



# Santa Clara Valley Water District

---

**File No.:** 19-0132

**Agenda Date:** 2/26/2019

**Item No.:** 4.2.

---

## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Recommendation from Board Audit Committee for the Board to Approve the Implementation of Three Performance Audits by the Board Independent Auditor, TAP International, Inc.

### **RECOMMENDATION:**

- A. Approve the Board Independent Auditor, TAP International, Inc., to conduct three performance audits recommended by the Board Audit Committee, to include performance audits of the District Counsel's office, contract change order management processes, and real estate services; and
- B. Authorize the Chief Executive Officer to increase the not-to-exceed amount of the on-call consultant agreement with TAP International, Inc. (Agreement A4071A) from \$405,000 to \$1,005,000 to complete the three proposed audits and approximately three additional future audits.

### **SUMMARY:**

On May 23, 2017, the Board approved an on-call consultant agreement with TAP International, Inc. (TAP International) for Board Independent Auditing Services. The agreement requires TAP International to work with the Board and the Board Audit Committee (BAC) to develop an annual audit program, assess operational risks, advise on potential audits to ensure the District is in full compliance with its policies, procedures, and regulations, and conduct audits as directed by the Board and BAC.

On September 26, 2018, TAP International presented the final Risk Assessment Model to the BAC assessing operational risks to the District. The Risk Assessment Model developed heat maps of District operational areas based on risk impact (low, moderate, and high risk). The results of the risk assessment include input from the District's Board of Directors, management, and staff and would be used to assist in the development of an Annual Audit Work Plan. The highest risk areas include procurement, contract change order management, succession planning, and fraud prevention.

On December 03, 2018, TAP International presented a draft Audit Work Plan to the BAC. The draft Audit Work Plan identified 41 potential audits to conduct, ranked by highest risk, based on the results of the risk assessment previously conducted by the District's independent auditor, Board of Directors, and management and staff.

---

The BAC reviewed the draft Audit Work Plan and on January 22, 2019, identified and recommended three audits for the full Board's input and approval. These audits include:

- Draft Audit Work Plan - Audit #1: A performance audit of the structural, organizational, and business processes of the District Counsel's Office. This audit was selected because it is both high risk and important to the Board.
- Draft Audit Work Plan - Audit #5: A performance audit of contract change order management. This audit was selected because is both high risk and the District is entering a time of significant growth in construction contracts.
- Draft Audit Work Plan - Audit #6: A performance audit of Real Estate Services. This audit was selected because it is both high risk and important to the Board.

TAP International developed task orders for the three audits, which are included in Attachment 1. The total cost of the three proposed audits is \$311,610.

To provide funds for the three audits and any future Board approved audits related to this agreement, staff recommends that the Board delegate the CEO authority to increase the not-to-exceed amount of the on-call consultant agreement with TAP International, Inc. (Agreement A4071A). All future audits related to this agreement will be approved by the Board before initiation.

### **Next Steps**

TAP International and the BAC are currently developing the final draft Annual Audit Work Plan, which will provide a proposed multi-year schedule for conducting audits (Attachment 2). The final draft Annual Audit Work Plan is planned to be completed in approximately three months and will be brought back to the full Board for input and approval.

### **FINANCIAL IMPACT:**

If approved, the total cost of the three proposed audits is \$311,610. If the Board delegates the CEO authority to increase the not-to-exceed amount of the on-call consultant agreement with TAP International, Inc. (Agreement A4071A), staff proposes adding \$600,000 to the agreement to complete the three proposed audits and approximately three additional future audits. Funding would come from \$500,000 anticipated savings in FY 2018-19 in project No. 60241026 (Quality and Environmental Management System), due to staffing shortfalls and decision to not pursue external ISO certification, and \$100,000 would be budgeted in FY 2019-20. Undertaking additional audits prior to the end of FY 2019-20 would require additional FY 2019-20 budget depending on the number and complexity of those audits. All future audits will be presented to the Board for approval before initiation, based on a Board-approved multi-year Audit Work Plan.

### **CEQA:**

---

The recommended actions do not constitute a project under California Environmental Quality Act (CEQA) because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

**ATTACHMENTS:**

Attachment 1: Proposed Audits

Attachment 2: Draft Audit Work Plan

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068