



PMA Consultants

LOWER SILVER CREEK PERFORMANCE AUDIT

FINAL AUDIT REPORT BOARD PRESENTATION

*Presented to
Santa Clara Valley Water District*

AGENDA

1. Introductions
2. Objectives of BAC Review
3. Audit Background
4. Sources and Types of Evidence
5. Conclusions
6. Findings and Recommendations
7. Comments / Questions

AUDIT BACKGROUND

- In October, 2015 the SCVWD Board took an action to refer an audit of the LSC Project to the Board Audit Committee (BAC)
- In March, 2016 the SCVWD (District) Board Audit Committee directed staff to issue an RFP to conduct a Performance audit of the June, 2009, RMC Water and Environment (RMC) Agreement (A3277G) and amendments 1, 2, and 3 associated with the Lower Silver Creek project .
- Proposals were solicited via the District's procurement procedures and PMA Consultants LLC (PMA) was selected and given Notice to Proceed in January, 2017.
- On 9/28/17 PMA presented its final draft performance audit report to the Board Audit Committee.
- PMA's scope of work was subsequently amended by District Board approval on 2/27/18 and expanded to include review of specific allegations and recommendations for District performance needing improvement
- PMA kicked off the amended scope in May 2018

AUDIT OBJECTIVES

1. Review allegations of Conflict of Interest, Fund Reallocation, and Firewall and determine:
 - a. If a conflict existed between District employees and RMC
 - b. Whether there was a disclosure of conflict
 - c. If firewall processes were effective
2. Review Financial Allegations and determine if:
 - a. Invoices followed appropriate financial review
 - b. Invoices follow appropriate approval process
 - c. Invoices follow appropriate preparation and submittal processes
 - d. Whether or not reallocation from one of the 20 watershed projects to the RMC contract took place, and if so, if firewall measures were appropriate
 - e. RMC received payment for zero hours of work, or if RMC was directed to execute other work
 - f. The District expended hours to perform work that RMC was paid for
3. Inquire whether the District Attorney (DA) launched an investigation, and if so, review that investigation to determine whether or not there was a bearing on audit scope items
4. Review sole sourcing, including appropriate justification
5. Performance Review, and determine:
 - a. If the work performed by the consultant or under its direction was sufficient to meet the purposes specified in the agreement and that services were rendered in accordance with the scope of services identified in Appendix One of the Agreement
 - b. If District Staff complied with policies and processes and if activities were conducted appropriately

AUDIT APPROACH & COMPLIANCE

- The audit was focused on compliance with District policies/procedures, and whether the work performed met the requirements specified in the Agreement and limited to the performance of District Staff and RMC. The audit was amended to include allegations related to conflict, firewall, finance, external investigation, and sole sourcing
- Audit Scope of Work provided by District (Tasks 1 though 7) – See Page 9 of Draft Report
- Performed in compliance with GAGAS Standards and includes required Statements & Analysis
 - *“SUPERVISION AND QUALITY CONTROL STATEMENT”*
 - An *“ANALYSIS OF POTENTIAL THREAT TO INDEPENDENCE”* was performed per GAGAS.
 - Included evaluating all audit and nonaudit services having been or currently being provided to the Client.
 - Based on PMA's Professional Judgement and GAGAS guidelines, there is no threat to PMA's ability to maintain its independence as part of this performance audit. The Client's legal counsel has concurred with this determination.
- Approach includes disclosure of *“AUDIT METHODOLOGY”* and *“IDENTIFICATION OF SOURCES AND TYPE OF EVIDENCE”*
- Analyzed evidentiary data and testimony to the Audit Criteria
 - *Use our technical knowledge, competencies and professional judgement to obtain sufficient, appropriate evidence to reasonable basis of our findings and conclusions based on our audit objectives.*

SOURCES AND TYPE OF EVIDENCE

- Organizational Documentation
- Project Documentation
- Interview Testimony

CONCLUSIONS

CONFLICT OF INTEREST / FIREWALL

- C1. A conflict did exist between District Staff and RMC. The conflict was identified, and disclosed.
- C2. There is no evidence of a firewall violation
- C3. Conflict of interest firewall practices were effective
- C4. Since the time of the RMC agreement, the District has improved its firewall policies and practice related to disclosing conflicts, and firewall. However, PMA has improvement recommendations for consideration

CONCLUSIONS

DISTRICT ATTORNEY (DA) INVESTIGATION

C11. The DA reviewed the allegations, opened a formal investigation to assess the alleged violations of conflict of interest laws, ultimately decided not to pursue the case, and summarily closed the case without any final documentation. No further action is required.

CONCLUSIONS

FINANCIAL REVIEW AND FUND REALLOCATION

- C5. There is no evidence of involvement of, or influence by, any District employee with a conflict of interest, with fund reallocations from non-Lower Silver Creek projects to the Lower Silver Creek project.
- C6. Several inter project fund reallocations (i.e., inter task transfers, or ITT's) occurred during the Lower Silver Creek project. None of the ITT's appeared to be the result of malicious intent, but one ITT did not follow District procedure as no final approval documentation exists in the project file.
- C7. While only 2 invoices were approved by someone (employees without a conflict including a Sr. Project Manager, and a Unit Manager) other than the designated Project Manager, there does not appear to have been an appropriate delegation of authority chain to appoint an alternate RMC invoice approver. Additionally, although the District was able to articulate a generally practiced review procedure, such procedures were not formally documented.
- C8. RMC invoices followed the preparation and submittal requirements as outlined in the contract.
- C9. There is no evidence of double billing by RMC, billing for work not performed, or the District expending hours to perform work that RMC was paid for.
- C10. The audit did reveal some immaterial discrepancies during the review, noted in our detailed findings. Additionally, we have included recommendations for improvement in District billing and invoice review procedures to address these discrepancies.

CONCLUSIONS

SOLE SOURCING

- C12. The District sole sourced the RMC agreement, and there was appropriate justification noted for the sole source
- C13. There is no evidence of a District employee with a conflict of interest participating in, or influencing the decision for sole sourcing

CONCLUSIONS

PERFORMANCE REVIEW

C14. Work performed by RMC Water and Environment (RMC) or under its direction was sufficient to meet the purposes specified in agreement A3277G. However, there were areas of nonconformance associated with delivery and as related to the District QEMS, specifically related to project management and execution, and change management.

C15. Due to time being of the essence, services listed in the contract were purposefully broad to allow for agility associated with potential services needed; in consideration of scope being intentionally wide-ranging, services were rendered in accordance with the scope of services identified in Appendix One of the Agreement and District direction.

C16. District staff compliance with policy and process was inconsistent. This was predominantly associated with post award contact management, and specifically, change management and project document control. There were areas of nonconformance, and the potential for improvement in the District's Project Document Controls and Change Management practices and implementations. The District's Project Document Control (record keeping) related to this agreement was unorganized and at times ineffectual, particularly in consideration of project management handover. Change Management, though expected and implemented, was poorly documented and an ineffective communication tool. Project Document Control and Change Management are the key knowledge areas associated with noncompliance and potential improvement.

COMMENTS / QUESTIONS
