023



## BACKGROUND

The Harris County Flood Control District is a special purpose district created in 1937 by the Texas Legislature and governed by Commissioners Court. It was created in response to devastating floods that struck the region in 1929 and 1935. Funding for the Flood Control District is mainly provided by property taxes, federal and state grants, cost sharing agreements, and funding set aside by Commissioners Court.

Flood Control District utilizes Unifier as their construction project management system for housing data and managing the workflow of projects. The system is used in conjunction with PeopleSoft for project initiation, requisitions, budgeting, etc.

A change in contract occurs when modifications are needed to an existing agreement between Flood Control District and a contractor. A contingency is an estimated amount added to the contract to allow for items, conditions, or events that will likely result in additional costs. Flood Control District does not currently utilize contingencies often; therefore, there were only two contingencies during the audit scope period.

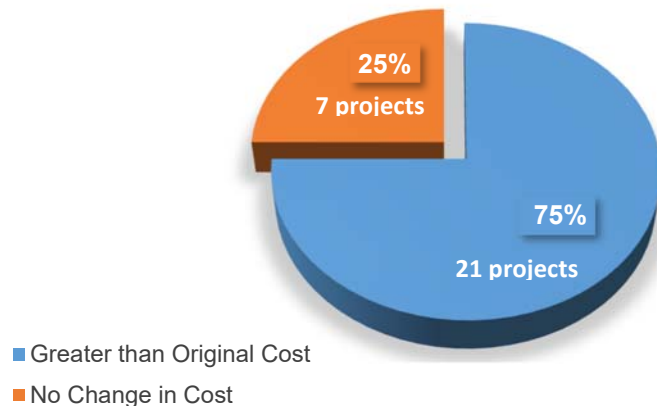
Figure 1 below shows the total value of projects in our audit period with the total change orders processed. Figure 2 shows the total percentage of projects with change orders.

**Figure 1**

Total Contract Value	Change Orders
\$776,717,730	\$7,376,341

**Figure 2**

### Percentage of Projects with Change Orders Year Ended May 31, 2022



## 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.

