



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255  
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109  
CUPERTINO.ORG

### CITY COUNCIL STAFF REPORT

Meeting: May 16, 2023

#### Subject

Receive the Library Expansion Project Construction Audit Final Report

#### Recommended Action

Receive the Library Expansion Project Construction Audit Final Report

#### Reasons for Recommendation

##### *Background*

In Fiscal Year (FY) 2019-20, the City began an internal audit program. On September 3, 2019, the City issued a Request for Proposal (RFP) for internal audit services. After reviewing the proposals, the evaluation committee selected Moss Adams as the City's Internal Auditor. Moss Adams serves as the City's designated Internal Auditor and conducts projects focusing on:

- Risks
- Internal controls
- Efficiency and effectiveness
- Best practices
- Compliance

The [internal audit charter](#) was approved by the Audit Committee on [February 11, 2020](#), and the City Council on [July 7, 2020](#).

##### *Roles of Audit Committee and City Council*

The Audit Committee and City Council approve the annual audit work plan, review audit report findings and recommendations, and monitor the implementation of recommendations.

##### *Enterprise Risk Assessment*

Moss Adams conducted an Enterprise Risk Assessment (ERA) in 2020 to analyze the City's risk areas. For each risk category assessed, the risk assessment included an overview of the risk condition in the City, including the current risk level, likelihood, impact, preparedness, and trajectory.

The [Enterprise Risk Assessment](#) identified high, moderate-to-high, and moderate risk categories. Moss Adams presented the Enterprise Risk Assessment to the Audit Committee on [February 22, 2021](#) and [May 24, 2021](#), and to the City Council on [July 20, 2021](#). The Library Construction Audit addresses contracting, which is one of the high risk categories, and was included in the FY 2022-23 internal audit work plan.

#### *Project Background*

As identified in the City's annual internal audit work plan, Moss Adams conducted a construction audit of the Cupertino Library Expansion project (library construction audit) to:

- Review reporting, project accounting consistency controls, and related construction controls
- Identify non-compliant project charges and change orders
- Identify control improvement opportunities

The primary focus of the library construction cost audit was to evaluate construction controls for the Project to determine their reasonableness and adherence to the terms of the construction contract. The report reflects practices observed and cost documentation reviewed through July 31, 2022. As part of the construction audit, the internal auditors completed the following procedures:

- Reviewed payment documentation and calculations to assess the adequacy of supporting documentation for the DBE
- Assessed internal controls surrounding the DBE's and City's processes
- Reviewed Contract terms and identified areas not properly implemented
- Reviewed Contract terms and identified areas of potential improvements
- Reviewed select subcontractor agreements for compliance with prime contract requirements
- Analyzed change orders including markup testing
- Reviewed Conditional Release and insurance documentation
- Reviewed skilled workforce requirement documentation
- Performed other miscellaneous testing procedures as necessary
- Conducted interviews as necessary
- Reviewed the DBE's and subcontractors' Certificates of Insurance
- Checked subcontractors' state licenses

#### *Project Results*

During the library construction audit of the Cupertino Library Expansion project, Moss Adams identified \$327 in questioned costs, as well as several project control opportunities. Questioned costs are charges that are not allowable per the construction contract between the City and the contractor. Overall, the results of the audit are consistent with a positive audit. Eight of the nine audit observations relate to recommendations surrounding improvements and enhancements to the City's existing procedures and control

environment to support continued consistency amongst City Project Management personnel.

As part of this audit, Moss Adams also identified several positive practices that the City has in place, including:

- Project management teams consist of experienced construction professionals.
- Contractor project expenditure documentation was effectively sourced, maintained, and managed.
- Strong collaboration and good working relationship between City and Contractor project management personnel was observed.

#### *Management Response*

Management agrees with some observations and recommendations. Those can be found in Section IV, pages 8-17.

#### *Next Steps*

Staff will evaluate recommendations and where appropriate begin implementing the report's recommendations. Internal audit status reports are available on the City's website at [cupertino.org/internal-audit](https://cupertino.org/internal-audit).

#### Sustainability Impact

No sustainability impact.

#### Fiscal Impact

No fiscal impact. The City's Internal Audit contract is included in the contracts category of the accounting program in the FY 2022-23 Adopted Budget.

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Prepared by: Thomas Leung, Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Pamela Wu, City Manager

Attachments:

A – Library Construction Audit Final Report