

March 13, 2024

MEETING NOTICE

SANTA CLARA VALLEY WATER DISTRICT BOARD AUDIT COMMITTEE

Members of the Board Audit Committee:

District 2 Director Barbara F. Keegan, Committee Chairperson
District 4 Director Jim Beall, Committee Vice Chairperson
District 3 Director Richard P. Santos, Committee Member

Staff Support of the Board Audit Committee:

Rick Callender, Esq., Chief Executive Officer
Carlos Orellana, District Counsel
Michele King, Clerk of the Board
Tina Yoke, Acting Assistant Chief Executive Officer
Patrice McElroy, Acting Chief Operating Officer
Darin Taylor, Chief Financial Officer
Rachael Gibson, Chief of External Affairs
Chris Hakes, Chief Operating Officer
Aaron Baker, Chief Operating Officer
Brian Hopper, Sr. Assistant District Counsel
Leslie Orta, Sr. Assistant District Counsel
Joseph Aranda, Assistant District Counsel
Rita Chan, Sr. Assistant District Counsel
Andrew Gschwind, Assistant District Counsel
Cecil Lawson, Deputy Administrative Officer
Marta Lugo, Deputy Administrative Officer
Tony Ndah, Deputy Administrative Officer
Emmanuel Aryee, Deputy Operating Officer
Bhavani Yerrapotu, Deputy Operating Officer
Alexander Gordon, Assistant Officer
Anthony Mendiola, Program Administrator
Manpreet Sra, Management Analyst
George Skiles, Partner, Sjoberg Evashenk Consulting

A Santa Clara Valley Water District regular Board Audit Committee Meeting has been scheduled to occur at 2:00 p.m. on Wednesday, March 20, 2024 in the Headquarters Building Boardroom located at the Santa Clara Valley Water District, 5700 Almaden Expressway, San Jose.

Members of the public may join the meeting via Zoom Teleconference at:
<https://valleywater.zoom.us/j/91608079873>.

The meeting agenda and corresponding materials are located on our website:
<https://www.valleywater.org/how-we-operate/committees/board-committees>.

THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District Board Audit Committee Meeting

Headquarters Building Boardroom
5700 Almaden Expressway, San Jose, CA 95118

Join Zoom Meeting:
<https://valleywater.zoom.us/j/91608079873>

REGULAR MEETING AGENDA

**Wednesday, March 20, 2024
2:00 PM**

District Mission: Provide Silicon Valley safe, clean water for a healthy life, environment and economy.

BOARD AUDIT COMMITTEE

Barbara F. Keegan, Chairperson - District 2
Jim Beall, Vice Chairperson - District 4
Richard P. Santos - District 3

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body, will be available to the public through the legislative body agenda web page at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to participate in the legislative body's meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 265-2600.

DARIN TAYLOR
Committee Liaison

Nicole Merritt
Assistant Deputy Clerk II
Office/Clerk of the Board
(408) 630-3262
nmerritt@valleywater.org
www.valleywater.org

Note: The finalized Board Agenda, exception items and supplemental items will be posted prior to the meeting in accordance with the Brown Act.

Santa Clara Valley Water District

Board Audit Committee

REGULAR MEETING AGENDA

Wednesday, March 20, 2024

2:00 PM

Headquarters Building Boardroom
5700 Almaden Expressway,
San Jose, CA 95118
Join Zoom Meeting:
<https://valleywater.zoom.us/j/91608079873>

*****IMPORTANT NOTICES AND PARTICIPATION INSTRUCTIONS*****

Santa Clara Valley Water District (Valley Water) Board of Directors/Board Committee meetings are held as a “hybrid” meetings, conducted in-person as well as by telecommunication, and is compliant with the provisions of the Ralph M. Brown Act.

To maximize public safety while still maintaining transparency and public access, members of the public have an option to participate by teleconference/video conference or attend in-person. To observe and participate in the meeting by teleconference/video conference, please see the meeting link located at the top of the agenda. If attending in-person, you are required to comply with Ordinance 22-03 - AN ORDINANCE OF THE SANTA CLARA VALLEY WATER DISTRICT SPECIFYING RULES OF DECORUM FOR PARTICIPATION IN BOARD AND COMMITTEE MEETINGS located at: <https://s3.us-west-2.amazonaws.com/valleywater.org.if-us-west-2/f2-live/s3fs-public/Ord.pdf>

In accordance with the requirements of Gov. Code Section 54954.3(a), members of the public wishing to address the Board/Committee during public comment or on any item listed on the agenda, may do so by filling out a Speaker Card and submitting it to the Clerk or using the “Raise Hand” tool located in the Zoom meeting application to identify yourself in order to speak, at the time the item is called. Speakers will be acknowledged by the Board Chair in the order requests are received and granted speaking access to address the Board.

- Members of the Public may test their connection to Zoom Meetings at: <https://zoom.us/test>
- Members of the Public are encouraged to review our overview on joining Valley Water Board Meetings at: <https://www.youtube.com/watch?v=TojJpYCxXm0>

Valley Water, in complying with the Americans with Disabilities Act (ADA), requests individuals who require special accommodations to access and/or participate in Valley Water Board of Directors/Board Committee meetings to please contact the Clerk of the Board’s office at (408) 630-2711, at least 3 business days before the scheduled meeting to ensure that Valley Water may assist you.

This agenda has been prepared as required by the applicable laws of the State of

California, including but not limited to, Government Code Sections 54950 et. seq. and has not been prepared with a view to informing an investment decision in any of Valley Water's bonds, notes or other obligations. Any projections, plans or other forward-looking statements included in the information in this agenda are subject to a variety of uncertainties that could cause any actual plans or results to differ materially from any such statement. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water's bonds, notes or other obligations and investors and potential investors should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures and Valley Water's Investor Relations website, maintained on the World Wide Web at <https://emma.msrb.org> and <https://www.valleywater.org/how-we-operate/financebudget/investor-relations>, respectively.

Under the Brown Act, members of the public are not required to provide identifying information in order to attend public meetings. Through the link below, the Zoom webinar program requests entry of a name and email address, and Valley Water is unable to modify this requirement. Members of the public not wishing to provide such identifying information are encouraged to enter "Anonymous" or some other reference under name and to enter a fictional email address (e.g., attendee@valleywater.org) in lieu of their actual address. Inputting such values will not impact your ability to access the meeting through Zoom.

Join Zoom Meeting:

<https://valleywater.zoom.us/j/91608079873>

Meeting ID: 916 0807 9873

Join by Phone:

1 (669) 900-9128, 91608079873#

1. CALL TO ORDER:

1.1. Roll Call.

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA.

Notice to the public: Members of the public who wish to address the Board/Committee on any item not listed on the agenda may do so by filling out a Speaker Card and submitting it to the Clerk or using the "Raise Hand" tool located in the Zoom meeting application to identify yourself to speak. Speakers will be acknowledged by the Board/Committee Chair in the order requests are received and granted speaking access to address the Board/Committee. Speakers' comments should be limited to three minutes or as set by the Chair. The law does not permit Board/Committee action on, or extended discussion of, any item not on the agenda except under special circumstances. If Board/Committee action is requested, the matter may be placed on a future agenda. All comments that require a response will be referred to staff for a reply in writing. The Board/Committee may take action on any item of business appearing on the posted agenda.

3. APPROVAL OF MINUTES:

- 3.1. Approval of February 23, 2024 Board Audit Committee Minutes. [24-0272](#)

Recommendation: Approve the minutes.

Manager: Candice Kwok-Smith, 408-630-3193

Attachments: [Attachment 1: 022324 BAC Minutes](#)

4. REGULAR AGENDA:

- 4.1. Receive and Discuss the Management Response to the 2012 Safe, Clean Water and Natural Flood Protection Program's Close-out Performance Audit Recommendations and Provide Feedback to Staff. [24-0275](#)

Recommendation: A. Receive and discuss the Management Response to the 2012 Safe, Clean Water and Natural Flood Protection Program's (2012 Program) Close-out Performance Audit Recommendations; and
B. Provide feedback to staff as needed.

Manager: Luz Penilla, 408-630-2228

Attachments: [Attachment 1: Audit Final Draft Report](#)
[Attachment 2: Audit Management Response](#)

- 4.2. Discuss the Results of the Board Audit Committee's (BAC) Annual Self-Evaluation for Calendar Year (CY) 2023. [24-0137](#)

Recommendation: Discuss the results of the BAC's 2023 Annual Self-Evaluation for CY 2023.

Manager: Darin Taylor, 408-630-3068

- 4.3. Receive and Discuss Report from Independent Chief Audit Executive (CAE), Sjoberg Evashenk Consulting, Regarding Their Performance in Calendar Year (CY) 2023, and Evaluate Performance of CAE. [24-0259](#)

Recommendation: A. Receive and discuss report from the independent CAE, Sjoberg Evashenk Consulting, regarding their performance in CY 2023; and
B. Evaluate the performance of the CAE.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: 2023 Annual Performance Report of the CAE](#)

- 4.4. Discuss Process and Scope of 2024 Annual Audit Training from Chief Audit Executive. [24-0262](#)

Recommendation: Discuss process and scope of 2024 Annual Audit Training from Chief Audit Executive.

Manager: Darin Taylor, 408-630-3068

- 4.5. Discuss Proposed Updates to the Board Audit Committee Audit Charter and Provide Further Direction as Needed. [24-0261](#)
Recommendation: A. Discuss Proposed Updates to the Board Audit Committee Audit Charter; and
B. Provide Further Direction as Needed.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: Red-lined Board Audit Committee Charter](#)
[Attachment 2: PowerPoint](#)
- 4.6. Discuss Joint Power Authority (JPA) Audits to Review at the April 2024 Board Audit Committee (BAC) Meeting. [24-0274](#)
Recommendation: Discuss JPA audits to review at the April 2024 BAC meeting.
Manager: Darin Taylor, 408-630-3068
- 4.7. Review and Discuss the 2024 Board Audit Committee (BAC) Work Plan. [24-0169](#)
Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2024 BAC Work Plan.
Manager: Candice Kwok-Smith, 408-630-3193
Attachments: [Attachment 1: 2024 BAC Work Plan](#)
5. **CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.**
This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.
6. **ADJOURN:**
- 6.1. Adjourn to Regular Meeting at 1:00 p.m., on April 17, 2024.

THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 24-0272

Agenda Date: 3/20/2024
Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Approval of February 23, 2024 Board Audit Committee Minutes.

RECOMMENDATION:

Approve the minutes.

SUMMARY:

In accordance with the Ralph M. Brown Act, a summary of Committee discussions, and details of all actions taken by the Board Audit Committee, during all open and public Committee meetings, is transcribed and submitted to the Committee for review and approval.

Upon Committee approval, minutes transcripts are finalized and entered into the Committee's historical records archives and serve as historical records of the Committee's meetings.

ENVIRONMENTAL JUSTICE AND EQUITY IMPACT:

The approval of minutes is not subject to environmental justice analysis.

ATTACHMENTS:

Attachment 1: 022324 BAC Minutes

UNCLASSIFIED MANAGER:

Candice Kwok-Smith, 408-630-3193

THIS PAGE INTENTIONALLY LEFT BLANK



BOARD AUDIT COMMITTEE MEETING
DRAFT MINUTES

**SPECIAL MEETING SESSION
FRIDAY, FEBRUARY 23, 2024
1:00 PM**

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A special meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee) was called to order in the Valley Water Headquarters Building Boardroom at 5700 Almaden Expressway, San Jose, California, and by Zoom teleconference, at 1:00 p.m.

1.1 Roll Call.

Committee members in attendance were District 3 Director Richard P. Santos, District 4 Director Jim Beall, Vice Chairperson, and District 2 Director Barbara F. Keegan, Chairperson presiding, constituting a quorum of the Committee.

Staff members in attendance were: Yvonne Arroyo, Emmanuel Aryee, Jessica Collins, Enrique De Anda, Amy Fonseca, Michele King, Cecil Lawson, Dave Leon, Patrice McElroy, Anthony Mendiola, Tony Ndah, Carlos Orellana, Luz Penilla, Steven Peters, Allison Phagan, Mario Rivas, Diahann Soleno, Manpreet Sra, Darin Taylor, Zuberi White, Kristen Yasukawa, and Tina Yoke.

Public in attendance were: Matthew Bohdan (Plante Moran), Valley Water Director Tony Estremera (District 6), Tammy Lohr (Moss Adams), Scott Petree (Plante Moran), and Brianna Pierce (MGO).

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA:

Chairperson Keegan declared time open for public comment on any item not on the agenda. There was no one who wished to speak.

2.1. Election of 2024 Board Audit Committee (BAC) Chairperson and Vice Chairperson.

Recommendation: Nominate and elect the 2024 BAC Chairperson and Vice Chairperson.

Public Comments:
None.

The Committee deferred this item until the Board's approval of the 2024 Board Committee Member Appointments.

3. APPROVAL OF MINUTES:

3.1. Approval of January 17, 2024 Board Audit Committee Meeting Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the January 17, 2024 Committee meeting.

Public Comments:
None.

It was moved by Director Santos and seconded by Vice Chairperson Beall and unanimously carried that the minutes be approved.

4. REGULAR AGENDA:

4.1. Receive a Status Update on the Implementation of Audit Recommendations; and Discuss Timing of Next Update.

Recommendation: A. Receive a status update on the implementation of audit recommendations; and
B. Discuss timing of the next update

Anthony Mendiola reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachment 1.

Anthony Mendiola, Darin Taylor, Yvonne Arroyo, and Luz Penilla were available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and noted the following:

- The Committee confirmed there is enough staff anticipated to complete the Water Resources Protection Manual by December 2025 which includes public outreach efforts; and the permitting process will be streamlined by upcoming IT upgrades under the 2021 Permitting Best Practices Audit.

- The Committee noted their support for receiving regular progress updates for the 2023 Capital Improvement Program Performance Audit; and noted the next update scheduled for the BAC August 2024 meeting.

4.2. Receive and Discuss Management Response to Information Technology (IT) Surplus Equipment Processes Audit and Provide Comments.

Recommendation: A. Receive and discuss Management response to IT Surplus Equipment Processes Audit; and
B. Provide comments.

Cecil Lawson and Tina Yoke reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachment 1.

Cecil Lawson, Tina Yoke, and Tony Ndah were available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and noted the following:

- The Committee noted positive support for the IT Surplus Equipment Processes Audit as it is a management audit done internally to facilitate continual improvement.
- The Committee confirmed that equipment noted as surplus goes through an auction process and the rare unsold items can be donated per CEO approval.
- Director Beall requested staff follow up on the revenue from the surplus equipment auctioned from last year.
- Director Santos requested staff follow up with the CEO on the potential of donating surplus equipment to assist the unhoused.

4.3. Receive the Fiscal Year 2023-2024 Second Quarter Financial Status.

Recommendation: Receive the Fiscal Year 2023-2024 second quarter financial status update as of December 31, 2023.

Steven Peters and Enrique De Anda reviewed the information on this item, per the attached Committee Agenda Memo and Attachment 1, and the corresponding presentation materials contained in Attachment 1 were reviewed by staff as follows: Steven Peters reviewed Slides 1 - 5 and Enrique De Anda reviewed Slides 6 - 9.

Enrique De Anda, Steven Peters, and Luz Penilla were available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and noted the following:

- The Committee confirmed that staff will continue to reach out to small banks for participation in 2024 for the bank letter of credit solicitation.
- The Committee confirmed that staff does not anticipate drawing on the line of credit for the Pacheco WIFIA Master Agreement until 2026 based on expected expenses per the 2023 short term interim notes currently funding the design and planning phase.
- The Committee noted support for the applications submitted for the Anderson and Dam Safety Program per community interest.
- The Committee confirmed the first half of capital expenditures are trending lower than prior fiscal year due to the timing of the projects associated with the Watershed Stewardship Fund and the Safe Clean Water Fund; and staff anticipates expenditures to show up by end of the fiscal year with more information available in the third quarter update.

4.4. Discuss and Approve Proposed 2024 Annual Audit Work Plan, Recommend Auditors to Full Board for Approval, Recommend the Proposed Audit Scopes of Work to Full Board for Approval, and Provide Further Guidance as Needed.

- Recommendation:
- A. Discuss and approve the proposed 2024 Annual Audit Work Plan;
 - B. Recommend auditors for three audits within the 2024 Annual Audit Work Plan to the full Board for approval; and
 - C. Recommend the audit scopes of work to the full Board for approval; and
 - D. Provide further guidance as needed.

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo; and per the information contained in Attachments 1 - 3.

Darin Taylor was available to answer questions.

Public Comments:
None.

The Committee confirmed staff supported the noted recommendations for the auditors and audit scopes from the Chief Audit Executive per their skills and experience. Auditors and audit scopes recommended as follows:

Information Technology – Plante Moran (Scope identified on Attachment 1)

Human Resources – Moss Adams (Scope identified on Attachment 2)

Board Policies – Sjoberg Evashenk Consulting (Scope identified on Attachment 3)

It was moved by, Director Santos, seconded by Chairperson Keegan, voted no by Vice Chairperson Beall; and the following Recommendations were carried by majority vote:

- A. Discuss and approve the proposed 2024 Annual Audit Work Plan;
- B. Recommend auditors for three audits within the 2024 Annual Audit Work Plan to the full Board for approval; and
- C. Recommend the audit scopes of work to the full Board for approval;

4.5. Review and Discuss the 2024 Board Audit Committee (BAC) Work Plan.

Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2024 BAC Work Plan.

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachment 1.

Darin Taylor was available to answer questions.

Public Comments:
None.

The Committee received the information and noted the following:

- The Committee noted the importance of having items ready to go to avoid any further delays with upcoming audits for next year especially with the CIP Audit.
- Director Beall requested staff to follow up with a list of the Joint Power Authorities and how much money is associated with each one; and the Committee confirmed for staff to provide this update at the BAC March meeting.
- The Committee re-confirmed support for having an earlier meeting start time for upcoming meetings.

5. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS:

This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.

Dave Leon confirmed that Tina Yoke will follow up with the CEO on the possibility of donating surplus equipment to organizations that work with the unhoused under Item 4.2; and the following were noted under Item 4.5, the request to staff to provide a list of Joint Power Authorities with their associated expenditures; and the request to confirm an earlier BAC meeting time for upcoming meetings.

6. ADJOURN:

6.1. Adjourn to Regular Meeting at 2:00 p.m. on March 20, 2024.

Chairperson Keegan adjourned the meeting at 2:18 p.m., to the regular meeting that was subsequently confirmed to still occur at 2:00 p.m. on March 20, 2024.

Date approved:

Nicole Merritt
Assistant Deputy Clerk II



Santa Clara Valley Water District

File No.: 24-0275

Agenda Date: 3/20/2024

Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Receive and Discuss the Management Response to the 2012 Safe, Clean Water and Natural Flood Protection Program's Close-out Performance Audit Recommendations and Provide Feedback to Staff.

RECOMMENDATION:

- A. Receive and discuss the Management Response to the 2012 Safe, Clean Water and Natural Flood Protection Program's (2012 Program) Close-out Performance Audit Recommendations; and
- B. Provide feedback to staff as needed.

SUMMARY:

On April 24, 2023, Valley Water staff met with Moss Adams LLP (Auditor) to discuss the scope of work (SOW) required to conduct the performance close-out audit of the voter-approved 2012 Program (Measure B), which ended in June 2021. The 2012 Program, effective in July 2013, required the Board to conduct at least two professional audits of the 15-year Program to provide accountability and transparency. The first professional audit was conducted in 2017. Subsequently, in November 2020, voters approved the renewed Safe, Clean Water and Natural Flood Protection Program (renewed Program), which replaced the 2012 Program in July 2021. On March 14, 2023, the Board directed staff to have a close-out audit of the 2012 Program, following a recommendation by the Independent Monitoring Committee for the renewed Safe, Clean Water Program. On April 27, 2023, staff approved the task order submitted by the Auditor to conduct the close-out audit.

The purpose of the audit was to validate compliance in the collection and expenditure of Measure B funds, verify compliance with Measure B tax provisions, evaluate Valley Water's progress toward meeting the 2012 Program's priorities and the stated key performance indicators (KPIs), and identify and document opportunities for operational efficiency for future iterations of the program.

Between May 2023 and September 2023, the Auditor reviewed documentation, interviewed staff, and

developed the Draft Report. Staff reviewed the report and subsequently met with the auditor to provide clarification and request edits to clarify the observations and findings. While the Auditor incorporated staff's feedback, staff began working on management's responses to the observations/findings. On February 21, 2024, staff presented the Final Draft Report and the Management Response to the Chief Executive Officer (CEO). The CEO received the information and directed staff to proceed with the process.

Program-required audits are not initiated by the Board Audit Committee (BAC) and follow the same process as Management-directed audits. The BAC is informed of such audits and may review and comment on management's responses to the observations/findings of the report as noted in the BAC Charter under Article VII, subparagraphs 4 and 5, which state:

4. Notice to Committee of Management Initiated Audits - Valley Water management shall notify the Committee in writing of any planned Management Initiated Audits before commencing the same. Upon request by the Board Chair, Valley Water management shall provide a report to the Committee of the scope and nature of all planned Management Initiated Audits at the next scheduled Committee meeting. Where circumstances require any Management Initiated Audit to commence before the next regularly scheduled Committee meeting, the Committee Chair shall be advised of this need, and the audit need not be delayed. Where the Management Initiated Audit allows for a response by Valley Water staff before it is finalized, the Committee Chair shall be immediately notified by email or telephone and shall determine whether to have the Committee review and comment on any draft Valley Water response at a regularly scheduled or specially noticed Committee meeting. Where possible, Valley Water management shall provide the Committee with at least fifteen days for such review and comment. Where timely review and comment by the full Committee is not reasonably possible, the Committee Chair may conduct such review and comment himself/herself and shall report upon such review and comment at the next scheduled Committee meeting. The Committee Chair may also delegate this responsibility to the Vice Chair for any particular Management Initiated Audit, where the Committee Chair is unavailable. The Committee shall be provided with copies of any final reports on Management Initiated Audits.
5. Comment Upon Draft Audit Responses - The Committee Chair and the Committee may ask questions about or make comments upon any draft audit responses. However, they shall not attempt to direct Valley Water staff in its response to any audit.

The purpose of this item is to present the Final Draft Report (Attachment 1) and the Management Response (Attachment 2) and seek comments/feedback from the BAC regarding the responses.

ENVIRONMENTAL JUSTICE AND EQUITY IMPACT:

The discussion of management responses to audit recommendations is not subject to environmental justice analysis.

ATTACHMENTS:

Attachment 1: Audit Final Draft Report

Attachment 2: Audit Management Response

UNCLASSIFIED MANAGER:
Luz Penilla, 408-630-2228

THIS PAGE INTENTIONALLY LEFT BLANK



FINAL DRAFT REPORT

Santa Clara Valley Water District
2012 SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION
PROGRAM

CLOSEOUT PERFORMANCE AUDIT

February 19, 2023

Moss Adams LLP
999 Third Avenue, Suite 2800
Seattle, WA 98104
(206) 302-6500



This report is intended for the internal use of the Santa Clara Valley Water District, and may not be provided to, used, or relied upon by any third parties.

Table of Contents

I. Executive Summary	3
A. Background, Scope, And Methodology	3
B. Summary of Findings and Recommendations	3
II. Introduction	5
A. Project Overview	5
B. Statement of Compliance with GAGAS	6
III. Commendations	7
IV. Progress Toward Priorities and KPIs	8
V. Findings and Recommendations	16
A. Compliance	16
B. Performance	16
VI. Appendix – Process Improvement Opportunities	25



I. EXECUTIVE SUMMARY

A. BACKGROUND, SCOPE, AND METHODOLOGY

The Santa Clara Valley Water District (Valley Water) engaged Moss Adams LLP (Moss Adams) to conduct a closeout performance audit of its 2012 Safe, Clean Water and Natural Flood Protection Program (the Program), established by the passage of Measure B in 2012. The purpose of this performance audit was to validate compliance in the collection and expenditure of Measure B funds, verify compliance with Measure B tax provisions, evaluate Valley Water's progress toward meeting the Program's priorities and stated key performance indicators (KPIs), and identify and document opportunities for operational efficiency for future iterations of the Program. We conducted this performance audit between May 2023 and October 2023 using a four-phased approach consisting of project initiation and management, fact-finding, data analysis, and reporting.

B. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Findings and recommendations are grouped into two themes: compliance and performance. They are summarized in the following table and are presented in greater detail in Section V of this report.

Since this audit was focused on the last five years of the Program, which has since been replaced, the recommendations can be applied to the revised 2020 Program or future iterations of the Program. Additionally, some recommendations apply more broadly to Valley Water overall.

FINDINGS AND RECOMMENDATIONS		
1.	Finding	Valley Water does not have a conflict-of-interest policy that applies to the Independent Monitoring Committee (IMC) members. Conflicts of interest, whether real or perceived, can harm the Program's reputation and integrity.
	Recommendation	Develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures.
2.	Finding	According to a 2021 performance audit, grant management and administration during the 2012 Program experienced challenges with processes, timeliness, and reporting.
	Recommendation	Continue implementation of the remaining recommendations made in the 2021 grants management and administration performance audit.



FINDINGS AND RECOMMENDATIONS		
3.	Finding	Some Program KPIs relied on external organizations for completion, which made them more difficult to achieve on schedule. Additionally, some KPIs were based on outputs instead of outcomes, which created limitations in the measurement of the Program's impact on the community.
	Recommendation	Examine KPIs in future iterations of the Program and make revisions as needed to better reflect KPIs that are within Valley Water's control and focus on outcome-based KPIs. Where KPIs are not able to be fully within Valley Water's control, consider defining Valley Water's level of responsibility (e.g., primary or contributing responsibility) and develop strategies for addressing external factors that limit the ability of the KPIs to be achieved.
4.	Finding	While Valley Water's practices related to external coordination are largely aligned with best practice, a high degree of interjurisdictional complexity resulted in some capital projects being delayed.
	Recommendation	In future iterations of the Program, implement strategies to improve project continuity for projects heavily reliant on external agency cooperation, including strategies to prioritize knowledge transfer, project documentation, and relationship building at multiple levels.
5.	Finding	The effectiveness of contract development and management processes was limited by a lack of standardization, employee training, and lengthy reviews.
	Recommendation	Conduct robust training and establish annual refresher training for staff involved in contracting processes.



II. INTRODUCTION

A. PROJECT OVERVIEW

Background

The Santa Clara Valley Water District (Valley Water) manages an integrated water resources system that includes the provision of clean, safe water; flood protection; and stewardship of streams on behalf of Santa Clara County's nearly two million residents and businesses. Valley Water maintains 10 dams and surface water reservoirs, three water treatment plants, nearly 400 acres of groundwater recharge ponds, and more than 275 miles of streams.

On November 6, 2012, Santa Clara County voters passed Measure B, the Safe, Clean Water and Natural Flood Protection Program (the 2012 Program) as a countywide special parcel tax (Measure B). The tax went into effect on July 1, 2014, and its purpose was to support local projects that delivered safe, clean water, natural flood protection, and environmental stewardship to all communities served in Santa Clara County. The Program was first passed in 2000 as the Clean, Safe Creeks and Natural Flood Protection Plan before being approved again in 2012, and on November 3, 2020, voters in Santa Clara County approved Measure S, a revised renewal of the 2012 Program. This performance audit is focused on the 2012 Program only, as described in the Scope and Objectives section below.

Through a comprehensive community engagement process, Valley Water identified five priorities for the 2012 Program. These five priorities, listed below, comprised multiple projects with unique operations and capital needs. Each project had its own KPIs and estimated schedules and received an allocated portion of funding.

- Priority A: Ensure a safe, reliable water supply
- Priority B: Reduce toxins, hazards, and contaminants in waterways
- Priority C: Protect water supply and dams from earthquakes and natural disasters
- Priority D: Restore wildlife habitat and provide open space
- Priority E: Provide flood protection to homes, businesses, schools, and highways

Scope and Objectives

Valley Water engaged Moss Adams to conduct a closeout performance audit of the last five years of the 2012 Program, which were fiscal years (FY) 2017 through 2021. Moss Adams previously audited the first three years of the 2012 Program in a separate audit. This performance audit of the 2012 Program addressed the following objectives:

1. Assess and determine whether Measure B funds were collected and expended by Valley Water in accordance with the tax measure
2. Verify compliance with all applicable provisions of the Measure B tax, including stated provisions A through O
3. Assess and determine whether Valley Water made reasonable progress toward meeting the Program's priorities and KPIs by year eight of the 15-year Program



4. Assess and determine whether Valley Water properly implemented and complied with the approved change control processes to make necessary Program adjustments and modifications
5. Assess and document lessons learned that could be considered in the future

Since this closeout audit was focused on the last five years of the 2012 Program that has since been replaced, the recommendations can be applied to the revised 2020 Program or future iterations of the Program. Additionally, some recommendations apply more broadly to Valley Water overall.

Methodology

The project consisted of four phases. Our analysis was informed by employee interviews, document review, testing, and research into best practices.

Phase		Description
1	Project Initiation and Management	This phase concentrated on comprehensive planning and project management, including identifying employees to interview, identifying documents to review, communicating results, and establishing processes to review project status on a regular basis.
2	Fact-Finding	<p>This phase included interviews, document review, and testing.</p> <ul style="list-style-type: none">• <i>Interviews:</i> We conducted interviews and focus groups with leadership and staff to gain insights into the current operational environment, strengths, and opportunities for improvement related to the 2012 Program.• <i>Document Review:</i> We reviewed a variety of documents and information provided by staff, including organizational charts, policies and procedures, performance reports, and the Measure B resolution.• <i>Testing:</i> We conducted tests of detail to verify Program operational integrity, adherence to Program change control protocols, and compliance with Measure provisions.
3	Analysis	Based on the information gained during our fact-finding phase, we performed a gap analysis of current conditions and identified opportunities for improvement. Leveraging best practice information, and our own experience from working with similar entities, we developed practical recommendations.
4	Reporting	We communicated the results of our analysis with findings and recommendations presented first in a draft report that was reviewed with management to confirm the practicality and relevance of recommendations before finalizing the report.

B. STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



III. COMMENDATIONS

Based on insights gathered throughout our assessment, we noted the following areas of strength:

- **Transparency to Stakeholders:** Valley Water had many processes in place to support transparency to its stakeholders. Annual Program reports detailing progress toward achieving KPIs were developed timely and contained detailed information for members of the public to understand project status, challenges, and any modifications. Furthermore, changes to project descriptions, KPIs, and schedules were made largely in accordance with Valley Water's change control process.
- **Program Expenditures:** Based on testing a sample of 30 expenditures occurring between FY 2017 and FY 2021, Measure B funds were used appropriately for the Program.
- **California Environmental Quality Act (CEQA) Reviews:** Based on testing a sample of three projects, the Program administration properly executed required CEQA reviews for SCW Program projects in compliance with Program requirements.
- **Low-Income Senior Property Tax Exemption:** Based on testing a sample of 10 low-income senior property tax exemptions, the requests were properly completed, and the requestors were eligible for the tax exemption according to Program requirements.
- **Special Tax Summary Reports:** For each fiscal year in the audit period, the Special Tax Summary Reports were completed, approved, and filed according to Program requirements.
- **Adaptive and Flexible Budgeting:** Despite challenges with overspending and underspending largely due to unexpected project needs and inflation, the 2012 Program had many effective practices in place managing project budgets. The Program conducted comprehensive project planning, regularly monitored project spending, and had a robust change control process in place to help identify and address necessary budget changes.
- **Independent Monitoring Committee (IMC) Onboarding:** In 2018, Valley Water developed formal onboarding and training materials for members of the committee that outlined IMC roles and responsibilities. This is aligned with best practice for effective governance.
- **Operational Flexibility:** Program staff were able to work around obstacles, such as those posed by the COVID-19 pandemic, to meet the needs of Valley Water and the 2012 Program.
- **Mission-Driven Employees:** Program staff were aware of and driven by the importance of the work they do to provide safe, clean water and natural flood protection to Santa Clara County and the communities they serve.

We would like to thank Valley Water staff for their willingness to assist us in this audit process. These commendations, coupled with our findings and recommendations, provide an overview of areas of strengths and opportunities for improvement that can help enhance operations and reduce risk within the renewed Safe, Clean Water and Natural Flood Protection Program and other future iterations of the initiative.



IV. PROGRESS TOWARD PRIORITIES AND KPIS

The following tables include an evaluation of the progress Valley Water made toward achieving the five priorities and associated KPIS of the 2012 Program FY 2021. Overall, Valley Water was on track to meet the majority of the KPIS had the Program continued. Only one project was not on target, as indicated below. We determined project status based on a review of KPIS for each project and relevant Program reports.

PRIORITY A: ENSURE A SAFE, RELIABLE WATER SUPPLY			
Project	15-Year KPIS	Project Status as of FY 2021 Report	Moss Adams Determined Status
A1: Main Avenue and Madrone Pipelines Restoration	<ul style="list-style-type: none"> Restore transmission pipeline to full operating capacity of 37 cfs from Anderson Reservoir. Restore ability to deliver 20 cfs to Madrone Channel. 	Completed	Completed
A2: Safe, Clean Water Partnerships and Grants	<ul style="list-style-type: none"> Award up to \$1 million to test new conservation activities. Increase number of schools in Santa Clara County in compliance with SB 1413 and the Healthy Hunger-Free Kids Act, regarding access to drinking water by awarding 100% of eligible grant requests for the installation of hydration stations; a maximum of 250 grants up to \$254,000. Reduce number of private well water users exposed to nitrate above drinking water standards by awarding 100% of eligible rebate requests for the installation of nitrate removal systems—up to \$30,000 for all rebates. 	On target	On target
A3: Pipeline Reliability Project	<ul style="list-style-type: none"> Install four new line valves on treated water distribution pipelines. 	Adjusted	Adjusted in FY 2021

PRIORITY B: REDUCE TOXINS, HAZARDS, AND CONTAMINANTS IN OUR WATERWAYS			
Project	15-Year KPIS	Project Status as of FY 2021 Report	Moss Adams Determined Status
B1: Impaired water bodies improvement	<ul style="list-style-type: none"> Operate and maintain existing treatment systems in four reservoirs to remediate regulated contaminants, including mercury. 	On target	On target



PRIORITY B: REDUCE TOXINS, HAZARDS, AND CONTAMINANTS IN OUR WATERWAYS			
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status
	<ul style="list-style-type: none">• Prepare a plan for the prioritization of pollution prevention and reduction activities.• Implement priority pollution prevention and reduction activities identified in the plan in 10 creeks.		
B2: Interagency urban runoff program	<ul style="list-style-type: none">• Install at least two and operate four trash capture devices at storm water outfalls in Santa Clara County.• Maintain partnerships with cities and County to address surface water quality improvements.• Support five pollution prevention activities to improve surface water quality in Santa Clara County, either independently or collaboratively with south county organizations.	On target	On target
B3: Pollution prevention partnerships and grants	<ul style="list-style-type: none">• Provide seven grant cycles and five partnerships that follow pre-established competitive criteria related to preventing or removing pollution.	On target	On target
B4: Good neighbor program: Illegal Encampment Cleanup	<ul style="list-style-type: none">• Perform 52 annual cleanups for the duration of the Safe, Clean Water Program to reduce the amount of trash and pollutants entering the streams.	Not on target	Not on target in FY 2021 ¹
B5: Hazardous materials management and response	<ul style="list-style-type: none">• Respond to 100% of hazardous materials reports requiring urgent on-site inspection in two hours or less.	On target	On target
B6: Good neighborhood	<ul style="list-style-type: none">• Conduct 60 clean-up events (four per year).• Respond to requests on litter or graffiti cleanup within five working days.	On target	On target

¹ Cleanups were curtailed due to COVID-19 related restrictions concerning unhoused encampments.



PRIORITY B: REDUCE TOXINS, HAZARDS, AND CONTAMINANTS IN OUR WATERWAYS			
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status
program: Remove Graffiti and Litter			
B7: Support volunteer cleanup efforts and education	<ul style="list-style-type: none">• Provide seven grant cycles and three partnerships that follow pre-established competitive criteria related to cleanups, education and outreach, and stewardship activities.• Fund District support of annual National River Cleanup Day, California Coastal Cleanup Day, the Great American Litter Pick Up, and the Adopt-A-Creek Program.	On target	On target

PRIORITY C: PROTECT OUR WATER SUPPLY AND DAMS FROM EARTHQUAKES AND NATURAL DISASTERS			
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status
C1: Anderson Dam Seismic Retrofit	<ul style="list-style-type: none">• Turn a portion of funds, up to \$45 million, to help restore full operating reservoir capacity of 90,373 acre-feet.	On target	On target
C2: Emergency response upgrades	<ul style="list-style-type: none">• Map, install, and maintain gauging stations and computer software on seven flood-prone reaches to generate and disseminate flood warnings.	On target	On target

PRIORITY D: RESTORE WILDLIFE HABITAT AND PROVIDE OPEN SPACE			
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status
D1: Management of revegetation projects	<ul style="list-style-type: none">• Maintain a minimum of 300 acres of revegetation projects annually to meet regulatory requirements and conditions.	On target	On target



PRIORITY D: RESTORE WILDLIFE HABITAT AND PROVIDE OPEN SPACE			
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status
D2: Revitalize stream, upland, and wetland habitat	<ul style="list-style-type: none">• Revitalize at least 21 acres, guided by the five Stream Corridor Priority Plans, through native plan revegetation and removal of invasive exotic species.• Provide funding for revitalization of at least seven of 21 acres through community partnerships.• Develop at least two plant palettes for use on revegetation projects to support birds and other wildlife.	Completed	Completed
D3: Grants and partnerships to restore wildlife habitat and provide access to trails	<ul style="list-style-type: none">• Develop five Stream Corridor Priority Plans to prioritize stream restoration activities.• Provide seven grant cycles and additional partnerships for \$21 million that follow pre-established criteria related to the creation or restoration of wetlands, riparian habitat, and favorable stream conditions for fisheries and wildlife, and providing new public access to trails.	On target	On target
D4: Fish habitat and passage improvement	<ul style="list-style-type: none">• Complete planning and design for two creek/lake separations.• Construct one creek/lake separation project in partnership with local agencies.• Use \$6 million for fish passage improvements.• Conduct study of all major steelhead streams in the County to identify priority locations for installation of large woody debris and gravel, as appropriate.• Install large woody debris and/or gravel at a minimum of five sites (one per each of five major watersheds).	Adjusted	Adjusted in FY 2021
D5: Ecological data collection and analysis	<ul style="list-style-type: none">• Establish new or track existing ecological levels of service for streams in five watersheds.• Reassess streams in five watersheds to determine if ecological levels of service are maintained or improved.	On target	On target
D6: Creek restoration and stabilization	<ul style="list-style-type: none">• Construct three geomorphic designed projects to restore stability and stream function by preventing incision and promoting sediment balance throughout the watershed.	Adjusted	Adjusted in FY 2021



PRIORITY D: RESTORE WILDLIFE HABITAT AND PROVIDE OPEN SPACE			
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status
D7: Partnerships for the conservation of habitat lands	<ul style="list-style-type: none">Provide up to \$8 million for the acquisition of property for the conservation of habitat lands.	Completed	Completed
D8: South Bay Salt Ponds restoration partnership	<ul style="list-style-type: none">Establish agreement with U.S. Fish and Wildlife Service to reuse sediment at locations to improve the success of Salt Pond restoration activities.Construct site improvements up to \$4 million to allow for transportation and placement of future sediment.	On target	On target

PRIORITY E: PROVIDE FLOOD PROTECTION TO HOMES, BUSINESSES, SCHOOLS, AND HIGHWAYS			
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status
E1: Vegetation control and sediment removal for flood protection	<ul style="list-style-type: none">Maintain 90% of improved channels at design capacity.Provide vegetation management for 6,120 acres along levee and maintenance roads.	On target	On target
E2: Emergency response planning	<ul style="list-style-type: none">Coordinate with agencies to incorporate District-endorsed flood emergency procedures into their Emergency Operations Center plans.Complete five flood-fighting action plans (one per major watershed).	On target	On target
E3: Flood risk reduction studies	<ul style="list-style-type: none">Complete engineering studies on seven creek reaches to address 1% flood risk.Update floodplain maps on a minimum of 2 creek reaches in accordance with new FEMA standards.	On target	On target
E4: Upper Penitencia Creek flood protection Coyote Creek to Dorel Drive—San Jose	<ul style="list-style-type: none"><i>Preferred project with federal and local funding:</i> Construct a flood protection project to provide 1% flood protection to 5,000 homes, businesses, and public buildings.<i>With local funding only:</i> Acquire all necessary rights-of-way and construct a 1% flood protection project from Coyote Creek confluence to King Road.	On target	On target



PRIORITY E: PROVIDE FLOOD PROTECTION TO HOMES, BUSINESSES, SCHOOLS, AND HIGHWAYS				
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status	
E5: San Francisquito Creek flood protection, San Francisco Bay to Middlefield Road—Palo Alto	<ul style="list-style-type: none">• <i>Preferred project with federal, state, and local funding:</i> Protect more than 3,000 parcels by providing 1% flood protection.• <i>With state and local funding only:</i> Protect approximately 3,000 parcels from flooding (100-year protection downstream of Highway 101, and approximately 30-year protection upstream of Highway 101).	On target	On target	
E6: Upper Llagas Creek flood protection project Buena Vista Avenue to Wright Avenue—Morgan Hill, San Martin, Gilroy	<ul style="list-style-type: none">• <i>Preferred project with federal and local funding:</i> Provide flood protection to 1,100 homes, 500 businesses, and 1,300 agricultural acres, while improving stream habitat.• <i>With local funding only:</i> Provide 100-year flood protection for Reach 7 only (up to W. Dunne Avenue in Morgan Hill). A limited number of homes and businesses will be protected.	On target	On target	
E7: San Francisco Bay shoreline study	<ul style="list-style-type: none">• Provide a portion of the local share of funding for planning and design phases for the former salt production ponds and Santa Clara County shoreline area.• Provide a portion of the local share of funding toward the estimated cost of the initial project phase (Economic Impact Area 11).	On target	On target	
E8: Upper Guadalupe River flood protection	<ul style="list-style-type: none">• <i>Preferred project with federal and local funding:</i> Construct a flood protection project to provide 1% flood protection to 6,280 homes, 320 businesses, and 10 schools and institutions.• <i>With local funding only:</i> Construct flood protection improvements along 4,100 feet of Guadalupe River between the Southern Pacific Railroad crossing downstream of Willow Street to the Union Pacific Railroad crossing downstream of Padres Drive. Flood damage will be reduced; however, protection from the 1% flood is not provided until completion of the entire Upper Guadalupe River project.	Adjusted	Adjusted in FY 2021	



OTHER FLOOD PROTECTION PROJECTS AND CLEAN, SAFE CREEKS GRANTS PROJECTS			
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status
Permanente Creek Flood Protection	<ul style="list-style-type: none">Provide flood protection to 1,664 parcels downstream of El Camino Real, including Middlefield Road and Central Expressway	Completed	Completed
Sunnyvale East and Sunnyvale West Channels Flood Protection	<ul style="list-style-type: none">Provide riverine flood protection for 1,618 properties and 47 acres (11 parcels) of industrial land, while improving stream water quality and providing for recreational opportunities.	Adjusted	Adjusted in FY 2021
Berryessa Creek Flood Protection	<ul style="list-style-type: none">Local and federal funding flood damage reduction for 1,662 parcels, including 1,420 homes, 170 businesses, and 5 schools/institutions.Using local funds only, a reduced project would extend from the confluence with Lower Penitencia upstream to Montague Expressway, modifying 2 miles of channel and protecting approximately 100 parcels.	Completed	Completed
Coyote Creek Flood Protection	<ul style="list-style-type: none">Preferred project with federal, state, and local funding: Secure alternative funding sources to construct a flood protection project that provides flood risk reduction from floods up to the level of flooding that occurred on February 21, 2017, approximately a 20 to 25 year flood event, between Montague Expressway and Tully Road.With local funding only: (a) Identify short-term flood relief solutions and begin implementation prior to the 2017-2018 winter season; (b) Complete the planning and design phases of the preferred project; and (c) With any remaining funds, identify and construct prioritized elements of the preferred project.	On target	On target
Calabazas Creek Flood Protection	<ul style="list-style-type: none">Flood damage reduction for 2,483 parcels that include: 2,270 homes, 90 businesses, and 7 schools/institutions.	Completed	Completed
Clean Safe Creeks Grants Projects	<ul style="list-style-type: none">CSC 2.1: Reduce urban runoff pollutants in south county cities.CSC 3.2: Creation of additional wetlands, riparian habitat and favorable stream conditions for fisheries and wildlife. (Equivalent of 100 acres of tidal or riparian habitat created or restored).	Completed	Completed



OTHER FLOOD PROTECTION PROJECTS AND CLEAN, SAFE CREEKS GRANTS PROJECTS			
Project	15-Year KPIs	Project Status as of FY 2021 Report	Moss Adams Determined Status
	<ul style="list-style-type: none">CSC 4.1: Community partnership to identify and provide public access to 70 miles of open space or trails along creeks.		



V. FINDINGS AND RECOMMENDATIONS

Our aim with these findings and recommendations was to provide Program and Valley Water leadership with actionable information on opportunities for improvement, with recommendations intended to provide positive impacts on operational effectiveness and efficiency for future iterations of the Program.

A. COMPLIANCE

There were no compliance findings and recommendations. Based on our testing, Valley Water complied with Measure requirements.

B. PERFORMANCE

Ethics

1.	Finding	Valley Water does not have a conflict-of-interest policy that applies to the Independent Monitoring Committee (IMC) members. Conflicts of interest, whether real or perceived, can harm the Program's reputation and integrity.
	Recommendation	Develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures.

To ensure accountability to voters, Measure B also created an Independent Monitoring Committee (IMC), appointed by the Valley Water Board of Directors. According to the IMC Handbook, the IMC annually reviews the implementation of the intended results of the Program and reports its findings to Board, which makes the committee report available to the residents and voters of Santa Clara County. During the 2012 Program, concerns were raised about potential conflicts of interest among IMC members that could have influenced their recommendations and actions in their oversight role. Valley Water did not have a conflict-of-interest policy in place that applied to IMC members, and Valley Water's General Counsel considered these potential conflicts legally allowable since the IMC serves in an advisory role that does not have decision-making authority. However, it can be helpful for advisory committees to have conflict-of-interest policies since their recommendations are often accepted by other decision-making bodies.

Conflicts of interest, whether real or perceived, can present many challenges, including erosion of public trust and potential risk of compromised integrity of the IMC and the Program overall. Impaired public perception may also jeopardize future funding for the Program. The Program should develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures. Valley Water may leverage its existing conflict-of-interest policies and Board Code of Conduct when developing a conflict-of-interest policy for IMC members, as is common in other similar governmental organizations. Valley Water should consider what specific conflict-of-interest standards are needed for its advisory committees, but at a minimum the conflict-of-interest policy should require those with a conflict or potential conflict to disclose the conflict and prohibit IMC members from participating in discussions on topics where there is a real or perceived conflict. Generally, conflict-of-interest policies include the following:



- Definition of what constitutes a conflict of interest, such as situations where a committee member has a personal or financial interest in matters being discussed
- Requirements for disclosing potential conflicts of interest in a timely and transparent manner
- Processes for evaluating potential conflicts of interest
- Requirements for recusal when a conflict of interest is determined to exist
- Documentation requirements to ensure records are maintained about conflicts of interest and how they were resolved
- Consequences for violating the policy, such as potential removal from the committee
- Required training related to conflicts of interest

Developing conflict-of-interest policies, frameworks, and training will help preserve the integrity of the Program and promote ongoing public trust.

Grants Management

2.	Finding	According to a 2021 performance audit, grant management and administration during the 2012 Program experienced challenges with processes, timeliness, and reporting.
	Recommendation	Continue implementation of the remaining recommendations made in the 2021 grants management and administration performance audit.

A performance audit of grants management and administration in the 2012 Program reviewed FY 2018 through FY 2020 and was completed in January 2021. This audit found Valley Water needed to scale grant application and reporting requirements to be more proportional to the size and scope of each individual grant, require orientation for new grantees, establish timeliness metrics, and implement other process, timeliness, and reporting improvements. In interviews, staff expressed significant challenges with the Program's grant management and administration during the duration of the 2012 Program.

While beyond the scope of this audit, staff reported seven of the 11 recommendations have been implemented since the audit was completed in 2021. The remaining recommendations are still in progress. To support continued improvement of grants management and administration, Program leadership should continue to implement the remaining recommendations. Implementing these recommendations is important to the success and sustainability of future iterations of the Program. A summary of recommendation status as reported by staff as of a May 2023 progress report is included below.



Recommendation	Staff Reported Status
<p>Valley Water should consider developing clear guidelines for “right-sized” application and reporting processes, meaning that application and reporting requirements should be scaled to fit the size, risk, and complexity of each individual grant:</p> <ul style="list-style-type: none">Valley Water should develop a formal due diligence policy and perform a due diligence review for high risk grant projects. A due diligence review of applicants determines the reasonableness of the grant and grantee’s ability to perform and assess the extent of the grantee’s reliance on grant funds. This would include analysis of managerial and fiscal capacity and past performance. For example, verify grantees have the requisite financial management systems that will produce invoice detail required by the grant agreement, or, gain an understanding of the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement.For high-risk grants where financial statements are required, analyze fiscal health indicators of the entity and formalize the analysis within the grant file. For areas where Valley Water already implements a number of best practices such as checking GuideStar to verify the non-profits current status and to view the grantee’s IRS Form 990, staff should also memorialize its analysis in the grant file.For smaller non-profits or community groups, based on risk, Valley Water should consider simplifying reporting requirements or developing alternative requirements for projects under a dollar threshold, like \$25,000, or establish a tiered structure and treat smaller projects similar to mini-grants.	In Progress
<p>As new grants are awarded, an orientation for new grantees should be mandatory, and Civic Engagement should provide an electronically accessible grantee guide, outlining all requirements for programmatic and financial reporting compliance. This can be as simple as compiling existing documents, developing reporting templates and developing a process map and including instructions on who to call based on the nature of the question.</p>	Implemented – November 2022
<p>Best practices suggest utilizing a grant management information system to run regular reports to track timeliness and to conduct other monitoring activities. While many monitoring functionalities for FLUXX remain in progress, we recommend, at a minimum, adding another column to the Grant Tracker spreadsheet to track the 45-calendar day payment window once initial contact has been made with the grantee. These payment cycle time metrics should be tracked and reported internally monthly, and to the Board Audit Committee quarterly.</p>	Implemented – September 2021
<p>Monitoring should be conducted, either manually or through automated reminder emails in FLUXX, to ensure that a progress report, or another form of communication from a grantee, is submitted quarterly ensure that Valley Water is kept apprised of project status and to ensure that work is aligned with the grant agreement.</p>	Implemented – September 2021
<p>In addition to right sizing invoicing requirements based on the grant’s risk level, Valley Water should right-size the level of progress reporting detail required for smaller dollar value standard grants, for example, under \$25,000.</p>	In Progress



Recommendation	Staff Reported Status
<p>Valley Water should explore where, within existing policies, it can augment grant requirements for grant agreements and invoicing for certain grantees based on risk: partnerships, repeat grantees, establish grant value thresholds, and determine whether the number of approvals and signatures for payments are appropriate. At a minimum, for smaller, lower risk grants, Valley Water should re-assess its reporting and invoicing requirements based on risk, dollar value, and project complexity.</p> <ul style="list-style-type: none">For example, Valley Water could treat grant agreements up to \$25,000 like mini-grants and expedite payment for low-risk grants and low dollar amount invoices from trusted long-term grantees. Valley Water could consider paying unquestioned amounts earlier, and focus more scrutiny on riskier, larger dollar amount invoices from new grantees.Valley Water could also consider reimbursing expenses when invoiced and then using the closeout process to reconcile remaining amounts below a reasonable threshold. For example, if a grantee bills \$10,000 for its performance, and Valley Water questions \$500 of that amount, it could consider paying the unquestioned amount first, then resolve the questioned amount by project.Staff should focus their review on whether grantee costs are reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines. Spot checks would be performed to ensure calculations are correct and that receipts match the totals. The level of scrutiny applied and depth of review would be based on the grant and grantee risk factors, as determined by management.	In Progress
<p>Should Valley Water decide to continue to require the same information for progress and invoice submission, they should:</p> <ul style="list-style-type: none">Confirm the integrity of grantee financial management system data used for review before award.Include language in the grant agreement such as, "Failure to submit an accurate financial invoice in a timely manner may result in payments being withheld, delayed, or denied, and will result in payment delays".	In Progress
<p>Valley Water should solicit grantee and partnership feedback regularly, conducted by an independent third party, as best practices suggest. In addition to assessing satisfaction with the program, inquiries should be made to determine the extent to which partial funding has impacted the grantee and the project.</p>	Implemented – September 2021
<p>Valley Water should determine a reasonable goal and timeline for final closeout and final payment, including the release of retention. The established dates and timelines should be monitored in the Grant Tracker and when possible, included in any automated flags and alerts that FLUXX can provide.</p>	Implemented – September 2021
<p>Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.</p>	Implemented – November 2022



Recommendation	Staff Reported Status
<p>To ensure that staff understand and carry out their internal control responsibilities, and to promote accountability, Valley Water should consider reconfiguring job assignments to enhance the grants management function once the backlog has been addressed and policies and procedures are developed:</p> <ul style="list-style-type: none"> Option 1: Assign Staff by Priority Area and Specific Grants. This would allow staff to become familiar with the priority area, programs and grantees, as well as create a balanced number of programs a grant manager is expected to manage. This would benefit the grantee with the assignment of a single point of contact for questions at any phase of the project. This would allow for important information concerning a grantee, and project details learned in the application stage to transfer to active project management and throughout the life of the project. The downside to this option is that grant managers would still be required to perform duties that they might not have the technical capacity, knowledge or authorization to properly perform, such as a subject expert having responsibility for invoice processing, or a finance and accounting expert having responsibility for program oversight. Option 2: Split Application and Active Grant Management Duties. Civic Engagement may consider dividing the work performed during the application cycle and work performed during the active project management cycle into two separate positions or teams. From an efficiency perspective, this delineation could improve overall workflow by decreasing bottlenecks that occur during certain times of the year (e.g., the allocation/application cycle) and ensure that a sufficient number of staff remains focused on active grant management, such as invoice review processing and monitoring. Additionally, with such a delineation of duties, one individual could be assigned to or specialize in contracts and billings for all grants. Once job assignments are determined, the Supervising Program Administrator and Unit Manager should develop a training manual and schedule that clearly identifies the type of training needed to effectively perform specified job duties to address any gaps in staff knowledge, skills and abilities. As the Safe, Clean Water grants program grows, and the grants management function within Civic Engagement expands, develop grants management position descriptions. 	Implemented – September 2021

Key Performance Indicators

	Finding	Some Program KPIs relied on external organizations for completion, which made them more difficult to achieve on schedule. Additionally, some KPIs were based on outputs instead of outcomes, which created limitations in the measurement of the Program's impact on the community.
3.	Recommendation	Examine KPIs in future iterations of the Program and make revisions as needed to better reflect KPIs that are within Valley Water's control and focus on outcome-based KPIs. Where KPIs are not able to be fully within Valley Water's control, consider defining Valley Water's level of responsibility (e.g., primary or contributing responsibility) and develop strategies for addressing external factors that limit the ability of the KPIs to be achieved.

While Valley Water commendably had defined KPIs for each project within the Program, there were limitations to the effectiveness of some KPIs, especially KPIs that relied on external organizations for completion. Staff reported these KPIs were difficult to achieve as they were fully or partially outside of Valley Water's control. Additionally, as noted in the prior audit conducted by Moss Adams in 2017,



some project KPIs for the Program were based on outputs rather than outcomes, which limited their ability to portray the impact Valley Water and the Program had on the community. Outputs can also limit flexibility in approach when conditions change or unexpected events occur because they are more narrowly focused on completion of specific tasks.

KPI Responsibility

Generally, it is best practice to develop KPIs that are within an organization’s influence and control to avoid setting unrealistic expectations and creating confusion about responsibility for achieving KPIs. To improve the usefulness of KPIs, Valley Water should examine KPIs in future iterations of the Program to identify whether the indicators are within Valley Water’s control. KPIs that are not within Valley Water’s control should ideally be revised to better reflect Valley Water’s activities and abilities. When KPIs cannot be revised, Valley Water should develop strategies for communicating this with stakeholders. This could include defining Valley Water’s level of responsibility for each KPI, such as whether Valley Water is the primary responsible party or a contributing responsible party. For example, the [City of Salem defines its role in its strategic plan](#) as a doer, convener, or partner to provide clarity on the City’s role in achieving each of its activities and objectives. Valley Water should also develop strategies for addressing external factors that may limit the ability of the KPI to be achieved. This may involve myriad strategies depending on the project, such as increasing collaboration with external partners and stakeholders, seeking additional resources or support, or developing new approaches to achieve the KPI. Valley Water has already implemented many of these best practices, as noted in [Finding 4](#). As a best practice, Valley Water should also ensure KPIs and related responsibilities are clearly defined in agreements with external partners where relevant.

Outcomes

While outputs are helpful to track progress and ensure work is done according to plan, outputs do not portray whether Valley Water is having its intended impact on the community. For example, the KPI for project A2 was to award up to \$1 million to test new conservation activities. This KPI does not address whether outcomes from the use of the funds have been realized, such as reduced water demand. When reviewing KPIs in future iterations of the Program, Valley Water should also consider adopting more outcome-based KPIs where possible, especially for KPIs that are within Valley Water’s control. This will enable Valley Water to communicate the impact of its investment more effectively in priorities, rather than simply stating the volume of work that was accomplished.

External Coordination

4. Finding	While Valley Water’s practices related to external coordination are largely aligned with best practice, a high degree of interjurisdictional complexity resulted in some capital projects being delayed.
-------------------	--



Recommendation

In future iterations of the Program, implement strategies to improve project continuity for projects heavily reliant on external agency cooperation, including strategies to prioritize knowledge transfer, project documentation, and relationship building at multiple levels.

Many capital projects and associated KPIs in the Program required extensive coordination with other government agencies, including larger projects that needed additional funding or resources and projects that required easements, permissions, or coordination from other jurisdictions to achieve KPIs. This reliance on other governmental agencies is common for agencies like Valley Water, yet it created challenges and project delays given the need to navigate different laws, regulations, partnership agreements, policies, and procedures. Some staff reported difficulty balancing their project goals with the goals and interests of other agencies.

In alignment with best practice, Valley Water staff proactively engaged in productive conversations and regular meetings with partner organizations and established formal partnership agreements. These are practices that should be continued and strengthened. Additionally, longstanding relationships between personnel at both agencies contributed to many successful partnerships. However, as external parties and project teams experienced turnover, relationships were sometimes impacted. Strategies to prioritize effective knowledge transfer, project documentation, and relationship building should be implemented to improve project continuity. Valley Water should ensure roles and responsibilities are clearly defined for projects and that all project-related information such as meeting minutes and communications are well-organized and maintained. Additionally, for projects that require a high degree of coordination with external agencies, Valley Water should ensure clear succession plans are in place to facilitate continued relationships should key staff move onto other roles within or outside of the organization. This could include ensuring multiple staff have strong relationships with key external organizations and clearly maintaining documentation.

Valley Water should also continue to build upon its existing practices to support successful collaboration, including continuing to:

- Support collaborative structures and regular communication with external organizations
- Clearly define the roles, responsibilities, and expectations of each agency involved in each project
- Provide sufficient resources at the appropriate authority level within Valley Water to support interjurisdictional project needs
- Emphasize common outcomes and goals while allowing flexible approaches to project implementation



Contract Development and Management

5.	Finding	The effectiveness of contract development and management processes was limited by a lack of standardization, employee training, and lengthy reviews.
	Recommendation	Conduct robust training and establish annual refresher training for staff involved in contracting processes.

An audit of Valley Water's post-award contract process was completed in 2015 that resulted in several findings and recommendations, including findings related to needing formal policies and procedures and improved training. Management reported all the recommendations in that audit were implemented as of early 2023. However, staff reported some issues related to contract development and management processes still existed at the end of the 2012 program:

- Contract development and management were the responsibility of project managers, but several reported they did not feel adequately trained for these tasks. While there were formalized policies and processes in place to guide staff to effectively develop and manage contracts, staff reported limited awareness of these guidance documents. It is important for policies and procedures to be effectively communicated to staff to avoid gaps in knowledge. Without effective training and communication to support staff in contract development and management, these processes are likely to be inefficient and take longer than needed. Additionally, contracts may be developed or managed poorly, which can increase risks that contracts are out of compliance with laws and regulations or do not achieve their intended outcomes.
- Staff reported concerns with the use of poor performing contractors. The use of poor performing contractors can result in inefficiencies, unnecessary costs, and increased reputational risks if contractor performance is visible to the public. While Valley Water established processes to communicate and track poor performing contractors, staff reported limited awareness of these processes. As noted above, it is important to promote staff awareness of processes through regular communication and training.
- Contract development processes reportedly took a long time, largely due to lengthy legal and risk management reviews and the process of getting on a Board agenda. Lengthy contracting processes can result in project delays and increased costs.

These issues reportedly contributed to delays in some projects and limited effective contract management overall. Given the level of contracting for services and construction at Valley Water, these issues present an ongoing risk for future iterations of the Program. To support more effective practices, Valley Water should conduct robust training and establish annual refresher training for staff involved in contracting processes to support improved efficiency and effectiveness as it relates to contract development and management. At a minimum, this should include training related to:

- Reviewing and approving contracts, monitoring contracts, renewing contracts, and terminating contracts
- Contract development and management, including best practices for drafting contract language, monitoring contract performance, and ensuring compliance with laws and regulations
- Awareness building of available templates, such as RFP templates or contract templates for common contract or agreement types
- Training on other tips and tools, such as checklists for reviewing or managing contracts or assessing risks related to contracts



Such training will promote consistency in contracting practices and better support project managers who do not have contracting experience.



VI. APPENDIX A – PROCESS IMPROVEMENT OPPORTUNITIES

Moss Adams identified opportunities for process improvements as a result of the audit testing. The table below summarizes these opportunities.

CATEGORY		PROCESS IMPROVEMENT OPPORTUNITIES
1	Change Control Processes	<p>Valley Water implemented a change control process in 2016 that detailed how adjustments and modifications could be made to project and KPI text, schedules, and funding. Based on testing a sample of 10 changes between FY 2017 and FY 2021 (three text adjustments, four schedule adjustments, and three modifications), changes were largely processed in accordance with change control processes with one minor exception.</p> <p>We were unable to verify that an email notice was sent to the Blue Ribbon Committee (BRC) for the three modifications tested, as required by the process. The change control process required Valley Water to notify all stakeholders of proposed changes and lists the BRC as a constituent. Program staff reported the BRC's main purpose was to help develop the 2012 Program and that it was disbanded once the Program was developed and implemented. The change control process should be updated to remove the email notice requirement for the BRC to represent the current operating environment and practices more accurately. Valley Water staff reported they will be bringing a change forward to the Board in Fall 2023 to remove this requirement from the change control process</p>
2	Low Income Senior Property Tax Exemption Forms	<p>During our testing to determine whether requestors for the low-income senior property tax exemption were eligible according to the Program, we noted that the Low-Income Senior Property Tax Exemption Form used to document the application and approval could be improved. Valley Water should consider updating the Low-Income Senior Property Tax Exemption Form to include a section specific for Valley Water notations and approvals. This section should be identified as "For Valley Water Use Only" and might include lines for account number, driver's license verification, initials of approver, and date approved.</p>



CATEGORY		PROCESS IMPROVEMENT OPPORTUNITIES
3	Special Tax Bill Calculations	<p>To test that property owners were billed the appropriate special tax amount according to Program requirements, we obtained the annual tax bills for five different property owners for each fiscal year in the audit period. During our testing we found:</p> <ul style="list-style-type: none">• One annual tax bill for a property owner was overbilled by \$1.63 based on the designated tax assessment for that land use type for that fiscal year. The property owner was billed \$32.36, but the set assessment for the land use B category was \$30.73 for the 2017–2018 tax year.• Two annual tax bills for the same property owner in land use category E were overbilled by \$2.21 and \$3.38 for the 2016–2017 and 2017–2018 tax years, respectively. This recalculation was based on acres of property owned, and we obtained the property acreage from the Santa Clara Assessor’s website.• One annual tax bill for a property owner increased from the prior tax bill by more than the allowed percentage change based on the Consumer Price Index (CPI) change. The CPI change for tax year 2017–2018 was 3.44%, but this property owner’s special tax assessment increased 3.50% from the prior tax year. The effect of the overbilling rounds to \$0.02. <p>Although these amounts are relatively immaterial, we recommend that Program administration reviews special tax calculations for future programs at least every two years. This review might include performing spot checks on a sample of property owners across different land use categories to ensure that the proper special tax has been assessed.</p>
4	Document Retention	<p>In three instances across our different testing procedures, Valley Water was unable to provide supporting documentation for our testing requests. Two of these instances pertained to a special tax correction, and the other instance pertained to the Special Tax Board Resolution being confirmed with the County Controller-Treasury Department. However, in all instances, the Valley Water Board had approved the items at the time, and Valley Water provided evidence of this Board approval. We recommend that Valley Water enact and follow document retention policies and procedures until the respective program has been fully closed and audited (if required).</p>

VII. APPENDIX B – MANAGEMENT RESPONSE

Finding 1: Valley Water does not have a conflict-of-interest policy that applies to the Independent Monitoring Committee (IMC) members. Conflicts of interest, whether real or perceived, can harm the Program's reputation and integrity.	
Recommendation	Management Response/Implementation Plan
1 Develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures.	
Finding 2: According to a 2021 performance audit, grant management and administration during the 2012 Program experienced challenges with processes, timeliness, and reporting.	
Recommendation	Management Response/Implementation Plan
2 Continue implementation of the remaining recommendations made in the 2021 grants management and administration performance audit.	
Finding 3: Some Program KPIs relied on external organizations for completion, which made them more difficult to achieve on schedule. Additionally, some KPIs were based on outputs instead of outcomes, which created limitations in the measurement of the Program's impact on the community.	
Recommendation	Management Response/Implementation Plan
3 Examine KPIs in future iterations of the Program and make revisions as needed to better reflect KPIs that are within Valley Water's control and focus on outcome-based KPIs. Where KPIs are not able to be fully within Valley Water's control, consider defining Valley Water's level of responsibility (e.g., primary or contributing responsibility) and develop strategies for addressing external factors that limit the ability of the KPIs to be achieved.	
Finding 4: While Valley Water's practices related to external coordination are largely aligned with best practice, a high degree of interjurisdictional complexity resulted in some capital projects being delayed.	
Recommendation	Management Response/Implementation Plan
4 In future iterations of the Program, implement strategies to improve project continuity for projects heavily reliant on external agency cooperation, including strategies to prioritize knowledge transfer, project documentation, and relationship building at multiple levels.	
Finding 5: The effectiveness of contract development and management processes was limited by a lack of standardization, employee training, and lengthy reviews.	
Recommendation	Management Response/Implementation Plan
5 Conduct robust training and establish annual refresher training for staff involved in contracting processes.	



MOSSADAMS

THIS PAGE INTENTIONALLY LEFT BLANK

Summary of Recommendations and Management Response

Recommendation		Responsible Party	Management's Response/ Implementation Plan
1	<p>Finding: Valley Water does not have a conflict-of-interest policy that applies to the Independent Monitoring Committee (IMC) members. Conflicts of interest, whether real or perceived, can harm the Program's reputation and integrity.</p> <p>Recommendation: Develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures.</p>	Chief of Staff/ District Counsel	<p><input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p>1. Management agrees with the recommendation. Staff will evaluate the processes and committees to which the conflict-of-interest policy would be applicable. A plan and policy are expected to be in place by October 2024.</p> <p>Implementation Date: 1. Estimated to be fully implemented by October 2024</p>
2	<p>Finding: According to a 2021 performance audit, grant management and administration during the 2012 Program experienced challenges with processes, timeliness, and reporting.</p> <p>Recommendation: Continue implementation of the remaining recommendations made in the 2021 grants management and administration performance audit.</p>	Office of Community Engagement	<p><input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p>2. Management agrees with this recommendation to continue implementing the recommendations made in the 2021 grants management and administration performance audit. Of the 11 audit recommendations, seven have been implemented and four remain in progress and on target to be implemented with the completion of the grants redesign. Staff will continue to provide bi-annual updates to the Board Audit Committee until all recommendations are achieved.</p> <p>Implementation Date: 2. Estimated to be fully implemented by Q2, FY25.</p>

3	<p>Finding: Some Program KPIs relied on external organizations for completion, which made them more difficult to achieve on schedule. Additionally, some KPIs were based on outputs instead of outcomes, which created limitations in the measurement of the Program's impact on the community.</p>		<p><input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p>
	<p>Recommendation: Examine KPIs in future iterations of the Program and make revisions as needed to better reflect KPIs that are within Valley Water's control and focus on outcome-based KPIs. Where KPIs are not able to be fully within Valley Water's control, consider defining Valley Water's level of responsibility (e.g., primary or contributing responsibility) and develop strategies for addressing external factors that limit the ability of the KPIs to be achieved.</p>	<p>Business Planning and Analysis Unit</p>	<p>3. Staff acknowledges the recommendation and sees the upcoming independent audit of the renewed Safe, Clean Water and Natural Flood Protection Program (Renewed Program Audit) as the appropriate opportunity to review the KPIs. The renewed Program replaced the 2012 Program in its entirety and includes a new priority, new projects, and KPIs. The renewed Program replaced the 2012 Program in its entirety and includes a new priority, new projects, and KPIs. The renewed Program has three categories of KPIs, namely Performance-based, requiring completion of a specific activity; Fiscal-based, requiring full allocation to be expended to accomplish desired outcomes; and Schedule-based, requiring project completion according to a timeline, and these will be reviewed as part of the Renewed Program Audit.</p> <p>Background: The Safe, Clean Water Program Resolution No. 20-64, Section Q states "While the Safe, Clean Water and Natural Flood Protection program is in effect, the Board of Directors shall conduct independent professional audits of the Program to provide for accountability and transparency at least every five years." Following a recommendation from the Independent Monitoring Committee in February 2023, the Board approved two separate audits: a closeout audit for the 2012 Program (the current audit) and a distinct audit for the renewed Safe, Clean Water Program. The renewed Program, which voters approved in 2020 and became effective on July 1, 2021, is now in its third year of implementation. Staff expects to engage an auditor for the renewed Program by the end of Q4, FY2024 and will share the 2012 Program closeout audit recommendations with the new auditor.</p> <p>Implementation Date: 3. Estimated to be fully implemented by Q4, FY2025.</p>

4	<p>Finding: While Valley Water's practices related to external coordination are largely aligned with best practice, a high degree of interjurisdictional complexity resulted in some capital projects being delayed.</p> <p>Recommendation: In future iterations of the Program, implement strategies to improve project continuity for projects heavily reliant on external agency cooperation, including strategies to prioritize knowledge transfer, project documentation, and relationship building at multiple levels.</p>	Business Planning and Analysis Unit	<div data-bbox="1312 198 1556 235"> <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree </div> <p>4. The renewed Safe, Clean Water Program's annual report thoroughly outlines the jurisdictional complexities of Safe, Clean Water capital projects on a project-specific level. It specifies the involved jurisdictions, such as funding agencies, regulatory permitting bodies, cities, counties, and other agencies, rating their confidence levels using a five-point scale ranging from Very High to Low. The annual report includes detailed information within individual project updates, and Appendix C consolidates the confidence levels for all capital projects.</p> <p>The implementation of the recommendation has been completed through the implementation of the following program, processes, and project-level improvements. However, we are committed to ongoing refinement of our process and continue to look for opportunities to improve.</p> <p>Program Level:</p> <p>In response to the 2019 Construction Contract Change Order Management and Administration audit, which focused on change order management and administrative activities for large capital construction projects, staff has developed the Capital Project Management and Project Controls (CPMPC) Program under the Business Planning and Analysis Unit, which is responsible for the development and implementation of Projectmates, Valley Water's new capital Project Management Information System (PMIS).</p> <p>Projectmates promotes cross-functional collaboration and knowledge transfer by acting as a system for document management across all phases of capital projects; providing contracts management and project budget tools, including invoicing, pay application processing, change orders; and supporting workflows during construction. The system engages both internal and external project staff in the areas of task management, scheduling, milestones, action lists, punch lists, and meeting minutes. Additionally, maintaining the documents in Projectmates allows for a seamless knowledge transfer between project phases or during staff transition.</p> <p>Process Level:</p> <p>Furthermore, Valley Water addresses outreach and engagement, including external agency coordination and engagement through the CIP, Capital QEMS processes and capital project delivery level as follows.</p> <ul style="list-style-type: none"> At the Program level engagement - As part of the annual Capital Improvement Program Five-Year Plan approval process the Draft plan is released for a 60-day public review period. This outreach is to all land use agencies having land use authority within Valley Water boundaries to ensure alignment with their General
---	--	-------------------------------------	---

		<p>Plans. Additionally, VW staff is in the process of creating an over-arching CIP Development Manual to serve as an umbrella policy for capital QEMS procedures to document all existing CIP procedures and practices, which already include outreach and engagement requirements for VW's Capital Improvement Program.</p> <ul style="list-style-type: none">• CPMPC takes the lead in coordinating with capital project teams to keep Valley Water's Capital quality management (QEMS) documents up to date and to facilitate mandatory biennial capital staff training. Each training session focuses on varying quality management aspects, highlighting updates, industry standards and best practices. CPMPC also coordinates the Technical Review Committee's annual lessons learned training as well as the Capital Improvement Program's annual CIP training.• Outreach and engagement steps are referenced in VW's Capital Project Delivery Process (QEMS Form F-751-093). At several project milestones and phase transitions Capital Projects require Board engagement and action, where the public is informed and encouraged to recommend and engage in the Capital Project Delivery Process. <p>Project Level:</p> <p>Additionally, relationship building for projects with high jurisdictional complexities is proactively managed by the respective capital deputies and unit managers. Depending on the complexity and urgency of the project, Valley Water has regular meetings at multiple levels with different agencies, jurisdictions, and partners to build relationships and establish continuity. These meetings could be held at project managers, deputies, ACEO, and the CEO levels. Additionally, Valley Water may establish project task forces or fund positions at regulatory agencies to facilitate the progress of Valley Water projects.</p> <p>Implementation Date: 4. Completed Q3, FY 2023.</p>
--	--	---

5	<p>Finding: The effectiveness of contract development and management processes was limited by a lack of standardization, employee training, and lengthy reviews.</p>		<p><input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p>
	<p>Recommendation: Conduct robust training and establish annual refresher training for staff involved in contracting processes.</p>	<p>Purchasing and Consultant Contracts Services Unit</p>	<p>5. Valley Water began using ISO/QEMS in the early 2000s to standardize and document processes across the agency. While we may have faced challenges in the past, Valley Water did have standardized processes in place since 2010 for contract development and management processes.</p> <p>Staff have made strides in addressing these process and training concerns through the creation of documented processes, development of manuals, and training programs that have been implemented to enhance employees' understanding of standardized procedures, ensuring that staff are well-equipped to navigate contract development and management efficiently. Moreover, streamlined review processes and the establishment of standardized protocols have contributed to a more effective and expedited workflow. The ongoing commitment to training and process optimization reflects staff's proactive approach to overcoming previous limitations, ultimately improving the overall effectiveness of contract development and management.</p> <p>Implementation Date: 5. Completed by Q4, FY 2010.</p>

Summary of Process Improvement Opportunities and Management Response

CATEGORY		PROCESS IMPROVEMENT OPPORTUNITIES	MANAGEMENT RESPONSE
1	Change Control Processes	<p>Valley Water implemented a change control process in 2016 that detailed how adjustments and modifications could be made to project and KPI text, schedules, and funding. Based on testing a sample of 10 changes between FY 2017 and FY 2021 (three text adjustments, four schedule adjustments, and three modifications), changes were largely processed in accordance with change control processes with one minor exception.</p> <p>We were unable to verify that an email notice was sent to the Blue Ribbon Committee (BRC) for the three modifications tested, as required by the process. The change control process required Valley Water to notify all stakeholders of proposed changes and lists the BRC as a constituent. Program staff reported the BRC's main purpose was to help develop the 2012 Program and that it was disbanded once the Program was developed and implemented. The change control process should be updated to remove the email notice requirement for the BRC to represent the current operating environment and practices more accurately. Valley Water staff reported they will be bringing a change forward to the Board in Fall 2023 to remove this requirement from the change control process</p>	<p>On November 14, 2023, the Board approved the updated Change Control Process for the renewed Safe, Clean Water Program. The 2016 Change Control Process was updated to align it with the renewed Safe, Clean Water Program that voters approved in November 2020 and came into effect in FY22. The updates included removing the requirement to email public hearing notices to the BRC.</p> <p>Similar to the 2012 Program, during the development of the renewed Program, Valley Water hosted a Blue-Ribbon Forum solely to receive feedback while developing the renewed Program. It was part of the comprehensive and extensive public outreach effort to engage residents, community members, and stakeholders to develop the Program. The forum was discontinued once the Program was developed and put on the ballot.</p>
2	Low Income Senior Property Tax Exemption Forms	<p>During our testing to determine whether requestors for the low-income senior property tax exemption were eligible according to the Program, we noted that the Low-Income Senior Property Tax Exemption Form used to document the application and approval could be improved. Valley Water should consider updating the Low-Income Senior Property Tax Exemption Form to include a section specific for Valley Water notations and approvals. This section should be identified as "For Valley Water Use Only" and might include lines for account number, driver's license verification, initials of approver, and date approved.</p>	<p>Staff appreciates this recommendation; it will be implemented for the upcoming 2024 tax year application.</p>

3	Special Tax Bill Calculations	<p>To test that property owners were billed the appropriate special tax amount according to Program requirements, we obtained the annual tax bills for five different property owners for each fiscal year in the audit period. During our testing we found:</p> <ul style="list-style-type: none"> • One annual tax bill for a property owner was overbilled by \$1.63 based on the designated tax assessment for that land use type for that fiscal year. The property owner was billed \$32.36, but the set assessment for the land use B category was \$30.73 for the 2017–2018 tax year. • Two annual tax bills for the same property owner in land use category E were overbilled by \$2.21 and \$3.38 for the 2016–2017 and 2017–2018 tax years, respectively. This recalculation was based on acres of property owned, and we obtained the property acreage from the Santa Clara Assessor’s website. • One annual tax bill for a property owner increased from the prior tax bill by more than the allowed percentage change based on the Consumer Price Index (CPI) change. The CPI change for tax year 2017–2018 was 3.44%, but this property owner’s special tax assessment increased 3.50% from the prior tax year. The effect of the overbilling rounds to \$0.02. <p>Although these amounts are relatively immaterial, we recommend that Program administration reviews special tax calculations for future programs at least every two years. This review might include performing spot checks on a sample of property owners across different land use categories to ensure that the proper special tax has been assessed.</p>	<p>Recommendation is noted and appreciated.</p> <p>In response to the first bullet point, and after additional research, this property had a land use category change as provided in data from the County in 2017. Previously the parcel was open land around 4.5 acres. It was then split into nearly 60 parcels as Condo/Townhouses.</p>
4	Document Retention	<p>In three instances across our different testing procedures, Valley Water was unable to provide supporting documentation for our testing requests. Two of these instances pertained to a special tax correction, and the other instance pertained to the Special Tax Board Resolution being confirmed with the County Controller-Treasury Department. However, in all instances, the Valley Water Board had approved the items at the time, and Valley Water provided evidence of this Board approval. We recommend that Valley Water enact and follow document retention policies and procedures until the respective program has been fully closed and audited (if required).</p>	<p>Following the audit, staff was able to provide documentation for the two tax corrections. Valley Water staff continues to follow established document retention policies and procedures, as reflected in the “Santa Clara Valley Water District Records Retention Schedules” adopted by the Board of Directors on 8/22/2023.</p>

THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 24-0137

Agenda Date: 3/20/2024

Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Discuss the Results of the Board Audit Committee's (BAC) Annual Self-Evaluation for Calendar Year (CY) 2023.

RECOMMENDATION:

Discuss the results of the BAC's 2023 Annual Self-Evaluation for CY 2023.

SUMMARY:

The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential audit priorities, and to review, update, plan, and coordinate execution of Board-directed audits.

On December 12, 2023, the Board approved the latest revision of the BAC Audit Charter that provides detailed guidance regarding how the BAC should carry out its functions and to guide the work of the Chief Audit Executive (CAE), Sjoberg Evashenk Consulting, Inc.

According to Article 9, paragraph 4 of the BAC Audit Charter, the BAC shall conduct a self-evaluation of its performance annually. The Committee shall conduct the evaluation of its performance to determine whether it is functioning effectively and to discuss with the Independent Auditor any observations related to the effectiveness of the Committee. The Committee shall prepare a formal report based upon each such self-evaluation and shall provide such report to the full Board following its adoption by the Committee.

At its January 17, 2023, BAC meeting the committee discussed potential approaches to the self-evaluation process, including the use of questionnaires and interviews, and requested the CAE to schedule interviews with each member of the BAC to obtain insight regarding the Committee's performance as well as opportunities for improvement.

Interviews with BAC members occurred between February 2 and February 8, 2024. Consistent with prior years, members of the BAC generally agreed that the overall governance and activities of the

committee were aligned with its charter; members have a clear understanding of the role and responsibility of the BAC, strive to ensure the BAC acts independently of Valley Water management, meet regularly as scheduled, adhere to the annual work plan, maintain open lines of communication with the Independent auditor, engage in ongoing assessments of corrective action taken by management in response to audit findings and recommendations, routinely evaluate risk and systems of internal control, and strive for continuous improvement. However, members did raise specific areas where improvements may be achieved, and value added. These include:

- Promoting transparency by developing a way to report on improvements that Valley Water has made as a result of the audit process-e.g., the results or outcomes of Board-directed audits, management audits, and other audits, repository of Board-commissioned audits
- Streamlining the iterative process currently employed to develop the Annual Audit Work Plan, recommend the plan to the full Board, identify auditors to conduct the audits, etc.-the process takes months and delays the start of audits into the second quarter
- Ensuring broad audit coverage of Valley Water's programs and activities
- Consider developing a protocol to allow for audit follow-on work after the completion of an audit engagement to address additional questions raised by Committee or Board members during discussions of Board- or management-directed audits
- Continuing to emphasize Valley Water's collaborative approach to audits, focusing on continuous improvement while minimizing the potentially adversarial nature of audits and building buy-in from management and staff

The purpose of this agenda item is to discuss the results of the 2023 annual self-evaluation.

ENVIRONMENTAL JUSTICE AND EQUITY IMPACT:

The Annual Self-evaluation topic is not subject to environmental justice analysis. The discussion is an opportunity for the BAC members to identify areas where the committee is doing well, and/or areas where the committee could improve their efforts to meet the Board's priorities.

ATTACHMENTS:

None.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



Santa Clara Valley Water District

File No.: 24-0259

Agenda Date: 3/20/2024

Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Receive and Discuss Report from Independent Chief Audit Executive (CAE), Sjoberg Evashenk Consulting, Regarding Their Performance in Calendar Year (CY) 2023, and Evaluate Performance of CAE.

RECOMMENDATION:

- A. Receive and discuss report from the independent CAE, Sjoberg Evashenk Consulting, regarding their performance in CY 2023; and
- B. Evaluate the performance of the CAE.

SUMMARY:

The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

Per the BAC Charter, Article III, Paragraph 9, the BAC is tasked annually with evaluating Board Auditor performance.

On January 17, 2024, the Committee requested the CAE to prepare and submit the annual performance report. For this agenda item, the CAE will present the 2023 Annual Performance Report for consideration and evaluation.

ENVIRONMENTAL JUSTICE AND EQUITY IMPACT:

There are no environmental justice and equity impacts associated with the Annual Performance Report of the CAE.

ATTACHMENTS:

Attachment 1: 2023 Annual Performance Report of CAE

File No.: 24-0259

Agenda Date: 3/20/2024
Item No.: 4.3.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Client Memorandum

To: Board Audit Committee, Santa Clara Valley Water District

From: George Skiles, Partner, Sjoberg Evashenk Consulting, Inc.

Date: March 6, 2024

Subject: **2023 Annual Performance Report of the Independent Chief Audit Executive**

The Santa Clara Valley Water District (Valley Water) Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits. Since 2017, the BAC has engaged an Independent Board Auditor / Chief Audit Executive (CAE) to serve as an advisor to the BAC in fulfilling its duties, responsibilities, and functions; support its efforts to advance open and accountable government; assess operational risks and advise on potential audits to ensure the District is in compliance with its policies, procedures, and regulations; assist in preparing an annual program of audits with associated calendars, schedules and budgets; conduct Board-directed performance audits and other audit engagements; and prepare formal and informal reports and presentations to the Audit Committee and the full Board of Directors.

In 2022, the Board of Directors contracted with Sjoberg Evashenk Consulting, Inc., to serve as the independent Chief Audit Executive. The scope of services required of the independent Chief Audit Executive include:

- Provide advice and recommendations on audits of government programs
- Develop an annual audit program, calendar, and budget
- Conduct audits as directed by the Audit Committee
- Prepare and deliver formal and informal audit reports and presentations
- Attend Audit Committee and Board meetings
- Meet with District staff as needed
- Provide additional staff resources as determined by the Audit Committee
- Conduct certain audits as directed by the Board

Summary of 2022 Audit Activity

Below is a summary of the work performed by the Chief Audit Executive during the 2023 Calendar Year.

Attended Board and Board Committee Meetings

Sjoberg Evashenk Consulting attended all 11 Board Audit Committees held in 2023, and performed the following activities:

- Participated in Board Audit Committee planning and debrief meetings
- Reviewed agenda items
- Provided audit process guidance
- Researched and provided information on best practices for relevant subject areas
- Provided progress reports on ongoing audit activities completed

Sjoberg Evashenk Consulting also attended three other Board meetings, as well as two CIP Committee meetings, to discuss the audit of Valley Water's Capital Improvement Program, the districtwide risk assessment and proposed annual audit work plans.

In addition to our attendance at relevant Board meetings and Committee meetings, the CAE also monitored Board meetings by reviewing meeting videos and documentation posted subsequent to the meetings. Where the meetings were not directly related to audit activities, our efforts were not billed to Valley Water. It is our belief that such efforts increase our familiarity with Valley Water operations and help inform future audit decisions.

Completed 2023 Districtwide Risk Assessment

Section 7.4 of the BAC Charter states that the BAC shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, tri-annually. This risk assessment shall be used to inform the development of annual audit plans. In February 2023, the BAC requested the CAE to re-evaluate the 2021 Risk Assessment Report and 2022-2024 Annual Audit Work Plan, which was based on the 2021 Risk Assessment Report, and to identify audit topics for consideration for the 2023 Annual Audit Work Plan. Based on this review and input from the Board members, it was evident that the 2022-2024 Annual Audit Work Plan did not fully reflect the priorities of the Board. Much had changed in the two years since the risk assessment work was performed, including organizational changes resulting from the pandemic, management initiatives, and changes in Board composition. Because of this, the BAC authorized the completion of an updated risk assessment.

In the Fall of 2023, the CAE finalized the 2023 Risk Assessment, which included input from Valley Water's Board of Directors (the Board), executives, and management, and identified more than 30 potential audit topics for the BAC's consideration. With the intent to achieve broad audit coverage throughout the organization over a three-year period, the 2023 Risk Assessment prioritized 12 audit topics covering every major business area of Valley Water and recommended that Valley Water conduct four (4) audits per year.

Developed the Proposed BAC Annual Audit Plan

In support of the BAC's annual practice of identifying potential audit topics for the Board's consideration, Sjoberg Evashenk Consulting reviewed the recently completed 2023 Risk Assessment and provided input

regarding the potential audit topics identified in the Risk Assessment for BAC consideration. In consultation with the BAC, four audits were selected for inclusion in the 2024 Annual Audit Work Plan; specifically:

- 1) Capital Project Delivery
- 2) Compliance with and Progress Toward Meeting Board Policies
- 3) Human Resources
- 4) Information Technology

Sjoberg Evashenk Consulting developed and submitted the audit plan for discussion at the December 2024 BAC meeting. At the January 2024 Board meeting, the Board approved three (3) of the proposed topics to proceed as the 2024 Annual Audit Work Plan; the Capital Project Delivery audit topic was delayed to Calendar Year 2025 to allow staff time to fully implement recommendations from prior audits.

Conducted Audit Training

The BAC Audit Charter (Article 10, Paragraph 3) requires the Board Independent Auditor shall provide the Committee with training related to Audit Principles, Practices, or Standards at least every two years. Audit training typically includes topics relating to auditing standards or some aspect of the audit process. At the request of the BAC, the CAE presented training at the September 2023 BAC meeting on the topic of the overall audit process, including risk assessment, audit selection, audit planning, fieldwork, and reporting.

Supported efforts to update the BAC Audit Charter

Beginning in 2020, with advice from the BAC's prior CAE, the BAC revisited and updated the Audit Charter as part of its annual review as described in its Annual Performance Work Plan. This effort continued in 2023. The Valley Water's Board Audit Committee Audit Charter serves to administer a framework for providing the BAC oversight of the governance, risk management, and audit activities of Valley Water. The Audit Charter also describes the general responsibilities of the Independent Auditor. To support the BAC's work, Sjoberg Evashenk Consulting reviewed the proposed revisions to the Audit Charter, particularly as they related to the Committee's review of draft audit reports and its role in reviewing the audit reports of Joint Powers Authorities for which Valley Water is a member agency. We also reviewed the Audit Charter to assess its general alignment with established professional auditing standards, such as those promulgated by the Institute of Internal Auditors (i.e., the *International Standards for the Professional Practice of Internal Auditing*). A revised Audit Charter was approved by the Board of Directors on December 12, 2023.

Completed One Audit Engagement

In July 2022, Sjoberg Evashenk Consulting commenced the Performance Audit of Valley Water's Capital Improvement Program (CIP). The audit objectives are to evaluate the capital project planning process employed by Valley Water to determine the extent to which the process is consistent with relevant requirements, policies, and best practices. This audit experienced delays in the Fall of 2022 due to the availability of Valley Water personnel. A draft of this audit report was completed in Spring 2023 and the final

report was issued in August 2023. The report included seven (7) audit recommendations; Valley Water management agreed with the recommendations and developed an implementation plan.

Began Board Audit Follow-Up Reviews

In 2022, as directed by the BAC, Sjoberg Evashenk provided input regarding best practices in public sector audit committees. Sjoberg Evashenk Consulting conducted research of professional standards and best practices, met with Valley Water personnel responsible for overseeing and administering the audit follow-up process, and reviewed past audit follow-up reporting provided to the BAC, particularly reporting related to the status of outstanding or un-implemented audit recommendations. In 2023, at the direction of the BAC, Valley Water management modified its process for reporting on the status of prior audit recommendations. This included requiring the CAE to conduct audit follow-up reviews on Board-directed audits and having Valley Water management continue its follow-up efforts related to all non-Board audits. Based on this direction, Sjoberg Evashenk Consulting initiated reviews of four prior Board-directed audits:

- 2014 Transparency Compliance Audit
- 2019 Contract Change Order Audit
- 2020 District Counsel Audit
- 2020 Real Estate Services Audit.

As noted at the February 23 BAC, the CAE will perform follow-up work on these Board-directed audits as part of the annual audit planning cycle.

Financial Overview

In 2023, Sjoberg Evashenk Consulting charged Valley Water about \$242,587 for audit and support services, as shown in Table 1.

Exhibit 1: 2023 Independent Auditor Charges

Audit Services (audits)	\$177,752.00
Support Services	
General Audit Committee Services	\$32,520.00
Project Management	\$32,315.00
Total	\$242,587.00

Conclusion

Sjoberg Evashenk Consulting is proud to be a partner with Valley Water and a part of the larger transparency and accountability apparatus established by Valley Water, which includes the BAC, Board audit function, Valley Water's management audit function, and general governance responsibilities. We look forward to working with the BAC in its efforts to promote continuous improvement, furthering the development of the Board audit function through the addition of one or more independent audit firms, and continuing to build and strengthen Valley Water's audit functions.



Santa Clara Valley Water District

File No.: 24-0262

Agenda Date: 3/20/2024

Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Discuss Process and Scope of 2024 Annual Audit Training from Chief Audit Executive.

RECOMMENDATION:

Discuss process and scope of 2024 Annual Audit Training from Chief Audit Executive.

SUMMARY:

The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

Per Article 9, paragraph 3 of the BAC Audit Charter, the Board Independent Auditor shall provide the Committee with annual training related to Audit Principles, Practices, or Standards.

- Audit Training may include training on auditing standards, the audit process, and financial statement audits. For example, potential audit topics include, but are not limited to, the following:
- Audit standards, including Generally Accepted Government Auditing Standards issued by the Government Accountability Office and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
- Incorporating Diversity, Equity, and Inclusion in performance auditing in the public sector.
- Auditing construction projects.
- Auditor independence and avoiding potential conflicts of interest.
- Fundamentals of Internal Control in public sector agencies.
- Best practices of board audit committees in the public sector.
- Fraud in Government

The purpose of this item is to discuss the process and scope of the training to be provided by the CAE.

ENVIRONMENTAL JUSTICE AND EQUITY IMPACT:

The BAC Annual Audit Training is not subject to environmental justice analysis. Training is an essential task that ensures the BAC and other Board members are kept up to date regarding the latest principles and best practices of auditing.

ATTACHMENTS:

None.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



Santa Clara Valley Water District

File No.: 24-0261

Agenda Date: 3/20/2024

Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Discuss Proposed Updates to the Board Audit Committee Audit Charter and Provide Further Direction as Needed.

RECOMMENDATION:

- A. Discuss Proposed Updates to the Board Audit Committee Audit Charter; and
- B. Provide Further Direction as Needed.

SUMMARY:

The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits. On September 26, 2018, the BAC directed that an Audit Committee Charter be developed, and on August 27, 2019, the Board formally approved the BAC Audit Charter. The BAC Audit Charter was last amended by the Board at its regular meeting on December 12, 2023.

A. Recommended Changes

Article X, Section 1 of the Charter states that the BAC shall periodically review the Audit Charter and make any recommendations to the Board for final approval. In accordance with this requirement, the following recommended changes are proposed:

First, the current charter includes requirements for an "Annual Work Plan" defining the BAC's activities (Charter, Article III, Section 6) and an "Annual Audit Work Plan" which is approved by the Board and defines the actual audits that will be undertaken (Charter, Article III, Section 7). The similarity in these names has occasionally caused uncertainty in discussions, so it is recommended that "Annual Audit Work Plan" be renamed "Annual Audit Plan" for clarity.

Second, the Board's Independent Auditor has suggested including an annual deadline for the BAC to submit its recommended Annual Audit Plan to the full Board for consideration and direction.

Proposed revisions to Article III, Section 7.2 are included in the attached, red-lined Charter (Attachment-1) with a November 30th deadline and some additional revisions for clarity.

Input is sought from the BAC regarding these two recommendations.

B. BAC Input Regarding Further Charter Changes

Input is also requested from the BAC regarding any additional modifications to propose for the Charter. Once a final set of changes has been approved by the BAC, the proposed updated Charter would be presented to the full Board for approval.

ENVIRONMENTAL JUSTICE AND EQUITY IMPACT:

The BAC Charter is not subject to environmental justice analysis. The BAC Charter serves as a guide utilized by the BAC to describe how the BAC will carry out its function as it relates to the Board's priorities.

ATTACHMENTS:

Attachment 1: Red-lined Board Audit Committee Charter

Attachment 2: PowerPoint

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



**SANTA CLARA VALLEY WATER DISTRICT
BOARD AUDIT COMMITTEE
AUDIT CHARTER**

ARTICLE I - PURPOSE

1. This Charter shall govern the operation of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee).
2. Valley Water's Board of Directors (Board) is responsible for ensuring that Valley Water provides Silicon Valley with safe, clean water for a healthy life, environment, and economy.
3. Audits constitute an important oversight tool as they provide independent and fact-based information to an agency's elected officials and management. Information derived from audits can be used by those responsible with governance and oversight to use it to improve program performance and operations, confirm regulatory compliance, reduce costs, and facilitate decision making.
4. The Committee shall assist the Board, consistent with direction from the full Board, by identifying potential areas for audit and audit priorities, and to review, update, plan and coordinate execution of Board audits.
5. Through its oversight of the audit process, the Committee serves a critical role in providing oversight of Valley Water's governance, risk management, ethics program, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. It is the Committee's responsibility to provide the Board with independent, objective advice on the adequacy of Valley Water management's arrangements with respect to the aspects of the management of Valley Water being evaluated.
6. In carrying out its functions, the Committee shall emphasize: (a) the identification of organizational risk; (b) service delivery; (c) operational efficiency; (d) effectiveness of Valley Water programs; (e) project delivery; (f) establishment of an Annual Workplan and an Annual Audit Workplan to guide the Committee's work; and (g) oversight and monitoring of Valley Water operations and compliance with all applicable regulatory requirements.
7. In addition to carrying out audits in a Board approved Annual Audit ~~Work~~-Plan, the Committee's purpose also includes oversight of audits initiated by Valley Water management, review and comment upon final audits initiated by third-party governmental or administrative agencies, and the conduct of Limited Investigations of potential fraud, waste or violations of law or policy as set forth herein. The

Committee's oversight of Annual Financial Statement Audits shall include the additional elements set forth in Article VIII herein.

8. The Committee shall serve to reinforce the wholeness of the Board's job and shall never interfere with delegation from the Board to the Board Appointed Officers.
9. Through its oversight of the audit process, the Committee shall provide the Board with independent advice and guidance regarding the adequacy and effectiveness of Valley Water's management practices and potential improvements to those practices.

ARTICLE II - COMPOSITION

1. Number of Committee members/Appointment - The Committee shall consist of at least three members of the Board and shall be appointed by the Board in accordance with the Board's Governance Policies. Committee members shall serve one-year terms.
2. Quorum - The quorum for the Committee shall be a majority of the members.
3. Committee Chair - A Committee Chair shall be elected by a majority of the Committee at the first Committee meeting of the calendar year and shall serve for a one-year term. The Committee Chair shall be responsible for approving agendas for Committee meetings (which shall include the right to add agenda items and, subject to the restrictions of Governance Process sections 6.3 and 6.3.1, review agenda items prior to posting agendas), approving the payment of invoices to Auditors, and making all initial efforts to resolve any conflicts that may arise during an audit, including but not limited to meeting with auditors and Valley Water executive management to discuss audit results and corrective action plans. To the extent the Chair is unable to resolve conflicts arising during the audit, the matter shall be referred to the Committee for attempted resolution.
4. Committee Vice-Chair - A Committee Vice-Chair shall be elected by a majority of the Committee at the first Committee meeting of the calendar year and shall serve for a one-year term. The Vice-Chair shall assume the duties of the Chair during the Chair's absence.

ARTICLE III – OPERATIONAL PRINCIPLES

1. Committee Values. The Committee shall conduct itself in accordance with Valley Water's values as set forth in Valley Water's Governance Policies of the Board of Directors, Governance Process No. GP-7 (Values Statement).

2. Communications – The Committee expects that all communication with management and staff of Valley Water as well as with any external auditors will be direct, open, and complete. The Committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The Committee will communicate directly with the Board and will not exercise actual authority over Valley Water employees.
3. Disclosure of Impairment to Independence – The Auditor shall disclose the details of any audit-related impairment in fact or in appearance to the Committee (e.g., one which threatens the ability to carry out audit responsibilities in an unbiased manner, including matters of audit identification, scope, procedures, frequency, timing, and report content).
4. Access to Information - Except where action by the full Board is required (such as for the waiver of a legal privilege), the Committee shall have unrestricted access to records, data, reports, and all other relevant information it consider necessary to discharge its duties. If access to requested documents is denied due to legal or confidentiality reasons, the Committee shall follow any prescribed, Board approved mechanism for resolution of the matter.
5. Authority – This Charter sets out the authority of the Committee to carry out the responsibilities established for it by the Board. In the event of any conflict between this Charter and either the District Act or the Board Governance Policies, the provisions of the District Act and Board Governance Policies shall prevail.
6. Annual Work Plan –
 - 6.1. Work Plans are used by all Board Committees to increase Committee efficiency, provide increased public notice of intended Committee discussions, and enable improved follow-up by Valley Water staff. Work Plans are dynamic documents managed by Committee chairs and are subject to change. Annual Work Plans establish a framework for committee discussion and action during the annual meeting schedule. Committee Work Plans also serve as Annual Committee Accomplishments Reports.
 - 6.2. The Committee shall, in coordination with Valley Water’s Clerk of the Board, develop a proposed Annual Work Plan. Items shall be included in the Annual Work Plan based upon a majority vote of the Committee.

7. Annual Audit Work Plan

7.1. While the Annual Work Plan governs the overall work of the Committee, the Committee shall also develop a proposed “Annual Audit Work Plan” which shall list each of the individual audits to be performed over the course of the year.

7.2. By November 30 of each year~~At least annually~~, the Committee shall ~~develop and submit its recommended a proposed~~ Annual Audit Work Plan to the full Board for consideration and ~~approval~~direction. ~~Following the Board’s adoption of the Annual Audit Plan, the Committee shall execute the Annual Audit Plan. such Board consideration and approval, the Annual Audit Work Plan shall be automatically updated to include any additional audits formally referred to the Committee by the full Board.~~ Any proposed substantive changes to the Annual Audit Work Plan (e.g., combining audits, adding or removing an audit, or significantly delaying initiation of an audit) must be approved by the Board. Recommended changes should be evidence based.

7.3. Only audits properly included in an approved Annual Audit Work Plan, as set forth in section 7.2 above, may be undertaken by the Committee.

7.4. Risk Assessment – The Committee shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, tri-annually and to annually update Valley Water-wide audit risk assessment to include objectively recommended audits ranked based upon the potential level of risk to Valley Water. The results of this Valley Water-wide audit risk assessment should be relied upon to develop the proposed Annual Audit Work Plan.

8. Valley Water Independent Auditor – Upon approval of the Board following recommendation by the Committee, Valley Water may retain an Independent Auditor to serve as support to the Committee, to make recommendations for the Annual Work Plan, and to recommend audits for inclusion in the Annual Audit Work Plan. The Independent Auditor shall not be an employee of Valley Water. The Independent Auditor must report directly to the Audit Committee but is subject to the final authority of the Board. Valley Water staff shall not direct or attempt to direct the work of the Independent Auditor. The Committee may recommend that the Independent Auditor perform individual audits but shall ensure that additional auditors are recommended for use in planned audits so that no single firm conducts a disproportionate number of audits in a given fiscal year.

9. Committee Evaluation of Auditor Performance – The Committee shall evaluate the performance of the Independent Auditor and any other Auditor retained by the Board. The Committee may make a recommendation to the Board to discharge

such Independent Auditors or other Auditors where they are not adequately fulfilling their contracted duties.

10. Preparation and Attendance – Committee members are obligated to prepare for and participate in Committee meetings.
11. Conflicts of Interest – It is the responsibility of Committee members to disclose any conflict of interest or appearance of a conflict of interest to the Committee regarding any matters coming before or considered by the Committee.

ARTICLE IV – MEETINGS

1. Meeting Agendas – Guided by the Audit Charter, Annual Work Plan, and Annual Audit Work Plan, the Committee Chair will establish agendas for Committee meetings in consultation with Committee members, Valley Water Management, and the Clerk of the Board.
2. Meetings – The Committee will conduct its meetings in accordance with the provisions of the Brown Act. The Committee shall meet at least four times per year. Beyond this minimum, there shall be no limit to the number of meetings held over the course of the year.

ARTICLE V – AUDIT PRINCIPLES

1. Audit Purposes – Audits can serve several purposes including, but not limited to:
 - a. Verifying that programs, services, and operations are working based upon the Committee’s understanding;
 - b. Assuring efficiency and effectiveness;
 - c. Identifying the root cause of any problems experienced by Valley Water;
 - d. Assessing future risks facing Valley Water;
 - e. Assessing the progress of prior audit recommendations;
 - f. Identifying any impact that changes in Valley Water operations have had on financial performance and service delivery;
 - g. Identifying leading practices;
 - h. Assessing regulatory compliance;
 - i. Developing policy options; and
 - j. Assessing the accuracy of financial information reported by Valley Water.
2. Audit Types – The types of audits that may be conducted on behalf of Valley Water include, but are not limited to, the following:

- a. Financial audits – Valley Water hires an outside independent audit firm to perform Valley Water’s financial statement audit;
 - b. Internal audits – Internal audits (aka, Management Audits) review the environment, information, and activities that are designed to provide proper accountability over Valley Water operations;
 - c. Compliance audits – Compliance audits review adherence to Valley Water policies and procedures, state regulatory requirements, or federal regulatory requirements;
 - d. Performance audits – Performance audits review the economy, efficiency, and effectiveness of Valley Water’s programs, services and operations. Performance audits can evaluate current impact or assess operations prospectively;
 - e. Desk reviews – Small and quick assessments of limited size or duration for the purpose of determining if a full performance audit is needed. Board approval is not required for Desk reviews, however the Committee shall, as soon as is practicable, provide the Board with notice following the Committee’s approval to initiate any Desk review;
 - f. Follow up audits – Audits evaluating to what extent prior audit recommendations have been implemented. Follow up audits may also assess other actions taken to respond to or prevent the occurrence of problems;
 - g. Best practice reviews – Audits which compare current Valley Water operations to best practices.
 - h. Program audits – Program audits are conducted to evaluate whether a particular Valley Water program is effectively accomplishing its goals and are mandated pursuant to state or federal statute or regulation, ordinance, resolution, ballot measure, grant requirement, or contractual requirement. Program audits are unique in that they are mandated by program requirements, not directed by management or the Board. Program audits fall within the responsibility of Valley Water management except when specifically referred to the Committee by the Board.
3. Audit Objectives – Audit objectives must be developed for every audit conducted on behalf of Valley Water. These audit objectives are questions posed by management, Committee members, Board members, or auditors about the specific nature of the issue or concern that is the subject of the audit. Suggested Audit Objectives shall be referenced in the Annual Audit [Work](#) Plan for every

audit listed therein. The audit objectives may be subject to revision as necessary during the planning phase of the audit.

4. Audit Standards – Audits conducted by or on behalf of the Committee shall conform with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (RED Book) or the Generally Accepted Government Auditing Standards established by the U.S. Government Accountable Standards (YELLOW Book), or both.
5. Limited Investigations.
 - a) Purpose. In lieu of an audit, the Committee shall also have discretion to conduct or request Limited Investigations to address any discrete issue or concern regarding fraud, waste, or violations of law or policy at Valley Water. The Committee shall not have jurisdiction to conduct Limited Investigations on any other matters. Prior Board approval is not required for the initiation of Limited Investigations.
 - b) Scope. Such Limited Investigations may or may not be subject to the Audit Standards set forth above and shall be undertaken only where: (1) the Limited Investigation is designed to determine the existence or nonexistence of discrete facts involving alleged fraud, waste, or violations of law or policy at Valley Water; (2) the Committee has determined that an audit is not appropriate to address the concern; and (3) the Limited Investigation does not address any matters covered or potentially covered by Board Governance Policy GP-6 (Board Members' Code of Conduct).
 - c) Classified Employees. Classified employees who are parties to any Limited Investigation shall be afforded all applicable rights under the Meyers-Milias-Brown Act and the Memorandum of Understanding then in effect with the employee's union.
 - d) Timely completion. All Limited Investigations must be completed in a timely manner.
 - e) Report of Results. The Committee shall advise the Board of the results of all completed Limited Investigations.
6. Protection of Confidential or Privileged Information – The Committee shall take all necessary steps to prevent the unnecessary disclosure of privileged or confidential information arising in the audit process, arising in the final reports on the audits, arising in the Limited Investigation process, or arising in final reports issued on Limited Investigations.

ARTICLE VI – COMMITTEE OVERSIGHT OF BOARD INITIATED AUDITS

1. Committee recommendation of Auditors – The Committee shall make recommendations to the full Board for the selection of all Auditors to perform audits in the approved Annual Audit [Work Plan](#). In making such recommendations, the Committee shall consider multiple auditors in order to avoid having any single auditor perform a disproportionate number of audits in a given fiscal year. Following such recommendation, the Board shall make the final decision regarding the selection of such auditors.
2. Board Auditors and Valley Water Staff – Valley Water staff may assist the Committee in its work and may provide information to, assist, or work with Auditors retained by the Board, as necessary. Valley Water staff shall not, however, attempt to direct any Auditors retained by the Board. Auditors retained by the Board shall have a duty to the Board and shall not take direction from Valley Water staff.
3. Communications with Auditors – Individual Committee members shall have the right to speak with Auditors directly regarding the Auditor’s assignments. However, direction to Auditors shall come from the Committee as a whole.
4. Completion of Annual Audit [Work Plan](#) – The Committee shall ensure that audits on the Annual Audit [Work Plan](#) are initiated and completed in an accurate and timely manner.
5. Review of Final Audit Results/Notice to Board – The Committee shall review the observations and conclusions of all audits conducted pursuant to the Annual Audit [Work Plan](#). Upon finalization of the audits and any related reports, the Committee shall provide the Board with the results and make any recommendations to the Board regarding improvement of program performance and operations, cost reductions, and best practices. Prior to referring any final audit report to the Board, the Committee may refer final audit reports to other Board committees for review and discussion. The Board may also direct that any final audit reports be referred to specified Board committees for review and discussion before being referred to the Board.
6. Draft Audit Reports - Subject to any requirements of the California Public Records Act or any other applicable state or federal law or regulation, Draft Audit Reports shall be treated as confidential records. Despite any contrary prior practice, Draft Audit Reports shall not be presented to the Committee or any other Valley Water committee for review or any other purpose.

7. Valley Water Management Response to Audits – Valley Water Management must review, for technical accuracy, and provide comments on any preliminary draft audit report within ten working days from issuance. Valley Water Management must review and respond to draft audit report recommendations included in Board Initiated audits within fifteen working days from issuance of any draft audit report, unless the Auditor requires the Management response in a shorter amount of time. The Committee, at the request of Valley Water management, may extend the review and comment periods on an audit-by-audit basis. The Committee may ask questions about or make comments on any responses to the draft audit report recommendations. However, the Committee shall not attempt to direct Valley Water staff in its response to any audit.
8. Follow-up/close out of audits – The Committee may request a report regarding Valley Water’s implementation of measures to address recommendations from individual audits. Where not all audit recommendations have been implemented, this shall be reported in a Follow-up report, and where all recommendations have been implemented, this shall be reported in a Close-out Report. As designated by the Committee, the report shall be prepared by either the Auditor completing the audit or the Independent Auditor. Where no remedial measures have been identified by Valley Water management, the Close-out Report shall address whether management has elected to accept the associated risk or whether the risk no longer exists. Following consideration of the Close-out Report, the Committee may vote to close an audit where it is satisfied that the audit recommendations are adequately addressed or where the risk associated with any unaddressed recommendation is acceptable or no longer exists.
9. Board Monitoring of Committee Performance – The Committee shall provide the Board with timely and periodic reports regarding its activities, its progress on individual audits, its progress on the Annual Work Plan, its progress on the Annual Audit Work Plan, the results of completed audits, and the Committee’s recommendations based upon the audit results. The Committee may also identify any recognizable trends in the audit results as part of its periodic reports. The Committee shall provide such reports to the Board at least four times per calendar year.

ARTICLE VII – THIRD-PARTY AND MANAGEMENT INITIATED AUDITS

1. Third-Party Audits – Third-Party Audits are audits initiated by a separate governmental agency (entities other than Valley Water).

2. Management Initiated Audits – Management Initiated Audits are audits requested by Valley Water management (i.e., internal audits) and audits mandated by specific program requirements (i.e., Program Audits). Nothing in this Charter shall restrict the ability or discretion of Valley Water management to undertake any audits it deems required or recommended.
3. Notice to Committee of Third-Party Audits – The Committee shall be promptly notified in writing of the existence and results of any Third-Party audits of Valley Water. Where Valley Water has been given an opportunity to submit a response before the Third-Party audit is finalized, the Committee Chair shall be immediately notified by email or telephone and shall determine whether to have the Committee review and comment upon any draft Valley Water response at a regularly scheduled or specially noticed Committee meeting. Where possible, Valley Water management shall provide the Committee with at least fifteen days for such review and comment. Where timely review and comment by the full Committee is not reasonably possible, the Committee Chair may conduct such review and comment himself/herself and shall report upon such review and comment at the next scheduled Committee meeting. The Committee Chair may also delegate this responsibility to the Vice Chair for any particular Third-Party Audit, where the Committee Chair is unavailable. The Committee shall be provided with copies of any final reports on Third-Party Audits.
4. Notice to Committee of Management Initiated Audits – Valley Water management shall notify the Committee in writing of any planned Management Initiated Audits before commencing the same. Upon request by the Board Chair, Valley Water management shall provide a report to the Committee of the scope and nature of all planned Management Initiated Audits at the next scheduled Committee meeting. Where circumstances require any Management Initiated Audit to commence before the next regularly scheduled Committee meeting, the Committee Chair shall be advised of this need, and the audit need not be delayed. Where the Management Initiated Audit allows for a response by Valley Water staff before it is finalized, the Committee Chair shall be immediately notified by email or telephone and shall determine whether to have the Committee review and comment on any draft Valley Water response at a regularly scheduled or specially noticed Committee meeting. Where possible, Valley Water management shall provide the Committee with at least fifteen days for such review and comment. Where timely review and comment by the full Committee is not reasonably possible, the Committee Chair may conduct such review and comment himself/herself and shall report upon such review and comment at the next scheduled Committee meeting. The Committee Chair may

also delegate this responsibility to the Vice Chair for any particular Management Initiated Audit, where the Committee Chair is unavailable. The Committee shall be provided with copies of any final reports on Management Initiated Audits.

5. Comment Upon Draft Audit Responses – The Committee Chair and the Committee may ask questions about or make comments upon any draft audit responses. However, they shall not attempt to direct Valley Water staff in its response to any audit.
6. Audit Results – The Committee may request a report by Valley Water Staff on any response to Management Initiated or Third-Party Audits and any plans by Valley Water staff to implement changes as a result of the audits.
7. Board Report of Audit Results – In its periodic reports to the full Board, the Committee may include information regarding Third-Party Audits or Management Initiated Audits.

ARTICLE VIII – ANNUAL FINANCIAL STATEMENT AUDIT

1. Annual Financial Statement Audit - The Committee shall participate in Valley Water's procurement process for Valley Water's annual financial statement audit.
2. The Committee's participation shall include, but not be limited to, providing input to Valley Water management on the selection criteria and desired qualifications of the public accounting firm. The selected external financial auditor shall submit to the Committee Valley Water's audited financial statements annually, including all related management letters to the Committee for review and comment.
3. Financial Statement audit results and pertinent information identified during the course of the audit shall be communicated, in writing or verbally, to the Board Audit Committee. For purposes of this section, "pertinent information" is defined as issues, concerns, practices, programs, or activities that may pose a reputational, operational, financial, or service delivery risk to Valley Water regardless of the magnitude of the apparent risk, as well as any issue deemed pertinent in the auditor's professional judgment.
4. Valley Water contracts for performance of the Annual Financial Statement Audit entered into after December 13, 2022 shall include express contractual obligations in accordance with the aforementioned ARTICLE VIII, Section 3.

ARTICLE IX – REVIEW OF JPA AUDITS

1. For purposes of this Article, “JPA” means any Joint Powers Authority formed under the California Joint Exercise of Powers Act (Government Code sections 6500 et seq.) to which Valley Water is a member pursuant to a Joint Powers Agreement.
2. The Committee shall have the authority to review any formally issued JPA audit reports and, except as set forth below, shall retain discretion regarding what JPA audit reports it may wish to review.
3. Through its review of JPA audits, the Committee may evaluate:
 - a) Whether the JPAs are complying with applicable legal requirements;
 - b) The financial condition of the JPAs;
 - c) Whether the JPAs are complying with the terms of their respective JPA Agreements;
 - d) Whether Valley Water’s interests are being met;
 - e) Whether there are any trends of concern in the activities of the JPA;
 - f) Whether there are any recommended areas for future audits for the JPA; and
 - g) Any specific questions of Valley Water’s Board.
4. The Board may refer specific JPA audits to the Committee for review and/or recommendation as to questions or subjects identified by the Board.
5. In conducting its review, the Committee may seek input from the Independent Auditor, Valley Water staff, and others as needed.
6. The review of any JPA audits shall be included in the Committee’s Annual Work Plan.
7. The Committee may report out to the Board regarding any JPA audit review results and any related recommendations of the Committee.
8. The Committee’s authority to review JPA audits set forth herein does not include any corresponding right to directly communicate with JPAs on behalf of Valley Water or assume any direct responsibilities of Valley Water’s formal representatives on the JPAs. This shall not limit the activities or functions of any Valley Water JPA representative who is also member of the Committee.

ARTICLE X – PERFORMANCE MANAGEMENT

1. The Committee shall periodically review the Audit Charter and shall make any recommendations regarding changes to the Board for final approval.

2. The Board may make any changes to the Audit Charter it deems to be appropriate.
3. Education – The Annual Work Plan shall include some component of planned Committee training on audit principles, practices, or standards. The Independent Auditor shall provide Committee training and other knowledge transfer on some component of audit principles, practices, and standards. While the Committee shall endeavor to schedule and complete such training annually, some component of training must be scheduled and completed by the Committee at least every two years.
4. At least annually, the Committee shall conduct an evaluation of its performance to determine whether it is functioning effectively and to discuss with the Independent Auditor any observations related to the effectiveness of the Committee. The Committee shall prepare a formal report based upon each such self-evaluation and shall provide such report to the full Board following its adoption by the Committee.



Valley Water

Clean Water • Healthy Environment • Flood Protection

Board Audit Committee Consideration of Proposed Charter Revisions

Proposed Revision 1

The Charter currently refers to an Annual Work Plan and an Annual Audit Work Plan.

The similarity in names has sometimes caused confusion.

It is recommended that “Annual Audit Work Plan” be renamed:
“Annual Audit Plan”

Proposed Revision 2

- Include a deadline for the BAC to submit proposed Annual Audit Plan to the Board.
- Currently, Article III, Section 7.2 has an annual requirement:
At least annually, the Committee shall develop and submit a proposed Annual Audit Work Plan to the full Board for consideration and approval. Following such Board consideration and approval, the Annual Audit Work Plan shall be automatically updated to include any additional audits formally referred to the Committee by the full Board. Any proposed substantive changes to the Annual Audit Work Plan (e.g., combining audits, removing an audit, or significantly delaying initiation of an audit) must be approved by the Board. Recommended changes should be evidence based.

Proposed Revision 2

- Include a deadline for the BAC to submit proposed Annual Audit Plan to the Board.
- Article III, Section 7.2 has an annual requirement:
~~At least annually~~ **By November 30 of each year**, the Committee shall develop and submit a proposed ~~its recommended~~ Annual Audit Work Plan to the full Board for consideration and approval ~~direction~~. Following such Board consideration and approval, the Annual Audit Work Plan shall be automatically updated to include any additional audits formally referred to the Committee by the full Board **the Board's adoption of the Annual Audit Plan, the Committee shall execute the Annual Audit Plan**. Any proposed substantive changes to the Annual Audit Work Plan (e.g., combining audits, **adding or** removing an audit, or significantly delaying initiation of an audit) must be approved by the Board. Recommended changes should be evidence based.

ADDITIONAL RECOMMENDED CHANGES?

QUESTIONS



THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 24-0274

Agenda Date: 3/20/2024

Item No.: 4.6.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Discuss Joint Power Authority (JPA) Audits to Review at the April 2024 Board Audit Committee (BAC) Meeting.

RECOMMENDATION:

Discuss JPA audits to review at the April 2024 BAC meeting.

SUMMARY:

At its regular September 20, 2023, meeting, the Board Audit Committee (BAC) heard a presentation on the California Joint Exercise of Powers Act, on how JPAs are formed, and on the statutory requirements for audits conducted by JPAs. Valley Water is a member of several JPAs.

At the November 15, 2023, BAC meeting, staff identified the various JPAs Valley Water belongs to. The JPAs and the associated level of Valley Water investments are as follows:

1. Delta Conveyance Design and Construction JPA;
 - a. Valley Water portion of capital investment estimated at \$627M plus \$2.5M per year in operations and maintenance costs (both figures in 2023 \$'s)
2. Delta Conveyance Finance Authority;
 - a. Provides financing for Delta Conveyance Design and Construction JPA
3. Los Vaqueros Reservoir JPA:
 - a. Valley Water portion of capital investment estimated at \$202M plus \$3.2M per year in operations and maintenance costs (both figures in 2023 \$'s)
4. Pajaro River Watershed Flood Prevention Authority;
 - a. Valley Water pays a \$10K annual membership fee
5. San Francisquito Creek JPA;
 - a. Valley Water portion of capital investment estimated at \$80M per FY 24 -28 Board adopted CIP plus \$250K per year operations and maintenance cost beginning in FY 27
6. Santa Clara Valley HCP JPA;
 - a. Valley Water pays land cover impact fees to the JPA averaging \$700K per year since 2013. The fees are essentially regulatory permit fees, which provide budget for

conservation actions (eg, land acquisition, habitat restoration) as well as general administration of the JPA. Fees in FY 25 are anticipated to be above average due to the Anderson Dam Seismic Retrofit Project.

7. San Luis & Delta Mendota Water Authority Board;

- a. Valley Water pays \$3M to \$4M per year in operations and maintenance fees and membership dues to SLDMWA for imported water, and another \$1M to \$2M per year for water transfers. The B.F. Sisk Dam Raise participation would be facilitated by SLDMWA.

At its regular meeting on December 12th, 2023, the Board adopted changes to its BAC Charter specifically related to reviews of JPA audits. A summary of the JPA audit review activities authorized under Article IX of the charter is provided below:

- Through its review of JPA audits, the Committee may evaluate:
 - Whether the JPAs are complying with applicable legal requirements;
 - The financial condition of the JPAs;
 - Whether the JPAs are complying with the terms of their respective JPA Agreements;
 - Whether Valley Water's interests are being met;
 - Whether there are any trends of concern in the activities of the JPA;
 - Whether there are any recommended areas for future audits for the JPA; and
 - Any specific questions of Valley Water's Board.
- The Board may refer specific JPA audits to the Committee for review and/or recommendation as to questions or subjects identified by the Board.
- In conducting its review, the Committee may seek input from the Independent Auditor, Valley Water staff, and others as needed.
- The Committee may report out to the Board regarding any JPA audit review results and any related recommendations of the Committee.
- The Committee's authority to review JPA audits set forth herein does not include any corresponding right to directly communicate with JPAs on behalf of Valley Water or assume any direct responsibilities of Valley Water's formal representatives on the JPAs. This shall not limit the activities or functions of any Valley Water JPA representative who is also member of the Committee.

The purpose of this item is to discuss the various JPAs and identify which JPA audits require further analysis to be brought back to the BAC at a future meeting.

ENVIRONMENTAL JUSTICE AND EQUITY IMPACT:

Review of JPA audits is not subject to environmental justice analysis.

ATTACHMENTS:

None.

File No.: 24-0274

Agenda Date: 3/20/2024
Item No.: 4.6.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 24-0169

Agenda Date: 3/20/2024

Item No.: 4.7.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Review and Discuss the 2024 Board Audit Committee (BAC) Work Plan.

RECOMMENDATION:

Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2024 BAC Work Plan.

SUMMARY:

Per the BAC's Charter, Article III, Paragraph 6.2, "The Committee shall, in coordination with Valley Water's Clerk of the Board, develop a proposed Annual Work Plan. Items shall be included in the Annual Work Plan based upon a majority vote of the Committee."

Under direction of the Clerk, Work Plans are used by all Board Committees to increase Committee efficiency, provide increased public notice of intended Committee discussions, and enable improved follow-up by staff. Work Plans are dynamic documents managed by Committee Chairs and are subject to change.

Recent changes to the BAC Work Plan include: returning in April to elect the committee chair and vice-chair (shown as Item #3 in the attachment); adding a discussion in March 2024 on the seven (7) Joint Powers Authority (JPA) audits that may be discussed at the April 2024 BAC meeting (shown as Item #8 in the attachment); adding a new topic for March related to a management response to a recently completed program-required close-out performance audit of the 2012 Safe, Clean Water (SCW) Program (shown as Item #21 in the attachment).

Looking forward, the topics of discussion identified for the April 17, 2024, BAC Meeting can be summarized as follows:

1. Election of the Committee Chair and Vice-Chair
2. 2024 BAC Work Plan
3. Annual Audit Work Plan for CY 2024

4. Review of Joint Powers Authority (JPA) audits

Additionally, going forward, the regular BAC meetings will be scheduled to start at 1:00 p.m. Pacific Time on the 3rd Wednesday of the month.

Upon review, the BAC may make changes to be incorporated into the work plan.

ENVIRONMENTAL JUSTICE AND EQUITY IMPACT:

The BAC Work Plan is not subject to environmental justice analysis. The BAC Work Plan serves as a tool utilized by the BAC to identify topics to be discussed during the public meeting and when that topic may be presented.

ATTACHMENTS:

Attachment 1: 2024 BAC Work Plan

UNCLASSIFIED MANAGER:

Candice Kwok-Smith, 408-630-3193

BOARD AUDIT COMMITTEE 2024 WORKPLAN

January 1, 2024 to December 31, 2024

		DATE:											
		No. of Topics:											
		Jan-17	Feb-23	Mar-20	Apr-17	May-15	Jun-19	Jul-17	Aug-21	Sep-18	Oct-16	Nov-20	Dec-18
#	Board Audit Committee Management	5	6	8	4	4	5	2	9	3	2	4	2
1	Conduct Annual Self-Evaluation	•		•									
2	Receive and Discuss CAE Activity Report to Evaluate Performance	•		•									
3	Election of BAC Chair and Vice Chair		•		•								
4	Discuss Board Audit Committee Audit Charter			•									
5	Discuss Scope of Annual Audit Training			•									
6	Receive Annual Audit Training					•							
7	Review and Update BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•
Board Audit Committee Special Requests													
8	Review of Joint Powers Authority (JPA) audits			•	•								
9	Discuss Board's CAE Contract (expires 11/22/24)					•							
Board-directed Audits													
10	2020 SCW Program Grants Management	•						•					
11	2021 Permitting Best Practices				•								
12	2023 CIP Performance							•					
13	2024 Audit - TBD												
14	2024 Audit - TBD												
15	2024 Audit - TBD												
16	2024 Audit - TBD												
CAE Standing Topics													
17	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•
18	Discuss next Annual Audit Work Plan							•					
19	Discuss the draft Annual Audit Work Plan, and Recommend Proposed Audit Topics for Board Approval										•		
Management-directed & 3rd-Party Audits													
20	2022 QEEMS Improvements Implementation							•					
21	2012 SCW Program Performance Close-out Audit			•									
22	2023 IT Surplus Equipment Audit		•										
Miscellaneous 3rd-Party Financial Audits													
23	Financial Status - Periodic Updates		•			•			•				
24	Audit Report of the Water Utility Enterprise Funds							•					
25	Audited Financial Statements					•					•		
Staff Standing Topics													
26	Audit Recommendations Implementation Status		•					•					
27	Receive QEEMS Annual Internal Audit Report							•					
Committee Clerk Action Items (not included in count shown in Row 3 above)													
28	Provide BAC Summary Report to full Board	•	•	•	•	•	•	•	•	•	•	•	•

THIS PAGE INTENTIONALLY LEFT BLANK