



Client Memorandum

To: Board Audit Committee, Santa Clara Valley Water District
From: George Skiles, Partner, Sjoberg Evashenk Consulting, Inc.
Date: January 16, 2024
Subject: **Proposed Audit of Capital Project Delivery**

On December 20, 2023, the Santa Clara Valley Water District (Valley Water) Board Audit Committee (BAC) discussed comments received regarding the 2023 Risk Assessment at the December 12, 2023, meeting of the Board of Directors. The Committee noted the Board's comments regarding the 2024 Audits for consideration and discussed the importance of financial transparency and the timing of potential audits on the audit plan. The purpose of this memo is to clarify the scope of a potential audit of Capital Project Delivery.

On December 20, 2023, the BAC:

- Noted that the audit remains a priority and recommended that the audit be included in the 2024 Annual Audit Work Plan.
- Recognized that Valley Water's capital program has been subject to recent audits and is aware of potential audit fatigue and the potential impact of another audit on staff workload. Specifically, prior management- and BAC-directed performance audits that relate to Valley Water's capital improvement program include:
 - 2023 Performance Audit of Valley Water's Capital Improvement Program Planning Process
 - 2022 Investigation into Pacheco Reservoir Expansion Cost Escalation
 - 2020 Capital Construction Contract Change Order Management and Administration
 - 2019 Performance Audit of the Lower Silver Creek Flood Protection Project Consultant Agreement
 - 2015 Consultant Contracts Management Process Audit

Most of these audit engagements address a relatively narrow scope, either focusing on a specific project (e.g., the Lower Silver Creek Flood Protection Project) or a single touch-point in the broader internal control structure surrounding Valley Water's expansive capital program (e.g., change order management).

- Acknowledged that it will take time for staff to implement audit recommendations made in those previous reports, as well as staff concerns that an audit in 2024 could be redundant and will not reflect the progress being made through current process improvement efforts, and

emphasized that current process improvement efforts can continue while audit resources focus on other elements of the capital project delivery system.

Based on this, the BAC asked the Chief Audit Executive to help clarify how an audit of capital project delivery would differ from the previously completed performance audits. Exhibit 1 highlights key elements of a capital project delivery system that are commonly audited in other jurisdictions, indicating those areas that have been subject to recent audits.

EXHIBIT 1. ELEMENTS OF CAPITAL PROJECT DELIVERY SYSTEMS

Audit Area	Covered In Prior Audit	Audit of Capital Project Delivery
CIP Plan Planning & Development	✓	
Cost Estimation	✓	
CIP Plan Monitoring	✓	
Project Staffing & Resources		✓
Project Management		✓
Construction Management & Oversight		✓
Change Order Management	✓	
Project Delivery Methods & Contracting Methods		✓
Consultant Contract Management	✓	
Construction Contract Management		✓
Conflicts of Interest	✓	
Insurance Requirements & Monitoring	✓	
Performance Management	✓	
Regulatory Compliance		✓
Pay Application Testing		✓
Project Closeout		✓
Inter-Division/Unit Communication & Coordination		✓

The purpose of an audit that focuses on the elements proposed under an audit of capital project delivery would be to determine whether there are specific opportunities to (a) reduce costs or identify overpayments, (b) implement process efficiencies by comparing how other agencies approach capital project delivery to the approaches taken by Valley Water, and (c) identify ways to improve reported delays in project delivery resulting from permitting and regulatory requirements.

Audits of sample noted focus areas may result in findings such as, but not limited to, material overpayments to contractors and consultants, missing or insufficient contract terms that increase owner risk, noncompliance with internal or external policies and rules, bottlenecks in specific project

management duties, process inefficiencies such as duplicate and redundant staffing, or inadequate controls over competitive bidding practices.

Therefore, with the goal of addressing these objectives while balancing the perspectives of the Board, management, and staff, the BAC emphasized its desire for a broad-scoped performance audit that focuses on the big picture, specifically by:

- Understanding how each of the elements identified in Exhibit 1 fit together, rather than focusing on a single project or touchpoint in the process, as other audits have done.
- Identifying, through best practices and benchmark studies, what other agencies do to successfully deliver capital projects.
- Mapping the roles and responsibilities of each of the many units within Integrated Water that are engaged in capital project delivery, and the interplay between them.
- Limiting audit work in areas recently covered by other management or Board-directed audits, including the CIP and change order management audits, with work limited to follow-up tasks to avoid redundancies.

The proposed audit is intended to achieve this balance.

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