

May 11, 2023

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
Melanie Richardson, Assistant Chief Executive Officer
Chris Hakes, Acting Assistant Chief Executive Officer
Tina Yoke, Chief Operating Officer
Darin Taylor, Chief Financial Officer
Rachael Gibson, Chief of External Affairs
Rechelle Blank, Chief Operating Officer
Aaron Baker, Chief Operating Officer
Brian Hopper, Sr. Assistant District Counsel
Anthony Fulcher, Sr. Assistant District Counsel
Leslie Orta, Sr. Assistant District Counsel
Joseph Aranda, Assistant District Counsel
Rita Chan, Assistant District Counsel
Andrew Gschwind, Assistant District Counsel
Alexander Gordon, Acting Deputy Administrative Officer
Tony Ndah, Deputy Administrative Officer
Donald Rocha, Deputy Administrative Officer
Emmanuel Aryee, Deputy Operating Officer
Bhavani Yerrapotu, Deputy Operating Officer
Anthony Mendiola, Program Administrator
George Skiles, Partner, Sjoberg Evashenk Consulting

A Santa Clara Valley Water District Special Board Audit Committee Meeting has been scheduled to occur at 1:30 p.m. on Monday, May 15, 2023 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>.

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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>

SPECIAL MEETING AGENDA

**Monday, May 15, 2023
1:30 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
SPECIAL MEETING
AGENDA

Monday, May 15, 2023

1:30 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 at a video conferenced meeting, during public comment or on any item listed on the agenda, should use the “Raise Hand” tool located in the Zoom meeting link listed on the agenda, 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 Committee on any item not listed on the agenda should access the "Raise Hand" tool located in Zoom meeting link listed on the agenda. Speakers will be acknowledged by the Committee Chair in order requests are received and granted speaking access to address the Committee. Speakers comments should be limited to three minutes or as set by the Chair. The law does not permit Committee action on, or extended discussion of, any item not on the agenda except under special circumstances. If 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 Committee may take action on any item of business appearing on the posted agenda.

3. APPROVAL OF MINUTES:

- 3.1. Approval of April 19, 2023 Board Audit Committee Minutes. [23-0503](#)

Recommendation: Approve the minutes.

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

Attachments: [Attachment 1: 041923 BAC Minutes](#)

4. REGULAR AGENDA:

- 4.1. Receive Progress Report on Implementing the Grants Management Performance Audit Recommendations. [23-0504](#)

Recommendation: Receive Progress Report on Implementing the Grants Management Performance Audit Recommendations.

Manager: Donald Rocha, 408-630-2338

Attachments: [Attachment 1: Grants Audit Progress Report](#)

- 4.2. Receive Permitting Best Practices Audit Status Update. [23-0505](#)

Recommendation: Receive an update on the status of the Permitting Best Practices audit recommendation implementation.

Manager: Lisa Bankosh, 408-630-2618

Attachments: [Attachment 1: Audit Final Report](#)
[Attachment 2: Management Response](#)
[Attachment 3: Implementation Status](#)
[Attachment 4: PowerPoint](#)

- 4.3. Receive and Discuss 2023 Capital Improvement Program Process Performance Audit Draft Report. [23-0511](#)

Recommendation: Receive and discuss 2023 Capital Improvement Program (CIP) Process Performance Audit draft report.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: 2022-2024 Annual Audit Work Plan](#)
[Attachment 2: PowerPoint](#)
[Attachment 3: Draft CIP Audit Report](#)

- 4.4. Discuss Proposed Updates to the Board Audit Committee Audit Charter and Provide Further Direction as Needed. [23-0462](#)

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](#)

- 4.5. Discuss Process and Scope of 2023 Annual Audit Training from Chief Audit Executive. [23-0467](#)
Recommendation: Discuss process and scope of 2023 Annual Audit Training from Chief Audit Executive.
Manager: Darin Taylor, 408-630-3068
- 4.6. Review and Discuss the 2023 Board Audit Committee Work Plan. [23-0465](#)
Recommendation: Review and discuss topics of interest raised at prior Board Audit Committee (BAC) meetings and make any necessary adjustments to the 2023 BAC Work Plan.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: 2023 BAC Work Plan](#)
- 4.7. Discuss the 2022-2024 Annual Audit Work Plan. [23-0466](#)
Recommendation: A. Discuss the 2022-2024 Annual Audit Work Plan; and
B. Provide further guidance as needed.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: 2022-2024 Annual Audit 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 2:00 p.m., on Wednesday, June 21, 2023.

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Santa Clara Valley Water District

File No.: 23-0503

Agenda Date: 5/15/2023

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 April 19, 2023 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.

ATTACHMENTS:

Attachment 1: 041923 BAC Minutes

UNCLASSIFIED MANAGER:

Candice Kwok-Smith, 408-630-3193

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BOARD AUDIT COMMITTEE MEETING

DRAFT MINUTES

**REGULAR MEETING
WEDNESDAY, APRIL 19, 2023
2:00 PM**

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A regular 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 2:00 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: Emmanuel Aryee, Ingrid Bella, Sarah Berning, Kevin Brown, Theresa Chinte, Jessica Collins, John Devadoss, Alicia Fraumeni, Concepcion Gayotin, Walter Gonzalez, Alexander Gordon, Chris Hakes, Brian Hopper, Jennifer Martin, Anthony Mendiola, Janet Middleton, Nicole Merritt, Tony Ndah, Carlos Orellana, Luz Penilla, Alison Phagan, Manpreet Sra, Darin Taylor, Sherilyn Tran, Zuberi White, Kristen Yasukawa, and Tina Yoke.

Guest in attendance was: George Skiles (Sjoberg Evashenk Consulting).

Public in attendance was: None.

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.

3. APPROVAL OF MINUTES:

3.1. Approval of March 15, 2023 Board Audit Committee Meeting Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the March 15, 2023 Committee meeting.

Public Comments:
None.

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

4. REGULAR AGENDA:

4.1. Receive and Discuss Information Compiled by Chief Audit Executive (CAE) Related to Risk Assessment and Potential Annual Audit Work Plan Adjustments, and Provide Further Direction as Needed.

Recommendation: A. Receive and discuss the information compiled by CAE related to Risk Assessment and potential Annual Audit Work Plan adjustments; and
B. Provide further direction as needed.

George Skiles reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachments 1 and 2.

George Skiles, Darin Taylor, and Brian Hopper were available to answer questions.

Public Comments:
None.

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

- The Committee noted the 5 high-interest audit topics: Human Resources, Pacheco Dam, Board Governance, District Revenues/Demands, and Capital Project Management/Project Delivery Protocols.
- The Committee directed staff to proceed with a new Risk Assessment and the BAC Chairperson will report this Committee decision to the full Board during the next Board Committee Reports.

- The Committee directed staff to confirm available funding for the Risk Assessment, ensure the inclusion of the consideration of environmental impacts and the preparation for future emergencies, and updating the BAC Work Plan accordingly.
- The Committee confirmed that generally 3 to 4 audits can be completed per year per the approved budget and available staffing.

4.2. Discuss Process to Close Board-Directed Audits, and Provide Additional Direction as Necessary.

- Recommendation: A. Discuss process to close Board-directed audits; and
B. Provide additional direction as necessary.

Darin Taylor and George Skiles reviewed the information on this item, per the attached Committee Agenda Memo.

Darin Taylor, George Skiles, and Brian Hopper 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 the Independent Auditor should provide the status updates and follow-up reports for the Board-directed audits and any recommendations requiring additional funding, upgrades, equipment, or staffing should be highlighted for Board consideration during budget discussions along with input from staff.
- The Committee confirmed that the CAE will review all Board-directed audits still in process, noted staff to close out management-directed audits, and Legal Counsel to review the Charter and recommend edits corresponding with the BAC's guidance.

4.3. Consider Staff Recommendation to Use Moss Adams LLP to Conduct Close-Out Audit of 2012 Safe, Clean Water Program, and Discuss Board Audit Committee Role in "Program Directed Audits."

- Recommendation: A. Consider staff recommendation to use Moss Adams LLP to conduct close-out audit of 2012 Safe, Clean Water Program; and
B. Discuss Board Audit Committee role in "program directed audits."

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo.

Darin Taylor and George Skiles were available to answer questions.

Public Comments:
None.

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

- The Committee directed staff to proceed with using Moss Adams LLP to conduct the close-out audit of the 2012 SCW Program and arrange a Scope of Services (SoS) meeting with Moss Adams.
- The Committee directed Legal Counsel to proceed with preparing a May BAC Agenda Item with Charter language proposing Program Audits being treated as Management Audits unless noted otherwise by the Board in the upcoming BAC Charter discussion.

4.4. Review and Discuss the 2023 Board Audit Committee (BAC) Work Plan.

Recommendation: Receive and discuss topics of interest raised at prior BAC meetings and make any necessary adjustments to the 2023 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.

Public Comments:
None.

Darin Taylor was available to answer questions.

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

- The Committee directed staff to post pone the Quarterly Financial Update from the May BAC meeting to the June BAC meeting.
- The Committee requested staff to create a future meeting Agenda Item regarding a process to include the BAC Chairperson in the review of the BAC Agenda Memos.
- The Committee noted staff will be creating a new Agenda Item regarding "CIP Audit Draft Report to BAC" for the May BAC meeting, adding a line item for the new Risk Assessment to the BAC Work Plan, and working with the CAE to determine when to report back to the BAC regarding the new Risk Assessment.

4.5. Discuss the 2022-2024 Annual Audit Work Plan.

- Recommendation: A. Discuss the 2022-2024 Annual Audit Work Plan; and
B. Provide further direction as needed.

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

Public Comments:
None.

George Skiles was available to answer questions.

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

- The Committee confirmed that an updated Annual Audit Work Plan would be necessary for the May BAC meeting per the Committee's discussions under Item 4.1.

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.

Nicole Merritt confirmed there were no action Items for Board consideration, but noted the Committee gave direction to staff regarding a new risk assessment under Item 4.1, closing Board-directed audits under Item 4.2, proceeding with Moss Adams LLP under Item 4.3, updating the BAC Work Plan and including the process to include the BAC Chairperson's review of Committee Agenda Memos under Item 4.4, and updating the Annual Audit Work Plan under Item 4.5.

6. Adjourn:

6.1. Adjourn to Special Meeting at 1:30 p.m. on May 15, 2023.

Chairperson Keegan adjourned the meeting at 3:17 p.m., to the special meeting at 1:30 p.m. on May 15, 2023.

Nicole Merritt
Assistant Deputy Clerk II

Date Approved:

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Santa Clara Valley Water District

File No.: 23-0504

Agenda Date: 5/15/2023

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 Progress Report on Implementing the Grants Management Performance Audit Recommendations.

RECOMMENDATION:

Receive Progress Report on Implementing the Grants Management Performance Audit Recommendations.

SUMMARY:

On February 17, 2021, the Board Audit Committee accepted the Grants Management Performance Audit Report by TAP International's subcontractors, Greta MacDonald and Drummond Kahn. Subsequently, the Grants Management Performance Audit Report was accepted by the Board of Directors on March 23, 2021. Since then, staff has continued implementing the 11 recommendations as described in the Management Response to the audit report, and will provide progress updates to the Board Audit Committee semi-annually.

Of the 11 audit recommendations, seven were achieved and four remain in progress. The remaining four recommendations will be achieved upon the completion of the grants redesign.

Since the last progress update to the Board Audit Committee on December 9, 2022, key updates include:

- **Outcomes and Continued Improvements** (since December 9, 2022)
 - 9 new agreements were executed
 - 21 agreement closeouts were processed
 - 39 invoices were processed
 - Invoices were approved for payment within 12 days, on average, after being submitted by the grantee.

There are currently a total of 85 active grants, which includes 50 standard grants, 3 partnerships, 26 mini-grants, and 6 refill station grants. Additionally, 10 standard grant

applications were submitted in the FY23 standard grant cycle.

- **Securing consultant for the redesign of the grants administration to improve grant process experience** - For the grants administration redesign and right-sizing work, staff is negotiating a final agreement with Arabella Advisors (Arabella), whose proposal was identified as the most comprehensive and the best value. Arabella is a nationwide consulting firm, with a local office in San Francisco, that offers philanthropy expertise to donors, grantmakers, and impact investors. Arabella will staff the project with advisors, analysts, and experts who have worked on executing equitable grantmaking projects, and who have redesigned internal processes to make them more streamlined, inclusive and effective. Arabella will utilize the feedback from the grantee survey, grant performance audit recommendation, and stakeholder interviews in their redesign process.
- **Redesign of the expanded project type criteria is underway** - Duckler Consulting's scope of work includes the development of:
 - new grant project requirements, qualifications, and evaluation criteria;
 - one comprehensive set of project evaluation criteria; and
 - new criteria to expand the eligible project types as described in Measure S, which includes recycled water and wildlife crossing projects.

To date, Duckler Consulting has completed benchmarking and external stakeholder interviews, and is finalizing the internal stakeholder interviews. Duckler Consulting also observed this year's standard grant evaluation panels to better understand the current project type criteria, common gaps in grant application submittals, and evaluation process to better inform the redesign.

- **Staff transitions and vacancies** - The Senior Management Analyst position is currently vacant due to the incumbent moving into a position in another Valley Water division. However, she will continue to assist the grants program on a part-time basis until the recruitment for an internal temporary promotion is completed, at which time she will cross-train that person, and they will support the grants program until the permanent position is filled.
- **Attended trainings to learn industry best practices** - The grants management team continually seeks out grants-related professional development opportunities and most recently attended trainings regarding communicating with diverse communities and mistake-free business writing. Staff is also scheduled to attend the PEAK Grantmaking Annual Conference in May 2023, which includes grantmaking workshops that demonstrate best practices and share equitable approaches to administration.

A summary of the 11 recommendations and an update on the four recommendations that are in progress is included as Attachment 1.

ATTACHMENTS:

Attachment 1: Grants Audit Progress Report

UNCLASSIFIED MANAGER:
Donald Rocha, 408-630-2338

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Grants Management Performance Audit Progress Report – May 2023 Update

#	Audit Recommendation	Implementation Status
1	<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> <ol 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. 	<p>In Progress – Target Completion FY23-24</p> <p>Staff is negotiating a final agreement with a consultant to “right-size” the grants guidelines and address item a. and item b. of this recommendation.</p> <p>In the meantime, staff continues to simultaneously implement other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects.</p> <p>To address item c. of this recommendation, currently the only reporting requirement for mini-grant projects is a one-page final project fact sheet that summarizes the project outcomes upon completion. No receipts or other supporting documentation is required. Staff also implemented an insurance waiver request form and process for low-risk grant projects.</p> <p>Staff launched the new Refill Station grant funding opportunity to include a shorter/simpler agreement, fewer required reviewers and a shorter approval routing time, a streamlined CEQA review using a checklist, and an insurance waiver. The only reporting required from Grantees is to submit a photo of the final, installed station.</p>
2	<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>	<p>Achieved – November 2022</p> <p>Staff began implementing kick-off/orientation meetings with all new standard grantees and partners after agreement execution in early FY21. Staff send an onboarding email to mini-grantees with the grant information as part of the award notification. Staff remain available and accessible to all grantees throughout the process.</p> <p>A consultant was hired to create a Grantee Guide to outline processes and procedures for applicants and grantees. These</p>

		documents were completed and are being formatted for posting on the website. The documents will be continually updated as changes are made to the program.
3	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>Achieved – September 2021 Staff continue to track the timeliness and monitoring of grants activities. Staff continue to process invoices within the 30-day payment deadline once an invoice is approved.</p> <p>Since April 2021, 123 invoices were processed and approved for payment within 12 days, on average, after being submitted by the grantee.</p>
4	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>Achieved – September 2021 Staff set up automatic reminders in the Fluxx grants management system, and continue to monitor grant projects by reviewing project status reports and following up via email.</p>
5	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 – Target FY23-24 Staff is negotiating a final agreement with a consultant to work on the grants administration redesign to “right-size” the level of progress reporting detail for smaller dollar value standard grants.</p> <p>In the meantime, staff is simultaneously working on other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects.</p> <p>Currently, the only reporting requirement for mini-grant projects is a one-page final project fact sheet that summarizes the project outcomes upon completion. No receipts or other supporting documentation is required. Staff also implemented an insurance waiver request form and process for low-risk grant projects.</p> <p>Staff launched the new Refill Station grant funding opportunity to include a shorter agreement, fewer required reviewers, and a shorter routing time, a streamlined CEQA review using a checklist, insurance waiver, and a photo of the final, installed station as the only reporting requirement.</p>

6	<p>Valley Water should explore where, within existing District 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> <ol 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. 	<p>In Progress – Target FY23-24</p> <p>Staff is negotiating a final agreement with a consultant to work on the grants administration redesign to “right-size” the grant reporting and invoicing requirements based on risk, dollar value, and project complexity, and develop processes for risk assessment and financial reporting system compliance.</p> <p>In the meantime, staff is simultaneously working on other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects.</p> <p>Currently, staff is approving partial payment for unquestioned amounts in invoice reimbursement requests or withholding a 10 percent retention that is approved for payment after the required supporting documentation has been submitted.</p>
7	<p>Should Valley Water decide to continue to require the same information for progress and invoice submission, they should:</p> <ol 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”. 	<p>In Progress – Target FY23-24</p> <p>Staff is negotiating a final agreement with a consultant to work on the grants administration redesign to “right-size” the grant requirements for agreements and invoicing based on the grant’s risk, dollar value and project complexity.</p> <p>Since September 2021, the auditor’s suggested language has been incorporated into the agreement templates for standard grants and partnerships.</p>
8	<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</p>	<p>Achieved – September 2021</p>

	program, inquiries should be made to determine the extent to which partial funding has impacted the grantee and the project.	<p>A consultant conducted an anonymous survey of grantees in July 2021 and results were presented to the Board Audit Committee in September 2021.</p> <p>The 2022 grantee and partner survey was conducted by an independent third party in November 2022 and the results were presented to the Board Audit Committee in December 2022. Staff will use the survey results to improve the program as part of the redesign effort and plans to continue to annually collect feedback from grantees.</p>
9	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>Achieved – September 2021</p> <p>Staff established a 60-day timeline to close out a project after the final invoice is paid in full, and continue to track and monitor it the grants tracking sheet on a weekly basis.</p>
10	Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.	<p>Achieved – November 2022</p> <p>A consultant was hired to work on the Grants Manual to outline processes and procedures for staff. These documents were completed and are being formatted for posting on the internal website for staff. The documents will be continually updated as changes are made to the program.</p>
11	<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> <p>a. Option 1: Assign Staff by Priority Area and Specific Grants.</p> <p>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</p>	<p>Achieved – September 2021</p> <p>The staff positions have designated roles and responsibilities. However, one position was recently promoted out of the grants program to another Valley Water division, and recruitment efforts are underway to fill the vacancy as soon as possible.</p> <p>The grants team continues to meet weekly to ensure sufficient cross-training on all grants management tasks and active items to ensure cohesive, consistent, and uninterrupted customer service to all grantees.</p> <p>The grants team identified individual training opportunities through the Valley Water annual goal-setting process to continue learning industry best practices and expand knowledge of grants management. The grants team attended the PEAK Grantmaking conference in March 2022 and attended a conference on the Fluxx grants management system in October 2022. Staff participated in trainings regarding communicating with diverse communities and</p>

	<p>responsibility for invoice processing, or a finance and accounting expert having responsibility for program oversight.</p> <p>b. 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.</p> <p>c. 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.</p> <p>d. As the Safe, Clean Water grants program grows, and the grants management function within Civic Engagement expands, develop grants management position descriptions.</p>	<p>mistake-free business writing. Staff is also scheduled to attend the PEAK Grantmaking conference in May 2023, which includes grantmaking workshops that demonstrate best practices and share equitable approaches to administration. Staff continues to explore and participate in additional grants training to ensure best practices continue to be updated and implemented.</p>
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Santa Clara Valley Water District

File No.: 23-0505

Agenda Date: 5/15/2023

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:

Receive Permitting Best Practices Audit Status Update.

RECOMMENDATION:

Receive an update on the status of the Permitting Best Practices audit recommendation implementation.

SUMMARY:

On October 13, 2020, the Board approved an update to the Annual Audit Work Plan as recommended by the Board Audit Committee (BAC) for the Permitting Best Practices Audit to be the next audit undertaken by TAP International, Inc. (TAP).

The Permitting Best Practices Audit Final Report was formally issued to the Community Projects Review Unit in April 2021 (Attachment 1). The Management Response was provided to TAP the following month (Attachment 2). A summary of the audit recommendations, management response, the May 23, 2022 BAC update, and the current implementation status is included as Attachment 3.

Staff will provide a progress report on the implementation of audit recommendations and will be prepared to address any questions the BAC may have regarding the individual recommendations and their implementation.

ATTACHMENTS:

Attachment 1: Audit Final Report
Attachment 2: Management Response
Attachment 3: Implementation Status
Attachment 4: PowerPoint

UNCLASSIFIED MANAGER:

File No.: 23-0505

Agenda Date: 5/15/2023
Item No.: 4.2.

Lisa Bankosh, 408-630-2618



TAPInternational

Final Report

**Community Projects Review
Unit: Opportunities to
Improve Permit Processing**

May 2021

**Final Report by the Independent
Auditor to the Santa Clara Valley Water
District Board of Directors**



Date: May 20, 2021

Memorandum For: Board of Directors – Santa Clara Valley Water District (Valley Water)

From: Independent Auditor, TAP International, Inc.

Subject: Transmittal of TAP International Performance Audit Report

Attached for your information is our final report, *Community Projects Review Unit: Opportunities to Improve Permit Processing*. The audit objectives were to assess how alternative permit processing activities could benefit Valley Water and to compare Valley Water's permitting process with other local water agencies.

The audit found Valley Water's permitting process is not meeting customers' or its own expectations for timelines and communication, which can be addressed with the use of better tools, restructuring and collaboration. Various other local agencies have adopted alternative strategies and tools that could benefit Valley Water, including creating online portals to facilitate the submission of permit applications and the communication of the review status. To better publicize their services, some local agencies send letters to neighboring property owners to remind owners of the agency's property rights and how to access its services. In other areas of Community Projects Review Unit (CPRU) operations, the permit fee schedule needs updating and the establishment of a robust framework of financial management internal controls for invoicing and collection of payments.

The report contains 14 recommendations that will help the CPRU to streamline the permit process, improve communication with applicants, update its fee schedule for permit processing activities, and ensure the timely invoicing and recording the payment of invoices. Management generally agreed with these recommendations. Appendix D of this report contains management's response in detail.

TAP International, Inc.

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Section 1: Audit Highlights

Why the Audit Was Conducted

The mission of the CPRU, located within Valley Water's Watershed Design & Construction Division, is to protect Valley Water's Watersheds and Water Utility assets and interests from external activities and threats as defined by Valley Water's Resources Protection Ordinance¹. Other units within the Watershed Design & Construction Division, in addition to CPRU, include the Land Surveying & Mapping Unit and the Real Estate Services Unit (RESU).

A performance audit evaluates the economy, efficiency, and effectiveness of programs, services, and operations. This performance audit was conducted because encroachment permit processing was identified as a higher risk area for potential improvement opportunities based on a 2018 risk assessment performed by the Independent Auditor.

This audit is important to the Board of Directors for the following reasons:

1. There are opportunities to reduce or offset costs to issue permits applications through streamlining of the permit process.
2. There are opportunities to reduce the overlap of services provided by CPRU and other Valley Water Units.
3. There are opportunities to enhance revenue collection through improved financial management.

How the Audit Was Conducted

The objectives of the audit were to:

1. Determine if alternate permit processing activities benefit Valley Water; and,
2. Assess how Valley Water's permitting process compares with other local agencies.

The audit work included: (1) interviews with CPRU staff and the CPRU Manager, who has been delegated the authority to issue encroachment permits, (2) an online survey of encroachment permit holders to whom CPRU issued a permit in fiscal year (FY) 2020, (3) analysis of financial data (financial audit, permits fees, invoices, salary tables), CPRU policies and procedures, organizational chart and other documentation related to the CPRU's operations, and (4) research into other California local agencies' approach to issuing encroachment permits and their current practices. Valley Water's ongoing effort to develop a new program to license or permit existing encroachments by residential property owners was not included in the scope of this audit; an audit of this program is included in the Annual Audit Work Plan of the Independent Auditor.

¹ Appendix C provides more information about Valley Water's Water Protection Ordinance.

What the Audit Found

This audit report discusses six key points:

- Demand for CPRU's variety of services has remained steady over the past decade and increased notably during the first three-quarters of FY2021. In addition to issuing encroachment permits, these services include flood plain information and analysis, technical assistance to other local agencies, California Environmental Quality Act (CEQA) compliance reviews, agreements for public recreational use like trails, negotiation of real property transactions and more. Some of CPRU's activities related to real estate, CEQA, and flood plain analysis overlap with the role of other Valley Water units. Utilizing services already offered by other Valley Water units could provide staff more time for permit processing.
- Valley Water permit process could be better at meeting customers' or its own expectations for timelines and communication, even though many reported overall satisfaction. Respondents to a voluntary, online survey of those issued permits in FY2020 said Valley Water did not meet about half of applicants' expectations for timeliness (55 percent) and communication (48 percent) but met or exceeded most (65 percent) survey respondents' expectations for professionalism.
 - ✓ The audit found that CPRU processed six out of every 10 permit applications within the stated goal of eight weeks during FY2018 to FY2020. Overall, the average time required to issue a permit was about 13 weeks in FY2018 to FY2020.
- Timeliness issues stem from multiple factors including staff turnover, inexperienced staff, manual processes, reported applicant difficulties meeting Valley Water's insurance requirements and, more notably, bottlenecks in the review and approval process. To better meet expectations for timeliness and communication, alternative strategies for permit processing can benefit Valley Water by improving the operational structure of CPRU's permit process and by adopting better tools designed to:
 - ✓ Ensure timely entry of applications into the CPRU database;
 - ✓ Assist staff and address bottlenecks through the standardization and documentation of policies and procedures;
 - ✓ Expedite automation of the permit process and improve records management;
 - ✓ Renew collaboration with neighboring public agencies to plan for large projects;
 - ✓ Support communications with regular customer service training for staff; and
 - ✓ Enhance tools to facilitate applicant compliance with Valley Water insurance requirements.
- Local agencies have adopted alternative strategies that could also benefit Valley Water, including creating online portals to facilitate the submission of permit applications, communicating the review status of permits, and using a project coordinator to manage the process allowing the engineer to focus on the technical review. To better publicize their services, some local agencies send letters to neighboring property owners annually

or when properties are sold to remind owners of the agency's property rights and how to access its services.

- Valley Water can benefit from an updated fee schedule, based on a fee study, to identify opportunities to close any gaps between permit fees collected and the cost to issue a permit.
- The establishment of a robust framework of financial management internal controls is needed to ensure accurate and timely invoicing and collection of payments for permit fees.

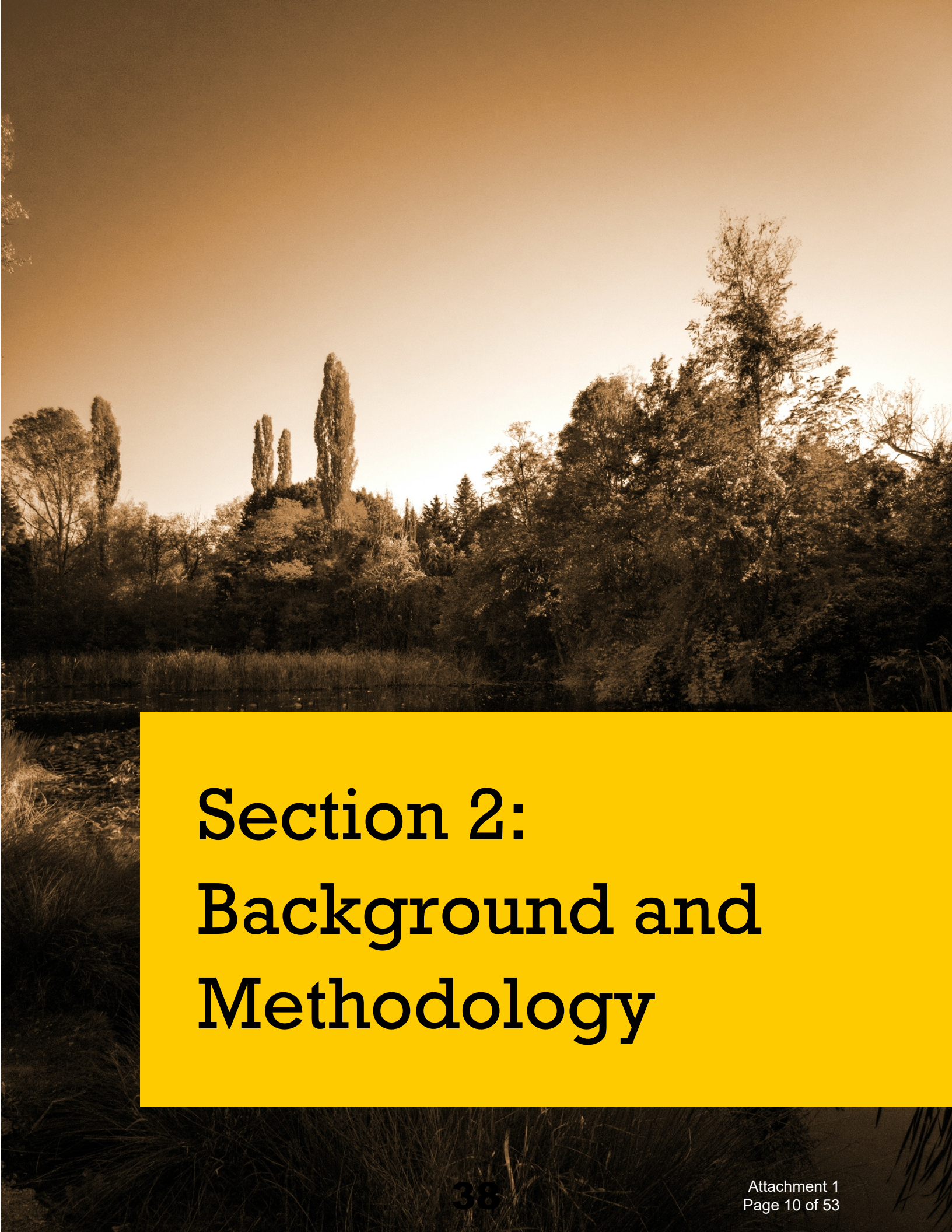
Recommendations

This audit report includes 14 recommendations for Valley Water to consider. These recommendations are designed to streamline CPRU services, address customer expectations for timely permit processing and communication, strengthen workflows and permit tracking, and add controls to CPRU financial management activities.

1. The Watersheds' Chief Operating Officer should consolidate overlapping functions between CPRU and other Valley Water units (such as real estate transactions to RESU and CEQA reviews to the Environmental Planner) to reduce CPRU staff workloads and allow CPRU staff to focus on the provision of permit services.
2. The CPRU Manager should complete standardization of permit review policies, practices, roles, and responsibilities.
3. The CPRU Manager should develop and implement a training program that includes various courses on:
 - a. Permit processing for new and inexperienced staff, which will reduce time spent on final review and approval of draft permits.
 - b. Customer service, building on the training experience of some CPRU staff completed earlier this year.
 - c. Risk management, through coordination with the Valley Water Risk Manager, on Valley Water's insurance requirements.
4. The CPRU Manager should establish criteria for the order in which permit applications will be reviewed, who has the authority to authorize exemptions from that process and under what special circumstances authority could be delegated to issue a permit.
5. The CPRU Manager should assign customer liaison responsibilities (to one or two individuals) to ensure consistent and timely communication on permit applications to help meet customer expectations.

6. The CPRU Manager, in collaboration with Valley Water Information Technology Unit, should continue efforts to identify and implement the solutions for desired functionality needed to strengthen permit processing, which include:
 - a. Electronic submission of permit applications and supporting documents that automatically creates an electronic permit review file.
 - b. Expanded search function for researching past projects and permits.
 - c. Customizable dashboards and/or reports that facilitate management oversight of permit processing timeliness, invoice aging, and other measures of performance.
 - d. Tools, such as a request form or ticketing system, to help CPRU track requests for services in addition to permit reviews received from internal and external stakeholders.
 - e. Ability for customers to self-check the status of their applications and other service requests through interface of the new customer resource management system with the new document management system.
 - f. Minimize the administrative burden of tracking and reporting time spent on permit review and other asset protection services by CPRU and other Valley Water units.
7. The CPRU Manager should renew regular consultations with other member agencies of the Water Resources Protection Collaborative to allow CPRU to plan for upcoming large land review development requests and to establish a process for monitoring the status of existing agreements.
8. The CPRU Manager, in coordination with the Valley Water Risk Management Unit Manager, should develop communication strategies, such as instructional videos, screen shots, and/or brochures to make it easier for applicants and insurance brokers to understand Valley Water's insurance requirements.
9. The CPRU Manager, with the assistance of the Watershed's Chief Operating Officer, should explore the feasibility of adopting strategies of other local agencies to promote their permit services, such as:
 - a. Change the name of CPRU to a name that better describes its functions.
 - b. Adopt a new model for the allocation of work among staff to minimize delays due to heavy demand, such as separating the roles of project coordination from technical review.
 - c. Conduct regular outreach by letter or other communication to neighboring property owners (and to new buyers of neighboring property) describing Valley Water's permit services, the reason for the permit process, and how to access the services.
10. Valley Water's CEO, with approval of the Board, should consider setting a goal for cost recovery from fees charged for permit services.

11. The CPRU Manager, in coordination with the Valley Water Chief Financial Officer, should update the current fee schedule based on the results of a fee study. The study should evaluate charging an hourly rate for inspections completed versus the current flat inspection fee.
12. The CPRU Manager should adopt a risk-based permit review strategy to reduce processing time for low-risk, repetitive types of permit applications. Clarify in the strategy how time spent on the review of permit applications and other processing tasks should be tracked and invoiced.
13. The CPRU Manager and the Chief Financial Officer should seek to identify an IT solution to ensure timely and accurate recording of invoices, payments and deposits. One option to consider is to use Valley Water's core financial management information system.
14. The CPRU Manager, in coordination with the Chief Financial Officer, should establish processes for invoicing and collection of payments that includes a robust framework of financial management internal controls, in particular the segregation of duties for billing and collections; cash management; monitoring of aging receivables; and reconciliation.



Section 2: Background and Methodology

Background

What is an Encroachment Permit?

An encroachment permit is permission from Valley Water for another party to enter, modify or use a Valley Water facility, its property or right-of-way. Examples of permitted activities include accessing Valley Water property to install a fiber optic line or pipelines that cross Valley Water facilities, collect fish for biological testing, erect a fence, cleanup litter and debris, construct and maintain a telecommunications tower or build a bridge over a local waterway.

To protect Valley Water Watersheds and Utility assets and interests from external activities and threats, the Water Resources Protection Ordinance² requires that Valley Water determine – through the permit review process – that the proposed activity meets nine requirements based on “substantial evidence” that the activity:

1. Will not impede, restrict, retard, pollute, change direction of the flow of water, catch or collect debris carried by such water;
2. Is located where natural flow of the storm and flood waters will not damage or carry any structure or any part there of downstream;
3. Will not damage, weaken, erode, cause siltation, or reduce the effectiveness of the banks to withhold storm and flood waters;
4. Will be constructed to resist erosion and siltation and entry of pollutants and contaminants;
5. Will not interfere with maintenance responsibilities or structures placed or erected for flood protection, water conservation or distribution;
6. Conforms to the requirements of the District Water Resources Protection Manual; and
7. Meets the purpose and intent of the District Act.
8. Issuance of the Encroachment Permit is in the public interest; and
9. Issuance of the Encroachment Permit will not result in conflict with or detriment to existing of planned District facilities.

² Appendix C provides more information about Valley Water’s Water Protection Ordinance.

Methodology

Scope of Work

The CPRU's delivery of encroachment permit services from FY2018 through FY2020 are the focus of this audit. Valley Water's ongoing effort to develop a new program to license or permit existing encroachments by residential property owners was not included in the scope of this audit; a separate audit of this program is included in the Annual Audit Work Plan of the Independent Auditor.

Project Approach

To determine if alternate permit processing activities could benefit Valley Water and to assess how Valley Water's permitting process compares with other local agencies, the Auditor performed activities using six methods described below.

- Review and analysis of the following policies, procedures, and documentation of the CPRU:
 - Position descriptions of CPRU and current responsibilities/duties.
 - CPRU policies and procedures related to encroachment permit processing, invoicing, inspections and other CPRU operations.
 - Valley Water's Water Resources Protection Ordinance, Manual, and Guidelines & Standards for Land Use Near Streams.
 - Valley Water's Encroachment Permit Application/Request for Real Estate Services, amendment application, and fence cost share application.
 - Valley Water website for encroachment permits.
 - Valley Water organizational charts.
- Interviews with CPRU staff responsible for processing encroachment permit applications and inspecting permitted projects, include:
 - CPRU Manager
 - Staff Analyst
 - Associate Engineers
 - Assistance Engineers
 - Resident Construction Inspector
 - Supervising Engineering Technician
 - Supervising Program Administrator
- Implementation of an online survey of encroachment permit holders to whom CPRU issued a permit in FY2020. The survey used CPRU-provided email addresses of permit

holders with a response rate of 30 percent (29 of 96 permit holders). The survey instrument and results can be found in Appendix A.

■ Analysis of financial data including:

- FY2021 Adopted Budget
- Annual financial audit for FY2019
- Data extracted from the CPRU database by CPRU staff showing the total dollar amount of fees for each permit issued in FY2018 to FY2020
- Report showing the total dollar amount for each invoice from FY2018 to FY2020 (detailed fee data was not readily available)
- Outstanding unpaid invoices and amounts as of January 2021
- Valley Water salary tables
- Data extracted from the CPRU database by Valley Water IT staff showing the number of hours billed for reviews conducted in FY20

■ Analysis of permit data including:

- QMR for FY2018 to FY2020 for measures owned by CPRU.
- Data for permits issued in FY2018 to FY2020 extracted from the CPRU database by CPRU staff, including:
 - Pre-application content and disposition
 - Permit application content
 - Time to process the pre-application, application
 - Disposition of the permit application
 - Modifications to the application

■ Research into eight local agencies' permitting practices, including three cities and counties in the Bay Area and five water agencies in California. Information on the types of permits issued, permit application requirements and submission methods, was collected from the City of San Jose, City of Santa Rosa, and Santa Clara County. Additional information on permit and inspection fees, communication practices with customers, insurance requirements, and methods for publicizing the agency's permit services were collected from five California water agencies: San Diego County Water Authority, Santa Margarita Water District, Metropolitan Water District, Imperial Irrigation District, and the Coachella Valley Water District. The water agencies were selected based on the following criteria:

- Issues encroachment permits
- Located in California
- District boundaries include suburban areas
- Website includes permit application

This performance audit used qualitative evidence, documentary evidence, and other performance information to assess the CPRU efficiency of the encroachment permit process. The

Auditor took additional steps to corroborate and substantiate qualitative information described in the report per generally accepted government auditing standards.

Assessment of the Reliability of Data

Section 9.2 of generally accepted government auditing standards require auditors to describe limitations or uncertainties with the reliability or validity of evidence if: (1) the evidence is significant to the findings and conclusions within the context of the audit objectives; and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions.

Auditors were unable to assess the integrity of the data extracted by staff from the CPRU database because electronic access to the CPRU's information system was not available.

Assessment of Internal Controls

Section 9.20 of generally accepted government auditing standards require auditors to assess the adequacy of internal controls if they are significant to the audit's objectives. The objectives of this performance audit did not require an internal control assessment, but policies and procedures and other controls were reviewed to identify potential improvements.

Audit Statement

The Auditor conducted this performance audit per generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. A draft report was provided to the CPRU Manager. Comments were incorporated as applicable throughout the report.



Section 3: Key Findings

Finding 1: CPRU Provides Many Services to Protect Valley Water's Assets and Interests, Beyond Issuing Encroachment Permits; Some Overlap the Role of Other Valley Water Units

Demand for CPRU's services has fluctuated over the past ten years and at the time of the audit, demand was high. For FY2021 to-date, the number of submittals is on track to exceed 1,000 requests, a level last recorded in FY2011. Over the first three quarters of FY2021, CPRU reported already having received 845 requests for its services, including encroachment permits. CPRU staff attribute the increased demand to an increase in construction projects during the COVID pandemic.

In addition to processing permit applications, CPRU staff provide other services to protect Valley Water's watersheds and utility assets and interests. These services include:

- Performing flood plain analysis;
- Conducting CEQA compliance reviews;
- Providing technical assistance to local agencies in reviewing hydraulic analysis and other issues affecting local water ways;
- Managing and negotiate Joint Use Agreements with cities and the County for recreational use of Valley Water property;
- Communicating and serving as an intermediary with State and Federal agencies for designated projects/permittees;
- Providing preliminary project reviews to determine if a permit is required;
- Negotiating and preparing licenses, cost share agreements, and land rights transfers for non-capital projects;
- Operating the USA (Underground Service Alert) Desk;
- Maintaining Valley Water GIS showing Valley Water property rights; location of all CPRU files, suspected and verified un-permitted encroachments, Adopt-a-Creek information (available locations, un-adoptable areas and adopted areas) and locations of Joint Use Agreements;
- Archiving record drawings and update drawing database;
- Maintaining and correcting the DEED database;
- Annual updating of Valley Water land rights on assessor maps; and,
- Responding to public records requests, access Valley Water requests, and public inquiries related to flooding information, land rights, land use restrictions, and use of Valley Water right of way.

CPRU staff perform at least three services – performing real estate transactions, conducting CEQA reviews and performing flood analysis – that are consistent with the role of other Valley Water

Units within the Watersheds Department. First, CPRU will process most aspects of a real estate transaction, including negating the terms, if the transaction is needed to issue an encroachment permit, while others will request these services from the RESU depending on the expertise of the individual. In addition, CPRU is responsible for performing other RESU-related activities, such as negotiating and preparing licenses, cost share agreements, and land rights transfers for non-capital projects, including the preparation of Board agenda memos on real estate related activities, although individual staff involved said they will request the RESU's assistance to obtain appraisals and close escrow. Staff explained that CPRU traditionally leads the real estate estimate transaction if an encroachment permit is involved or if the customer wants to dedicated property to Valley Water rather than having RESU accept responsibility.³

Second, qualified CPRU staff reported performing CEQA compliance reviews, a service that staff explained can also be provided and is sometimes referred to the Environmental Planner. Similarly, some CPRU staff perform flood analysis – if they have the qualifications – while other CPRU staff refer the analysis to the Hydrology, Hydraulics and Geomorphology Unit. By having other Valley Water units perform these time-sensitive functions, which CPRU staff described as having delayed their reviews of other less time-sensitive permit applications, the workloads for CPRU could be reduced and focused on permit review and disruptions further minimized.

³ In a prior audit examining Valley water's real estate services, the audit presented to the Board a matter for consideration; to assess the feasibility of consolidating the delivery of Valley Water real estate services and permitting services by combining the RESU and CPRU into a single unit to leverage opportunities. RESU did not agree with the consolidation.

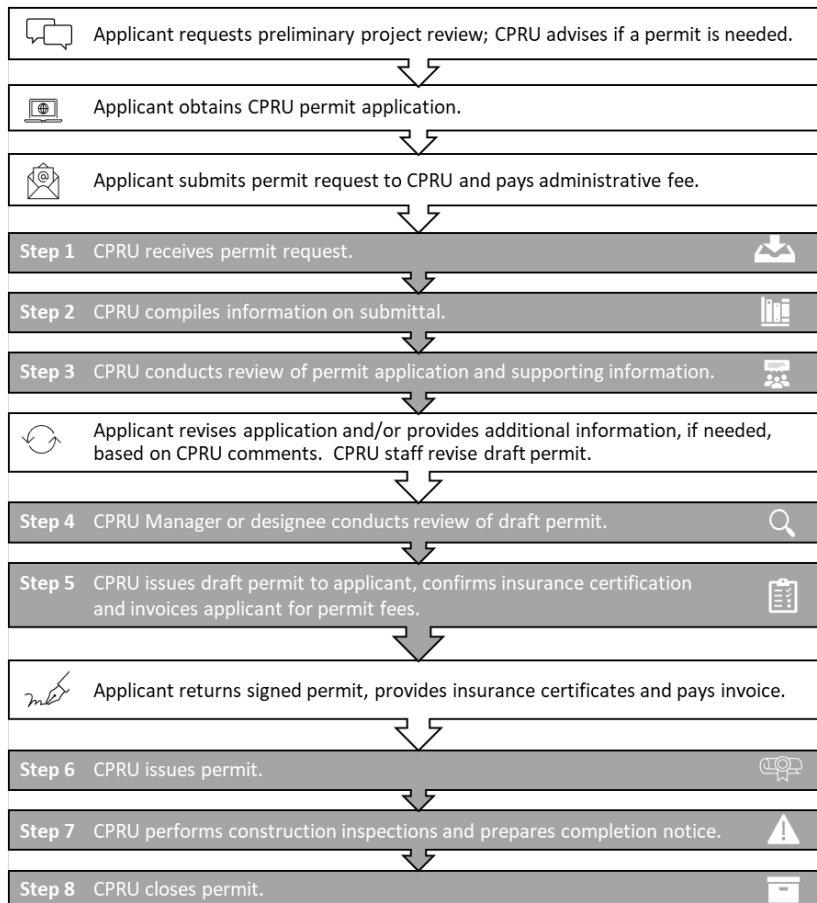
Finding 2: CPRU's Permit Process Could be Better at Meeting Customer and its Own Expectations for Timeliness and Communication

Permittees Want Faster Permit Processing and Better Communication with Applicants

Valley Water's permit process, shown in Figure 1, requires CPRU staff to collect, and share information from a variety of sources, including the applicant, Valley Water records, and

with other Valley Water units. Appendix B includes a more detailed description of the permit process, based on CPRU's policies and procedures for permit processing.

Figure 1. Overview of the CPRU Permit Process⁴



To assess customer satisfaction with Valley Water's encroachment permit process, the Independent Auditor surveyed applicants to whom CPRU issued encroachment permits in FY2018

⁴ Source: Independent Auditor analysis of CPRU policy and procedure "Review of Community Projects" effective date 6/11/2019 and interviews with CPRU staff.

to FY2020. Survey results show that almost two-thirds (62 percent) of 29 survey respondents reported overall satisfaction with Valley Water’s encroachment permit process, as shown in Figure 2 below.⁵ More than one-third (38 percent) of respondents reported their experience with the Valley Water Permit process was unsatisfactory. Staff reported that when CPRU receives complaints from applicants either directly by the customer or by communication from Valley Water Board members, the person receiving the complaint will attempt to address the applicants’ concerns.

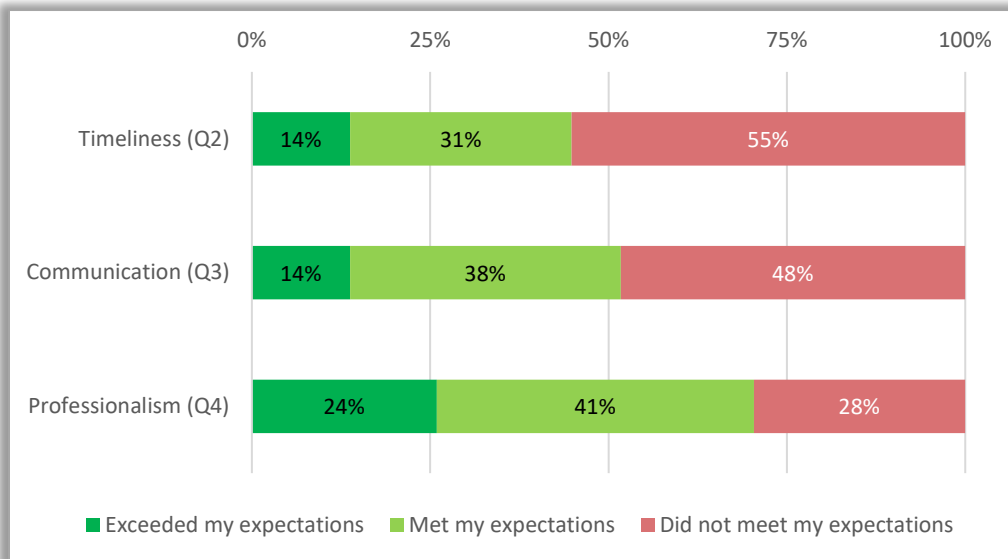
Figure 2. Customer Satisfaction with Valley Water’s Encroachment Permit Process (Q1)



Source: Independent Auditor survey of Valley Water customers issued permits in FY2020.

Survey results also show that CPRU did not meet about half of applicants’ expectations for timeliness (55 percent) and communication (48 percent), shown in Figure 3 below. However, most (65 percent) survey respondents said that Valley Water met or exceeded their expectations for professionalism, by providing courteous, clear, and complete answers to their questions regarding their permit application or the permit process.

Figure 3. Customer Satisfaction with Timeliness, Communication, and Professionalism of CPRU



Source: Independent Auditor survey of Valley Water customers issued permits in FY2020.

Survey respondents also offered their own suggestions for how Valley Water could improve its permit process. Eleven respondents asked for a faster review process and eight respondents asked for improved communication when permits are received and there are changes in the

⁵ Twenty-nine (29) of the 96 permit holders (30%) completed the voluntary survey, sent to the email address provided by the applicant. Appendix A contains the complete survey results. A survey was conducted because CPRU does not track customer complaints or collect other customer satisfaction data.

processing status. A respondent commented, “Everyone I have worked with at the Valley Water have been knowledgeable and helpful. Permit turnaround time has been measured in months instead of weeks for minor permits. There is not a process to let you know of the status of the permit.” And three respondents complimented CPRU, with one stating: “The CPRU office was great, they did an excellent job with processing my permit application.”

CPRU Has Mixed Success in Meeting Its Goals for Timely Permit Processing

CPRU has set the goal to review and issue an encroachment permit within six to eight weeks.⁶ Analysis of CPRU’s processing times for permits issued in FY2018 to FY2020 found that CPRU met the goal about half of the time,

when measured from the date of application submission. Although most applicants (84 percent) submitted a final project plan with their application, staff said that they must wait for this information to begin their review. When measured from the date the applicant had submitted the final project plan, CPRU met the goal for 61 percent of permits issued during FY2018 to FY2020, as shown in Figure 4. CPRU, overall, averaged a little over 13 weeks in FY2018 to FY2020 to issue a permit.

Figure 4. Timeliness of CPRU Permit Issuance

Processing Time	Submission of Final Plans to Permit Issuance		
	Number of Permits	% of Total Permits	Cumulative %
Less than 4 weeks	160	35%	
4-6 weeks	55	12%	
6-8 weeks	65	14%	61%
8-12 weeks	63	14%	
12-16 weeks	42	9%	84%
16-20 weeks	15	3%	
20-24 weeks	12	3%	90%
More than 6 months	49	11%	100%
Total	461	100%	

Source: Independent Auditor analysis of CPRU staff extraction of data from the CPRU database. Permits were excluded from the analysis if data was missing for key processing dates.

Note: The analysis includes all permit applications for all types of projects submitted. Data provided to the Auditor by CPRU did not identify the complexity or size of the project, nor differentiate between those types of requests that would be expected to require minimal, if any, revisions to the initial request and those that would be expected to have re-submissions as the projects develops.

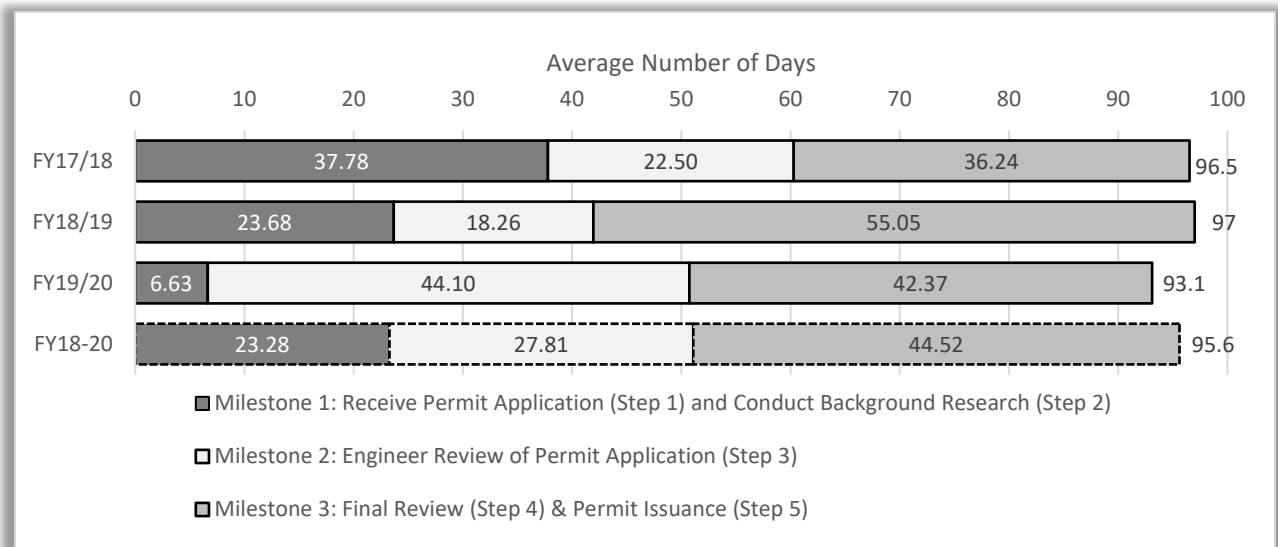
⁶ CPRU staff explained that review times will vary depending on the size and complexity of the project and available Valley Water staff resources. Large, complex projects are often submitted to CPRU during the project’s planning phase, staff reported, and it is assumed that applicants would not expect to receive a permit within the six-to-eight weeks of submission because the project is still in a planning phase.

Finding 3: Timeliness Concerns Attributed to Multiple Factors

Engineers Spend More Time Reviewing Permits

While the time to complete the first two steps of the permit process declined by almost a month (a change of 31.15 days) as shown in Figure 5, the engineer review time increased by three weeks (a change of 21.6 days), which can be partially attributed to recent turnover and vacancies in the positions responsible for the initial steps in the permit process. The resulting vacancies led to the temporary shifting of some responsibility for compiling background information in step 2 to the engineers conducting the permit review in step 3. Similarly, three of the eight engineers responsible for these activities had a year or less experience at the time of the audit.

Figure 5. Days to Complete Steps of CPRU Permit Processing, from Receipt to Issuance, FY2018 to FY2020



Source: Independent Auditor analysis of CPRU staff extraction of data from the CPRU database. Permits were excluded from the analysis if data was missing for key processing dates.

Bottlenecks Occur at the End of the Permit Review Process

The final review and permit issuance activities were generally the longest part of the permit process and revealed a bottleneck in the process. As shown in Figure 5 above, the amount of time CPRU spent on the final steps in the permit issuance process (Steps 4 and 5) averaged about six weeks (44.52 days) over the three fiscal years. Staff attributed the “bottleneck” to the CPRU Manager having many other responsibilities in addition to being the sole person with the authority to sign the permits. Staff estimated it can take up to a week for

the Manager to review to the draft permit and then additional time for staff to make any desired changes or corrections, which the CPRU Manager again reviews. Staff said this process can be repeated if the draft permit is also reviewed by an Associate Engineer. To help address this bottleneck, the CPRU Manager reported that Valley Water management has recently authorized the conversion of a vacant Associate Engineer position into a new Senior Engineer position to assist the CPRU Manager with the review of drafts permits and correspondence.

Permit Applicants Experience Challenges in Meeting Insurance Requirements

Another factor attributed to longer processing times is the time required for applicants to obtain proper insurance documentation from their providers and submit that documentation to CPRU for

subsequent approval. An applicant must submit the required insurance documentation along with any fees, before CPRU issues the final permit.⁷ Valley Water staff reported that applicants frequently struggle to provide the correct insurance documentation on the first attempt and often must contact their brokers for additional endorsements, delaying the issuance of the permit. Data was not available to assess the frequency or length of the delays to permit issuance caused by applicant struggles with the insurance requirement; CPRU does not track the number of permits that were delayed by applicants' efforts to meet the insurance requirements.

To prevent delays related to the submittal of required insurance documentation, CPRU staff said they take several actions. Staff will provide applicants with examples of the types of insurance documentation needed from insurance brokers during the review process; request applicants obtain the insurance documentation early in the application review process; and the CPRU Manager has plans to ask Risk Management to provide CPRU staff training on the insurance requirements.⁸

Some Permit Applications Are Not Recorded on a Timely Basis

Entry of permit applications into the CPRU Database is a key first step to timely processing & effective communication. Applicants can submit a permit application to CPRU using three different methods: (1) submitted via USPS mail to the CPRU;

(2) emailed or mailed directly to an Associate or Assistant Engineer known to the applicant; or (3) submitted by email to the CPRU dropbox. Having three different methods for submitting applications creates challenges in their recording and tracking. Staff explained that historically,

⁷ The encroachment permit application states: "Insurance: A certificate of insurance and additional insured endorsement acceptable to Valley Water must be provided prior to issuance of a Valley Water encroachment permit. Valley Water, its directors, officers, agents, employees, and volunteers must be named as additional insureds in the general, automobile liability, and worker's compensation insurance policies. Valley Water and the other foregoing individuals must remain as additional insureds until the later of: (i) the expiration for the Valley Water encroachment permit; or (ii) the completion of all of Applicant's activities on the Valley Water right-of-way. Specific requirements are shown on the Insurance Requirements information sheet (WF75113)."

⁸ The annual audit work plan of the Independent Auditor includes a separate review of Valley Water's insurance function and requirements.

they enter an application into the CPRU database within 24 hours of receipt and distribute the applications with supporting information to the engineers up to one week of receipt, which the Independent Auditor verified through an analysis of the permit data for FY2020.⁹

Nonetheless, CPRU staff acknowledged that some permits are not entered on a timely basis into the CPRU database. This issue occurs when (1) an applicant emails their application directly to an engineer for review and does not also submit the application to the CPRU dropbox for entry into the CPRU database, or (2) the engineer begins the review process without forwarding the application for data entry into the system. CPRU staff explained that applicants will send their applications directly to them, with the hope of reducing the permit process review time. Staff have admittedly overlooked applications because they were not entered into the CPRU database, delaying its review and processing. To prevent unrecorded applications, the CPRU Manager has instructed staff to forward all applications to the CPRU dropbox and for staff to request that all applicants use the CPRU email address to ensure the application is sent to the CPRU dropbox.

Permit Review Activities Need Better Standardization and Clarity

CPRU needs to standardize and document current application review practices. Heavy workloads (as well as the challenges that come with working from home due to the pandemic and fires), staff explained, has made it difficult

to set aside time for less experienced staff to be trained on the permit process, limiting their ability to work independently, and resulting in more time spent on revising the work performed during the final review process. While CPRU has created templates for completing Adopt-a-Creek, fence cost shares, license/permits, and utility crossing permits, development of review checklists for use by newer staff can ensure consistency and completeness of the work. The CPRU Manager acknowledged the importance of updating the Unit's remaining policies and procedures but has not found the time for the update.

CPRU has not established criteria for the order in which applications will be reviewed, if exemptions to that criteria are allowed and under what special circumstances authority could be delegated from the CPRU Manager to issue a permit. Without criteria, staff reported interrupting their review of an application to work on another application designated as a "higher" priority, extending the review process for the now lower priority application. Finally, the lack of formal and documented processes for time-intensive activities, such as obtaining input from other Valley Water units, adds time to this portion of the review process. While some Valley Water units are very responsive to CPRU requests for input into the permit review process, other units do not have designated points of contact, causing staff to spend additional time identifying the correct person to provide input. Staff reported waiting several weeks to months for these units to provide their input because of the absence of agreements on expected completion dates. The policies and procedures provided also do not address under what special circumstances – such

⁹ While more than three weeks were needed to complete the first two steps in the permit process in FY2018, this declined to about 6 days in FY2020.

as absences or large workloads – that may require delegation of the authority from the CPRU Manager to issue permits.¹⁰

Further definition and standardization of the roles and responsibilities of each CPRU staff person in the permit review process could also reduce review times. Traditionally, CPRU divided the District into regions and assigned staff to be experts in that region of the District and responsibility for reviewing all permit applications, requests for technical assistance, joint use agreements, and other public inquires impact that region. Staff turnover and the high volume of requests for assistance has forced CPRU to move away from this model for assigning workloads. An option for an updated model would be to dedicate staff to the review of certain types of “straightforward” permits – as is already the practice for the Technical Support team to draft fence cost sharing and adopt-a-creek permits – to reduce review times for these permit types.

Permit Processing is Primarily a Manual Process

The current permit process is manual; a paper file is created and CPRU’s permit review and approval is based on the hard copy documentation. Manual processes are prone to processing errors and require extensive effort to manage manual record keeping systems. Staff further

spend time printing emails, maps and other documents that are submitted electronically by applicants to create and maintain a paper file for each permit application.

In addition, limitations of the current permitting database have necessitated manual processing. For example, paper files must be created because the database only allows one PDF document to be uploaded for each file, requiring staff to consolidate all the supporting documentation into that single PDF for storage in the application. Accessing that uploaded documentation is difficult, staff said, because they cannot search the database. The database also does not support an electronic workflow of the permit process. For example, staff cannot use the database to send messages to applicants on the status of their application, on which staff reported dedicating, on average, half an hour or more each day sending emails or retuning phone calls to update applicants on their applications’ status.

Many of CPRU’s records are also stored only in physical files. Despite a recently completed effort by staff to create an electronic inventory of the boxes of the physical files, staff described their continuing efforts to search through file boxes to locate the desired permit file and then search again to find additional files of oversized as-built drawings and plans.

Valley Water has initiated efforts to replace the current CPRU database with an enhanced document storage and management system; the replacement of the CPRU database is one of two pilot projects planned before implementing the system agencywide. Desired features of a new system, in addition to those identified by CPRU staff above, include an information technology (IT) solution to automate applicant submission and entry of the application into the

¹⁰ The Water Resources Protection Ordinance defines the Permit Authority as, “District employee designated by the CEO to make decisions regarding the issuance of encroachment permits.”

CPRU database or its replacement and allowing applicants to self-check the status of their applications reducing time spent preparing correspondence.

Valley Water's IT management said the replacement system will be implemented during the summer of 2021 and can be configured to address some but not all CPRU desired features.¹¹ The new system is a cloud-based document management system (ECM) that will be configured to automate the workflow of Valley Water's permit process. The new system can also provide workflow management for documents, analytics dashboards and time tracking but does not have an invoicing function, a feature of the current CPRU database. IT management also plans to implement a new Customer Resources Management (CRM) system, as a tool for all Valley Water units, to use to communicate with external customers. IT management said further research is needed to determine if and how the systems can send notifications to permit applicants during the review process. Until the new ECM and CRM systems interface, CPRU may need to record information on a permit's status into both systems because the new document management system cannot be used on its own to send communications to customers.

CPRU Does Not Consistently Plan for Large Reviews

Renewal of regular consultations with Water Resources Protection Collaborative members could help CPRU plan ahead and minimize any disruption or delays to other permit applications from larger, tight-deadline or time-intensive

development projects. CPRU could conduct outreach with cities and other owners of properties adjacent to the District to identify upcoming large projects and pre-plan for the permits and other agreements, such as real estate transactions, to ensure these proposed projects will meet the requirements of the Water Resources Protection Ordinance. This type of advanced planning was the intent of the Collaborative that developed the *Guidelines* and Water Resources Protection Ordinance in 2005-2007, but a decade later and turnover of the Collaborative participants has led to a need for Valley Water to renew its efforts. Also, CPRU does not have a system in place to manage and monitor the status of its joint use agreements of Valley Water property. For example, Valley Water allowed an agreement with the City of San Jose to expire in FY2019 despite a QMS performance standard to monitor that "agreements with responsible partner agencies are in place for appropriate public access to District facilities."

¹¹ CPRU is one of two Valley Water units being used to pilot the new document management system, which IT plans to eventually implement throughout Valley Water.

Finding 4: Local Agencies' Strategies Could Benefit Valley Water

Some Agencies Utilize Online Customer Service Portals to Upload Permit Application and to Check Permit Status

Information was collected from eight local agencies on their permit processes and tools. Three cities have created online portals that allow applicants to submit a permit application and/or upload supporting documentation and for applicants to obtain information about the status of their applications. These three localities estimated a two-to-four-week time frame for the initial review, after all supporting documentation is submitted, although the localities qualified that additional review time may be needed for complex projects. By automating the submission process, the online portal or a similar tool helps to reduce the chance of an application being overlooked.

As shown in Figure 6 below, the five water agencies we contacted issue encroachment permits and all report using similar methods as Valley Water for applications submission; like Valley Water, none used an online portal. Reported times for permit processing varied across the five agencies, with Valley Water's estimate falling in the middle. An official at one agency said they typically process permits within two weeks of submission, while another agency informs applicants that a minimum of four months is needed to complete the permit process for a "straightforward" permit such as day use of agency property. Agency staff explained that additional time is needed to process permits for land uses that require real estate transactions, review of construction plans for facilities such as solar farms or the development of housing. Most agencies said that the COVID pandemic had increased their processing times.

Figure 6. Estimated Permit Processing Times from Other California Water Agencies

Agency	Estimated Permit Processing Time
Valley Water	6-8 weeks
Other Water Agencies	4-12 weeks
	2 weeks
	4-6 months
	3-4 weeks
	4 weeks (30 days)

Source: Independent Auditor interviews with staff from water agencies.

One Agency Uses a Project Coordinator to Facilitate Communication and Timely Processing

One agencies used a slightly different model for communicating with the permittee in comparison to Valley Water. The agency assigns an Engineering Technician to serve in the role of project coordinator. The Engineering Technician coordinates the Engineer's review of the

technical aspects of the proposed activity, real estate services, input from other departments, manages the records, and serves as the point of contact for the applicant, and is responsible for all communication with the applicant to allow the Engineers more time to work on the technical reviews. At Valley Water, the Engineers assigned to review the application also serves as the project coordinator, because CPRU only has one Engineering Technician position, reducing the amount of time an Engineer has to work on their technical reviews.

Other Agencies Identify Themselves Differently; Renaming CPRU May Avoid Confusion

Some CPRU staff, when discussing the challenges they face in coordinating the permit review process with other Valley Water units and applicants, said the name CPRU – Community Projects Review Unit – hindered rather than helped explain what the Unit does,

creating confusing within Valley Water and among applicants who try to find the correct Valley Water unit responsible for permit processing.

As shown In Figure 7 below, four of the five units within other agencies have property, real estate, or right-of-way in their name because the two functions – issuing encroachment permits and executing real estate transactions – both require an assessment of the impact of the proposed activity on the District’s property rights and authorized uses of the District’s property.

Figure 7. Comparison of Unit Names Responsible for Permit Processing

Agency	Unit Names Responsible for Permit Processing
Valley Water	Community Projects Review Unit
Other Water Agencies	Property Management Group
	Engineering
	Secondary Land Use, Real Property Group
	Real Estate Section, Operational Resources
	Right-of-Way Division

Other Agencies Outreach Annually to Publicize Agency’s Permit Services

To publicize their services, two water agencies we contacted proactively contact owners of property adjacent to the District using two different methods to publicize their permitting services and prevent unintentional violations.

When ownership of adjacent property is transferred, one agency said they send a letter to the buyer and real estate agent explaining any restrictions and easements on the subject property. This agency said that although their property interest is on the title report, buyers often do not understand the implications. Another agency said, on an annual basis, they send a general letter to adjacent property owners to remind owners to seek permission for a variety of common uses of District property. CPRU does not conduct this type of outreach.

Finding 5: Update Needed for Fee Schedule and Cost Recovery Strategy

Valley Water Recovers Only a Small Percentage of CPRU's Operating Costs from Permit Fees and Other Services

Many local water agencies, like Valley Water, own a large amount of property adjacent to the waterways and facilities that provide and deliver water to their customers. Prior to authorizing the use of their property for other activities, Valley

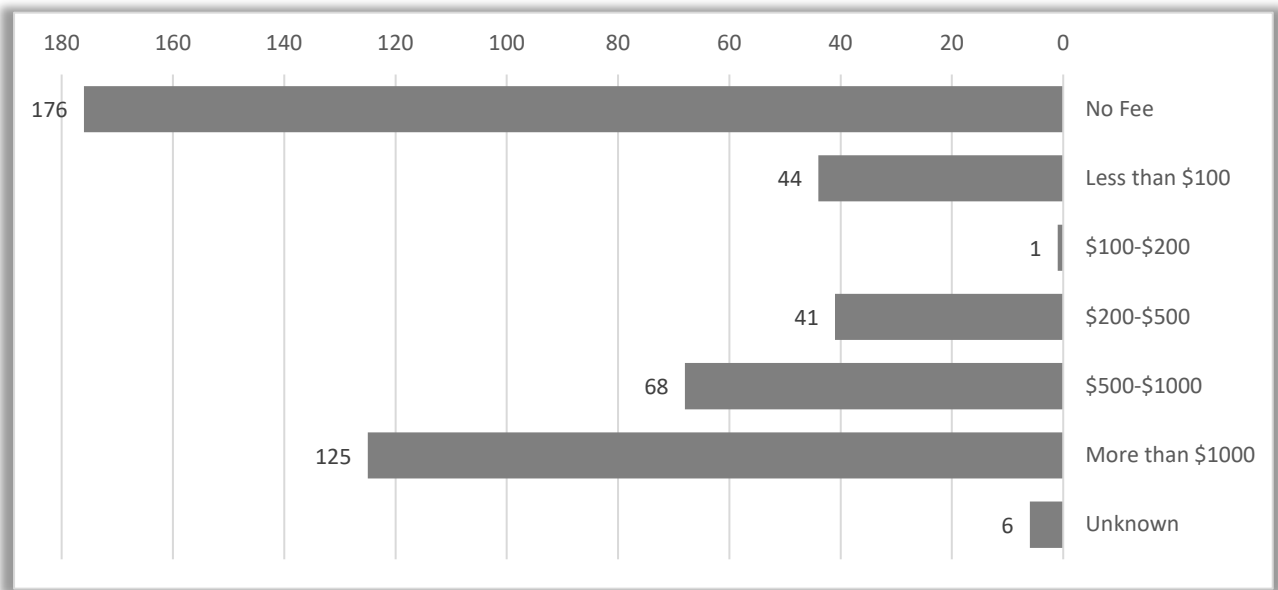
Water's Water Resources Protection Ordinance requires the agency to assess the impact of the proposed use and make certain findings, prior to using an encroachment permit for the use of its lands.¹² Water agencies may charge for the cost of processing the encroachment permit application, as well as the use of its lands for permitted activities.

Water agencies generally do not recover their total costs from the activities they permit on their lands because they typically grant exemptions from the payment of fees to other public agencies and for certain permitted activities on its lands. For example, Valley Water exempts the following activities from payment of fees, including the cost of processing an encroachment permit:

- Adopt-a-Creek permits.
- Fence cost sharing permits.
- Temporary pedestrian access for environmental studies, sampling, surveying, and organized events.
- Activities covered by agreements with other public agencies where there is already an exchange of benefits such as public access for recreational purposes allowed through joint use agreements.
- Preliminary reviews by CPRU staff to determine if a permit is required for the proposed activity.
- Public safety (such as fire and police) emergency or investigatory access involving crime or public safety (excluding training exercises).

As shown in Figure 8 below, over the three-year period FY2018 to FY2020, Valley Water did not charge a fee for 38 percent of 461 permits issued by CPRU. About 27 percent of the permit issued had more than \$1,000 paid in permit fees, including 10 permits that had fees of more than \$10,000.

¹² In accordance with the Water Resources Protection Ordinance and Resolution No. 10-86, the District may recover certain costs to administer permit and other real property transactions. All services provided by District staff must be tracked by pay period for each billable project. All billable hours tracked on this form will be billed to the customer.

Figure 8. Amount of Fees Paid for Permits Issued FY2018 to FY2020.

Source: Independent Auditor analysis of permit data extracted by CPRU staff from the CPRU database.

While Valley Water recovers only a small percentage of the CPRU budget from its permit fees and other invoiced services, there could be opportunities to close the revenue and expense gaps. When compared to its budget, payments for CPRU invoiced fees ranged from 7.2 to 11.5 percent of CPRU's budget for salaries and benefits. When compared to the CPRU's total budget, the total payments from CPRU invoices represent about 4.5 to 6.8 percent. As shown Figure 9, \$106,000 to over \$195,500 represent the majority of invoiced fees (except in FY2018). Of the total amount invoiced by CPRU for its services, in FY2020, about 78 percent were fees for issued permits. The remaining invoiced fees were from floodplain analyses or right-of-way transactions.

Figure 9. Fees Comprise a Small Percent of CPRU's Budget

	FY2018	FY2019	FY2020
CPRU Budget			
CPRU Budget	\$4,309,258.00	\$5,201,835.00	\$5,572,103.00
CPRU Salaries & Benefits	\$2,579,041.00	\$3,145,541.00	\$3,462,948.00
Revenue from Permit Fees & Invoices for All Services			
Total Permit Fees for Issued Permits	\$106,043.14	\$159,414.75	\$195,527.21
Total Payments from CPRU Invoices for All Services (includes Permits, Floodplain analyses, Right of way transactions)	\$292,673.12	\$197,579.03	\$249,450.18
Permit fees as a percent of all invoiced fees	36.2%	80.7%	78.4%
Fee Payments as a Percentage of CPRU Budget			
Total Payments/CPRU Budget	6.8%	3.8%	4.5%
Total Payments/CPRU Salaries & Benefits	11.4%	6.3%	7.2%

Source: Independent auditor analysis of CPRU Invoices, Permit Fees, and Valley Water Budgets.

Updating Valley Water's Fee Schedule, Based on a Fee Study, Could Help Ensure Appropriate Cost Recovery

Local agencies rely on fee schedules to help establish various charges for service. To ensure the public agencies receive adequate compensation, these fee schedules are periodically updated to reflect changes in the costs of services. Local agencies typically

review and update their fee schedules on a regular basis, including their fees for permit services. Despite increases in regional property values and administrative costs, Valley Water's permit fee schedule was last updated a decade ago, in 2011, and Valley Water has not established a mechanism to ensure it is periodically reviewed and updated.¹³ The CPRU Manager plans to work with Valley Water Financial Management and Planning Services to initiate the process to update the standard fee schedule.

Presently, Valley Water's current filing fee for an encroachment permit is \$250.¹⁴ The fees of other local water agencies are \$100, \$250, \$300, \$320, and \$500. Compared to other local water agencies, Valley Water's administrative processing fee for permit applications is the same as another local water agency but \$50-\$250 less than three other water agencies and about \$150 more than a much smaller water agency.

A key cost of processing permits is the salary costs of the staff providing the services. While not a comprehensive fee study, an analysis of Valley Water's salary costs for CPRU staff to perform the administrative activities required to process an encroachment permit found that \$250 may not be sufficient for these costs given that CPRU staff generally spent more time than the minimum estimated on these activities¹⁵. As shown in Figure 10 below, CPRU staff spend an estimated three to eight hours on the administrative activities. Using the salary ranges for the CPRU staff that currently perform these activities, the cost of the administrative activities is estimated to range from about \$195 to more than \$1,022 depending on the staff that perform the activities. This estimate does not include the cost to Valley Water for the equipment and other supplies that also add to the cost to conduct these administrative activities.

¹³ An audit of Valley Water's real estate services recommended, to enhance Valley Water's fiscal performance and asset management strategy, that the CEO should (a) conduct an annual review of the fee schedules maintained by Valley Water to ensure that the fees cover the costs to lease, license, and permit the use of its, and (b) shorten the duration and establish regular fee adjustments on future longer term lease agreements.

¹⁴ Water Resources Protection Ordinance section 2.3.1 states "All applications must be accompanied by a filing fee in an amount established by the Board."

¹⁵ Fee studies are conducted to help public agencies determine appropriate rates; a fee study examines the full costs of providing a service and identifies which costs are eligible for recovery through fees.

Figure 10. Estimate of Valley Water’s Administrative Costs to Process a Permit Application

Steps in Permit Process Related to Administrative Activities		Hourly rate		Staff Estimate of Hours Spent on Task		Estimated Salary Cost of Administrative Activities (Range)	
		Min	Max	Min	Max	Min	Max
Step 1	Receive Permit Application (Engineering Technician)	\$37.21	\$47.63	1	2	\$37.21	\$95.26
Step 2	Compile Background Information (Sup. Engineering Technician & Engineering Technician)	\$37.21	\$65.68	2	10	\$74.42	\$656.80
Step 4	Conduct Final Review of Draft Permit (Engineering Manager)	\$79.05	\$100.94	0.5	1	\$39.53	\$100.94
Step 5	Issue Permit and Update Records (Staff Analyst)	\$44.25	\$56.61	0.5	1	\$44.25	\$169.83
	TOTAL Administrative activities			4	14	\$195.41	\$1,022.83

Source: Analysis of Valley Water salary tables and interviews with CPRU staff.

Updated Guidance for Billing for Staff Time Spent Reviewing Permits is Needed

In addition to the application filing fee, CPRU charges applicants for time spent to review the activity proposed in the permit application. Neither the Water Resources Protection Ordinance and Manual, nor the

CPRU policies and procedures, provide guidance for the billing for staff review time. Generally, the time invoiced is about two hours even when time incurred could be more.

Analysis of time tracking records from FY2020 generally supports the CPRU staff’s assessment of their practices to invoices a standard set of hours.¹⁶ CPRU recorded two hours or less time for most reviews, regardless of whether the time was recorded as billable (83%) or non-billable (76%), as shown in Figure 11 below. Of the 32 reviews where CPRU staff recorded both billable and non-billable hours, eight of the 32 records (25 percent) had more than two hours of billable time entered.

Figure 11. Distribution of the Number of Billable and Non-Billable Hours per Review, FY2020

Number of Hours Per Record	Billable Hours Only	Non-Billable Hours Only	Both Billable and Non-Billable Hours
2 hours or less	132 (83%)	125 (76%)	24 (75%)
2 to 10 hours	23 (14%)	33 (20%)	7 (22%)
10 or more hours	4 (3%)	6 (4%)	1 (3%)
Total	159	164	32

Source: Independent Auditor’s analysis of data provided by CPRU, which was extracted by IT from the CPRU database.

¹⁶ The number of records with no time recorded was not provided.

Staff reasoned that permit applicants should not be charged for the extra administrative time it takes to locate the historical files needed for the review due to its ineffective records management, as discussed in previously in this report. While CPRU has begun to digitize and organize these historical files, progress has been slow because CPRU has chosen to review each file before it is scanned. Valley Water IT management said the implementation of a new document management system during the summer of 2021 should address the limitations of the current CPRU database and physical files. Other reasons staff do not charge for their actual time spent on permit processing include:

- Less experienced staff are not expected to charge applicants for the additional time it takes for them to become familiar with the history of the Valley Water location, facilities, and prior permitted activities.
- CPRU's policies and procedures do not incorporate risk management principles in its permit review. Every permit application has the same level of review, regardless of risk proposed by the activity.
- The administrative burden of having to enter their time in two systems, staff explained, did not justify the entering small amounts of review time for billing.
- Staff has tried to simplify time tracking and reporting for other Valley Water units that participate in the permit review process, but these efforts have not been successful in collecting the time spent by other units for billing purposes. Data was not available to assess the frequency with which other Valley Water units submitted their time spent on permit reviews and for which CPRU staff then invoiced the applicant.
- Individual CPRU staff expressed concern that if they were to invoice for the actual time they spend on each review, applicants would not be willing to pay the additional costs beyond the filing fee and would complain to the Board.

Rather than billing for a set amount of time for each permit review, an alternative approach would be to establish risk-based criteria for the minimum information required to complete a permit review, especially for low-risk activities or repeat types of permit requests. For example, staff said many permit applications from utility companies request similar types of access and present the same types of risk although the locations differ. The repetitive nature of these permit applications could be used to establish the minimum information needed for a permit review for this type of permit, potentially reducing processing times and processing costs.

An alternative to using the new system planned to replace the current CPRU database for invoicing, would be to record in the financial system the gross fees for all time charged and associated costs for the services provided, and then adjusts the fees for invoicing purposes. Although the invoice sent to the customer shows the net fees due only, using the financial system could provide Valley Water better information for revenue and cost recovery analysis.

Other Local Water Agencies Charge Hourly Rate Instead of Flat Fee for Inspections

Once a permit has been issued, depending on the type of permitted activity, Valley Water will schedule inspections at the location of the permitted activity to ensure compliance with the terms of the permit, guided by the Water

Resources Protection Ordinance and Manual. Staff reported that two inspections – typically a preliminary, pre-activity inspection and a second, post-activity inspection – are scheduled and conducted by one full-time inspector. The permittee is generally charged a flat fee for up to two inspections although some larger projects require additional inspections.¹⁷

CPRU staff explained that their flat fee of \$125 per inspection may not cover the actual cost of inspecting a permitted project because the amount of time spent on each inspection varies by the type, complexity, and location of the project. For example, staff described complex projects that required several hours and more than two inspections to review the plans, property, and completion of the paperwork. As shown in Figure 12 below, if the inspector spends more than two hours on an inspection, Valley Water has not recovered its salary costs (nor other materials costs) of the inspection.

Figure 12. Salary Cost for Inspections

Cost to Inspect Permitted Activities		Salary Cost (Hourly rate)		Staff Estimate Hours Spent on Task		Estimated Salary Cost of Performing Inspection (Range)	
		Min	Max	Min	Max	Min	Max
Step 6	Inspection (Resident Construction Inspector)	\$50.06	\$64.07	2	10	\$100.12	\$640.70

Source: Independent Auditor's analysis of data provided by CPRU.

None of the local water agencies researched for this audit charged for inspections using a flat fee. To account for the differences in inspection requirements among permitted activities, other local water agencies reported that they charge an hourly rate for inspections instead of a flat fee. When the agency issues the permit, the agency collects a deposit based on the inspector's estimate of the types of inspections and time needed to perform the inspections. If the estimated cost exceeds the actual cost of the inspection, the agency returns the unused funds to the permit holder after the last inspection.

¹⁷ CPRU staff explained that the CPRU database does not track the number of inspections and a manual count of inspection forms would be required to determine the number performed per project.

Finding 6: Robust Internal Control Framework Needed to Ensure Accurate and Timely Invoicing and Collection of Fee Payments

Internal controls provide reasonable assurance that the objective of a business process, like invoicing for a service provided, will be consistently and properly performed. The audit found that CPRU does not have an automated billing and collection function nor strong internal controls.¹⁸ The issues identified include:

- Manual preparation of invoices for some public agencies.
- Incomplete tracking of all time spent on a permit.
- Absence of documented invoicing and revenue collection policies and procedures.
- Absence of controls to ensure that eligible permits have been invoiced and issued to the agency.
- Improper segregation of duties. Typically, the responsibility for the billing and collection of payments are assigned to multiple staff persons to ensure the proper execution and handling of invoices and payments. Within CPRU, the Staff Analyst is responsible for all financial management functions including the billing, collection and recording of the payments for invoiced services. Similarly, the Staff Analyst is responsible for the handling all aspects of the key deposits, which are required when CPRU gives a permit holder a key to gain access to Valley Water property to perform an activity. Proper segregation of duty would have one staff person accept and record the deposit and another process the return of the key and the permit holder's deposit.
- Absence of system and financial reconciliation. Reconciliation is another internal control used to ensure that payments have been properly collected and recorded, in particular when the permit system and Valley water financial system do not interface and automatically detect errors or other discrepancies. Staff reported that they had not been instructed to reconcile the payments records in the CPRU permit system with the records of the Valley Water financial system.

The absence of strong financial management controls has led to absence of recording and payment of invoices for two public transportation agencies that obtained permits from Valley Water. An undetermined number of invoices were not entered in the CPRU database; and some were never mailed and paid, resulting in a lost revenue opportunity although the magnitude of the financial loss is unknown. The CPRU Manager explained that the retirement of the CPRU staff

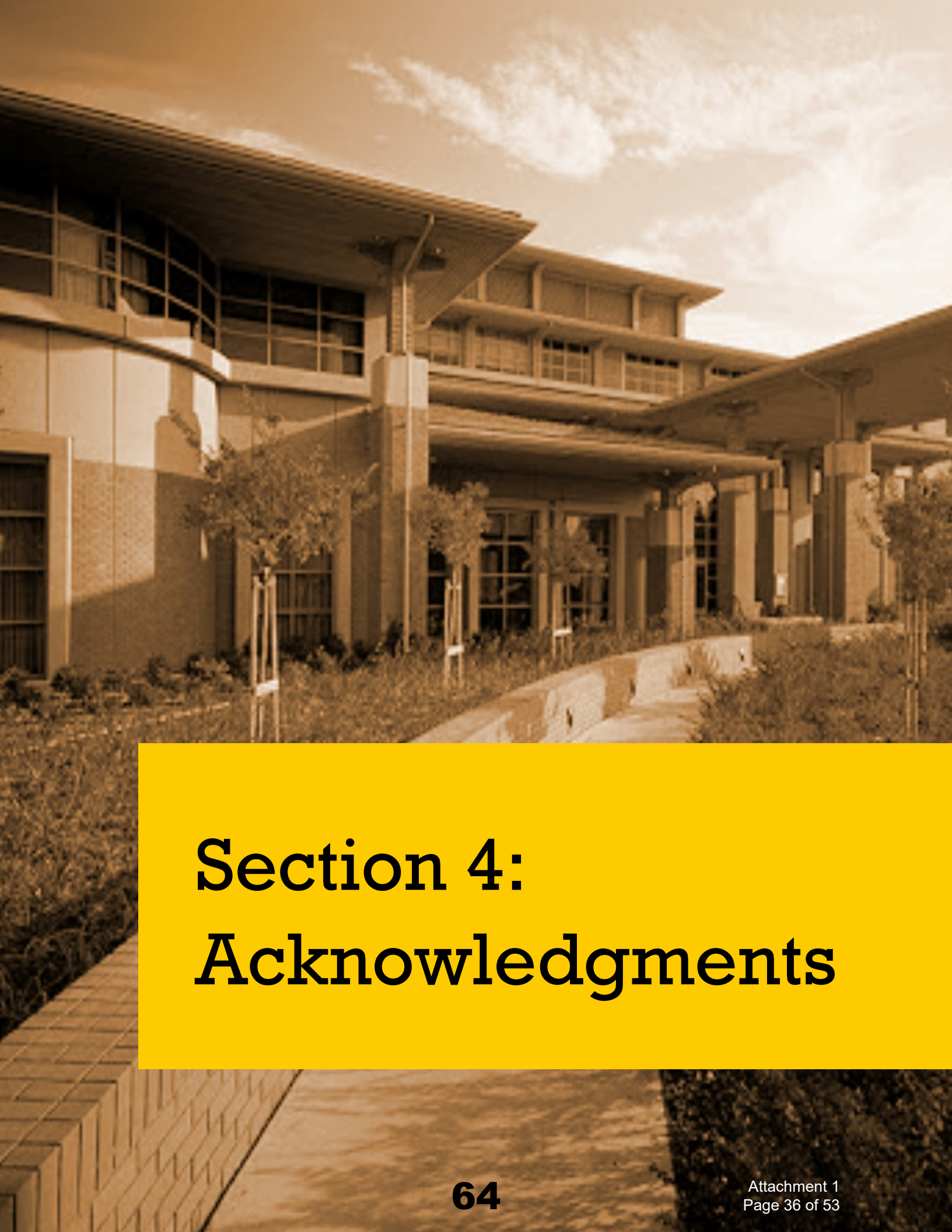
¹⁸ Staff explained that they use the CPRU permit system to input data, create an electronic invoice, and maintain a file record of those invoices, but they manually complete other activities, such as tracking the data used to generate the invoice, invoice approval, recording the receipt of invoice payments, and monitoring unpaid invoices.

responsible for managing the invoices, and the assignment of other staff to critical tasks, led to the oversight of these invoices.¹⁹

At the time of our review, CPRU implemented immediate action to initiate a process to reconcile the paper-based invoices with the CPRU database and seek payment for the outstanding invoices according to Valley Water agreements with the agencies. In addition, the Chief Financial Officer initiated efforts to work with CPRU to help strengthen internal controls to ensure accurate and timely invoicing and fee payments.

Valley Water's IT management said that the new document management system that will replace the CPRU's database will not have an invoicing function although time can be tracked. The new document management system will not be configured to interface with Valley Water's new financial management (ERP) system to allow CPRU to generate invoices. Potential use of Valley Water's new core financial management system to generate invoices and track and record payments (including key deposits) will help CPRU in its efforts to establish a robust internal controls framework and improve its financial reporting.

¹⁹ CPRU did not provide information on the number of invoices that were not entered in the CPRU database. For invoices that were entered into the CPRU database, at the end of December 2020, CPRU reported there were 15 unpaid invoices totaling \$13,831. Staff reported that for invoices recorded in the CPRU database, the system can generate a list of unpaid invoices and provides an automated alert to staff when an invoice is unpaid. However, staff must manually create and send via email a separate reminder to the customer if an invoice is not paid.



Section 4: Acknowledgments

ACKNOWLEDGMENTS

TAP International wishes to thank the Valley Water management and staff who participated in this audit from the following divisions and units:

- Community Projects Review Unit
- The Board of Directors
- Staff from other local agencies



Appendices

APPENDIX A: Anonymized Survey Responses

Valley Water
Customer Satisfaction Survey
Community Projects Resources Unit

****CONFIDENTIAL SURVEY****

Please help us improve Valley Water's permit services by completing this 60-second survey about your experience by **January 15, 2021**. You received this survey because Valley Water identified you as having recently requested a permit to perform work or initiate activity on property owned by the Santa Clara Valley Water District.

Valley Water has contracted with TAP International to conduct this survey. To learn more about TAP International, go to <https://tapinternational.org/>. If you would like to speak to us directly, please contact Denise Callahan or Kate Kousser of TAP International at 916.549.0831.

All responses will be kept confidential and identifying information removed.

OK

1. How would you rate your overall experience with the Valley Water permit process?

- ☐ Excellent
- ☐ Very Good
- ☐ Satisfactory
- ☐ Unsatisfactory
- ☐ Does not apply

Answer Choices	Percent of Responses	Number of Responses
Excellent	21%	6
Very Good	17%	5
Satisfactory	24%	7
Unsatisfactory	38%	11
Does not apply	0%	0
Total	100%	29

2. Did Valley Water process your permit application within a reasonable amount of time?

- ☐ Exceeded my expectations
- ☐ Met my expectations
- ☐ Did not meet my expectations
- ☐ Does not apply

Answer Choices	Percent of Responses	Number of Responses
Exceeded my expectations	13.79%	4
Met my expectations	31.03%	9
Did not meet my expectations	55.17%	16
Does not apply	0.00%	0
Total	100%	29

3. Did Valley Water staff keep you adequately and consistently informed of the status of your permit application?

- ☐ Exceeded my expectations
- ☐ Met my expectations
- ☐ Did not meet my expectations
- ☐ Does not apply

Answer Choices	Percent of Responses	Number of Responses
Exceeded my expectations	13.79%	4
Met my expectations	37.93%	11
Did not meet my expectations	48.28%	14
Does not apply	0.00%	0
Total	100%	29

4. Did you receive courteous, clear, and complete answers to your questions regarding your permit application or the permit process?

- ☐ Exceeded my expectations
- ☐ Met my expectations
- ☐ Did not meet my expectations
- ☐ Does not apply

Answer Choices	Percent of Responses	Number of Responses
Exceeded my expectations	24.14%	7
Met my expectations	41.38%	12
Did not meet my expectations	27.59%	8
Does not apply	6.90%	2
Total	100%	29

5. How could Valley Water improve the permit process?

DONE

Powered by
 SurveyMonkey
 See how easy it is to create a survey.

Answers to Question 5:

- The permit process is straight forward. What needs improvement is the way important information about field conditions and related observations are brought into the greater understanding of environmental conditions, their impact on the community, and methods for bringing to compliance issues that compromise the public safety and security.
- In my experience the permit took a very long time to get.

- I think staff did a good job on processing the encroachment application. The only reason I marked them down on #3 is that it would be nice if the system would confirm receipt of the application so I know it is being worked on. Otherwise, great job!
- Faster reviews, more timely responses.
- Everyone I have worked with at the Valley Water have been knowledgeable and helpful. Permit turn around time has been measured in months instead of weeks for minor permits. There is not a process to let you know of the status of the permit.
- Permit review process takes too long of time and feels unorganized.
- The application was applied for in June 2020 and was issued on Sept. 2020. Invoices and photos were submitted for reimbursement in Oct. 2020 and the District contact person was notified with a phone call on the same day. As of January 2021 still awaiting reimbursement. The only individual who has been helpful in this process, [omitted] who after being contacted for the second time on the timing of the reimbursement contacted me to advise me of the status and timing of when a check might be issued. COVID is no excuse for the lack of response and delays that were encountered. A timely response to the application and reimbursement, to at a minimum meet the District's own published timeline would be a start to improving the process.
- Provide an online status of permits, increasing staff to address projects in a timely manner, etc.
- Assigned permit engineer did not communicate at all for a very routine request after repeated follow-ups, application stated 2 weeks, yet it took nearly 3 months after escalating to supervisor.
- The CPRU office was great, they did an excellent job with processing my permit application.
- speed up the process...have all comments back at the same time. Took almost a year to get permit.
- Clear explanations of fees, reasonable fees (their automatically escalating annual fee in public ROW is outrageous), permit issuance in a timeframe similar to surrounding agencies.
- Speed up the approval/review process. The process took about 6 months to complete and did not get a proper response time from the technician after numerous calls and emails
- Speed it up. I did not receive my permit in time for work prior to start of rains - which were way late this year.
- Expedite it. Return phone calls.

APPENDIX B: Detailed Description of Valley Water's Permit Process

Before the formal permit process begins, a prospective applicant must determine if their planned project or activity will adversely affect Valley Water facilities, property, or right-of way by requesting a preliminary review by CPRU to assess whether the proposed project or activity is feasible and will require a permit. If a permit is required, the applicant must submit project related documentation, such as engineering plans, federal or state environmental permits obtained from other agencies, biological assessments, and as-builts drawings. The permit application states that an application is not considered complete until the applicant has submitted, “all the information, drawings, reports, and other documents required by Valley Water” that show “that the proposed work will not adversely impact Valley Water's interests, including without limitation, the hydraulics, hydrology, structural integrity, maintenance, and property rights of Valley Water’s right-of-way.”

Permit processing then proceeds with three steps: Step 1 - record receipt of the application and Step 2 - compile all pertinent background information about the affected CPRU property and update the District’s GIS layers to show the application. For Step 2, CPRU Technical Support staff compile information from multiple sources: CPRU’s records about the affected property, current assessor’s parcel maps, registered well information, and District GIS layers. The CPRU Manager or designated Associate Engineers assign projects (permit application and the project plans) to CPRU’s Asset Protection Support staff. For Step 3, the Asset Protection Support staff – comprised of Engineers – conducts additional research, coordinates the review of the proposed work by other Valley Water units, and reviews the application and file to ensure that the permit will meet Valley Water’s conditions, land rights, CEQA compliance, and insurance requirements. If the permit requires a real estate transaction, the Engineer will negotiate and prepare licenses, cost share agreements, and land rights transfers for non-capital projects, and may also review the HSLA, plats and description, deed language, appraisals, title reports, and preparation of CEO approval Board agenda memo. Applicants then revise the permit application, if needed, based on the comments from Valley Water reviewers.

The Engineer’s review of the permit may require extra steps to gather more information from applicants regarding the project, or to obtain input from other Valley Water units to assess the impact of the planned project on Valley Water facilities, property, or right-of-way. Once the Engineer has completed their review, the Engineer updates the CPRU database, prepares a draft permit and invoice, and submits the package to the CPRU Manager for review. If an assistant Engineer prepared the draft permit, an Associate Engineer may first review the draft and return to the Assistant for further revisions. Step 4 includes the review and approval of the draft permit by the CPRU Manager, and then in Step 5, the Staff Analyst sends the draft permit to the applicant for signature with the invoice for payment and submission of the insurance requirements. During the COVID pandemic’s work-from-home orders, CPRU adopted the use of DocuSign to allow electronic signature of documents. The CPRU Manager signs the draft permit, making it effective,

after the applicant has returned the signed permit, payment for the invoice, and insurance certificates. In Step 6, CPRU's Resident Construction Inspector performs the inspections as required by the permit. Finally, under Step 7 and upon completion of the permitted work the Staff Analyst under Step 7 obtains and files as-built plans of any permitted work and updates the CPRU database with the status of the permitted work. A separate unit within CPRU is responsible for enforcement of unpermitted activities, which were outside the scope of this audit.

APPENDIX C: Permits & Valley Water's Water Resource Protection Ordinance

Representatives from Valley Water, 15 cities, Santa Clara County, business, agriculture, streamside property owner and environmental interests formed the Water Resources Protection Collaborative in 2002 to clarify and streamline local permitting for streamside activities. In 2005, the Collaborative developed (and Valley Water later adopted) the *Guidelines & Standards for Land Use Near Streams* to guide permitting activities by public agency members of the Collaborative. The *Guidelines* describe 11 permitting tools for Valley Water and other Collaborative members to follow when issuing encroachment or streamside construction permits, including highlighting steps for coordination between the applicant, permit authority (such as Valley Water, the County or one of the 15 member cities) with Valley Water and each other regarding the water resources impact of the proposed activity. Other permitting tools in the *Guidelines* include exempted land uses, definitions of a stream and bank, questions to illicit information to be provided by the applicant about the project and on plans submitted to the permit authority. The Collaborative last updated the *Guidelines* in July 2006.

In 2007, Valley Water adopted the Water Resources Protection Ordinance, so that a Valley Water permit is only required when a person enters, modifies, or otherwise uses a Valley Water facility, property, or right-of-way. Prior to the Ordinance, for construction and activities near streams, applicants were required to obtain a permit from Valley Water regardless of whether the planned construction or activity would impact District facilities or land rights. If the construction or activity does not affect Valley Water's facilities or land rights, then the applicant is only required to obtain a permit from a local land use agency (either a city or the county, if unincorporated). Local land use agencies, staff explained, will often consult with CPRU when the agency receives permit applicants that could affect local waterways.

APPENDIX D: Management's Response

RECOMMENDATION 1 - The Watersheds' Chief Operating Officer should consolidate overlapping functions between CPRU and other Valley Water units (such as real estate transactions to RESU and CEQA reviews to the Environmental Planner) to reduce CPRU staff workloads and allow CPRU staff to focus on the provision of permit services.	
<p>MANAGEMENT RESPONSE: Management agrees with the recommendation.</p> <p>CPRU's critical function is to protect Valley Water assets where community and land development activities overlap. In doing so, staff collaborates with a wide variety of Valley Water staff. CPRU will brainstorm with RESU and Environmental Planning Unit ways to engage SMEs in these units to streamline workflow processes. In addition, Valley Water will be hiring an environmental planner which will help to reduce the overlap of this function.</p> <p>Target Implementation Date: March 2022</p>	<p>INDEPENDENT AUDITOR RESPONSE:</p> <p>Management's response generally satisfies the recommendation.</p> <p>This recommendation is closely related to the Independent Auditor's recommendations to the Watersheds' Chief Operating Office to evaluate the feasibility of consolidating the CPRU and RESU to better streamline activities implemented by each unit, as described in a prior performance audit of the Real Estate Services Unit (<i>Real Estate Services can be a More Effective Resource for Valley Water</i>).</p> <p>A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p>
RECOMMENDATION 2 - The CPRU Manager should complete standardization of permit review policies, practices, roles, and responsibilities.	
<p>MANAGEMENT RESPONSE: Management agrees with the recommendation.</p> <p>CPRU will update and complete the existing permit review policies, practices, and instruction guidance for various types of transactions to bring consistency in the review of projects.</p> <p>Target Implementation Date: June 2022</p>	<p>INDEPENDENT AUDITOR RESPONSE:</p> <p>Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p>

<p>RECOMMENDATION 3 - The CPRU Manager should develop and implement a training program that includes various courses on:</p> <ul style="list-style-type: none"> a. Permit processing for new and inexperienced staff, which will reduce time spent on final review and approval of draft permits. b. Customer service, building on the training experience of some CPRU staff completed earlier this year. c. Risk management, through coordination with the Valley Water Risk Manager, on Valley Water's insurance requirements. 	
<p>MANAGEMENT RESPONSE: Management agrees with the recommendation.</p> <ul style="list-style-type: none"> a) CPRU Manager and experienced staff will share their knowledge on permit processing and hold training sessions on permit review and processing, and guidance instructions for staff. b) CPRU Manager will incorporate customer service protocol into staff training sessions and look for training opportunities in the area of customer service and encourage staff to take the training. c) CPRU Manager and experienced staff will coordinate with Valley Water Risk Manager to develop and implement a training program to educate new staff on a regular basis and develop a guide sheet for customers. <p>Target Implementation Date: March 2022</p>	<p>INDEPENDENT AUDITOR RESPONSE:</p> <p>Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p>

<p>RECOMMENDATION 4 - The CPRU Manager should establish criteria for the order in which permit applications will be reviewed, who has the authority to authorize exemptions from that process and under what special circumstances authority could be delegated to issue a permit.</p>	
<p>MANAGEMENT RESPONSE: Management agrees with the recommendation.</p> <p>CPRU Manager will establish criteria for the order in which permit applications will be reviewed. Typically, the projects submittals are reviewed in the order they are received. The criteria will provide guidance for exceptions, which may be made on a case-by-case basis or as directed by the Permit Authority (CPRU Manager is designated as the Permit Authority). Prior to the planned absence of Permit Authority or other special circumstance, Permit Authority will designate an acting staff member authorized to issue a permit.</p> <p>Target Implementation Date: March 2022</p>	<p>INDEPENDENT AUDITOR RESPONSE:</p> <p>Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p>

RECOMMENDATION 5 - The CPRU Manager should assign customer liaison responsibilities (to one or two individuals) to ensure consistent and timely communication on permit applications to help meet customer expectations.

MANAGEMENT RESPONSE:

Management partially agrees with the recommendation.

In general, the assignment of liaison responsibilities will increase confusion and will take more time of the staff reviewing the permit to provide and explain the details of customer's request to the liaison. CPRU Manager will explore the role of a liaison where this may increase efficiency and coordinate with IT to explore other tools to integrate with the database (See response to Recommendation 6).

CPRU Manager will request additional resources from Management. Use of additional technicians to assist in background research for projects and review of routine, low-risk tasks will free up time to allow engineers to ensure consistent and timely communication on permit applications.

Target Implementation Date: October 2022

INDEPENDENT AUDITOR RESPONSE:

Management's response generally addresses the recommendation. The use of additional resources – either a liaison or technician(s) – to perform provide customer service, would allow engineers more time to perform the technical reviews of permit applications and help to reduce review times. These additional resources may be critical to meeting customer's expectations while Valley Water's planned implementation of a new information systems for customer resource management (CRM) is undertaken that will also interface with another new information system that is planned to replace the current CPRU database. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 6 - The CPRU Manager, in collaboration with Valley Water Information Technology Unit, should continue efforts to identify and implement the solutions for desired functionality needed to strengthen permit processing, which include:

- a. Electronic submission of permit applications and supporting documents that automatically creates an electronic permit review file.
- b. Expanded search function for researching past projects and permits.
- c. Customizable dashboards and/or reports that facilitate management oversight of permit processing timeliness, invoice aging, and other measures of performance.
- d. Tools, such as a request form or ticketing system, to help CPRU track requests for services in addition to permit reviews received from internal and external stakeholders.
- e. Ability for customers to self-check the status of their applications and other service requests through interface of the new customer resource management system with the new document management system.
- f. Minimize the administrative burden of tracking and reporting time spent on permit review and other asset protection services by CPRU and other Valley Water units.

MANAGEMENT RESPONSE: Management agrees and will approach the implementation of this recommendation in phases:

1. Modernize processes, support submission of permit applications, track requests, complete reviews, facilitate online reporting for customers and reduce administrative burden of tracking and reporting through the selection and implementation of a new CPRU online portal. Management will consider options to include this functionality within other active projects such as the Wells Management System Upgrade and Access Valley Water. (6a, d, e, f)
2. Expand search/research functions and reduce administrative burden via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022. (6b, f)
3. Create Dashboards and reports via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022, the ERP Capital Project currently underway. (6c)"

Target Implementation Date: Varies

INDEPENDENT AUDITOR RESPONSE:

Management's response generally addresses the recommendation. A target date to complete all activities should be established and a follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 7 - The CPRU Manager should renew regular consultations with other member agencies of the Water Resources Protection Collaborative to allow CPRU to plan for upcoming large land review development requests and to establish a process for monitoring the status of existing agreements.	
MANAGEMENT RESPONSE: Management agrees with this recommendation. CPRU Manager will contact the cities within Santa Clara County to establish a process or set up regular coordination meetings to plan for upcoming large land development projects. CPRU Manager will explore tools with IT that allow staff to set a trigger and inform of the status of existing agreements several months before the expiration to allow sufficient time for renewal or renegotiation. CPRU staff will also establish a periodic check in with each city to review responsibilities under these agreements. Target Implementation Date: June 2022	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 8 - The CPRU Manager, in coordination with the Valley Water Risk Management Unit Manager, should develop communication strategies, such as instructional videos, screen shots, and/or brochures to make it easier for applicants and insurance brokers to understand Valley Water's insurance requirements.	
MANAGEMENT RESPONSE: Management agrees with this recommendation. CPRU Manager and staff will coordinate with Risk Management Unit Manager to develop communication strategies and re-evaluate the existing insurance requirements to align with the most up-to-date standards in the insurance practices, to make it easier for applicants and insurance brokers. Target Implementation Date: March 2022.	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 9 - The CPRU Manager, with the assistance of the Watershed’s Chief Operating Officer, should explore the feasibility of adopting strategies of other local agencies to promote their permit services, such as:

- a. Change the name of CPRU to a name that better describes its functions.
- b. Adopt a new model for the allocation of work among staff to minimize delays due to heavy demand, such as separating the roles of project coordination from technical review.
- c. Conduct regular outreach by letter or other communication to neighboring property owners (and to new buyers of neighboring property) describing Valley Water’s permit services, the reason for the permit process, and how to access the services.

MANAGEMENT RESPONSE: Management agrees with this recommendation.

- a. CPRU Manager will explore and brainstorm with staff and stakeholders to consider change of unit’s name. (Target Date: March 2022)
- b. CPRU Manager will ascertain a new model to consider separation of project coordination from technical review for low-risk, repetitive permit applications and will request additional resources to pursue implementation of the new model. (Target Date: October 2022)
- c. CPRU Manager and staff will work with Communication Unit to conduct outreach to neighboring property owners, engineering consulting firms, and city staff describing Valley Water’s permit process, and how to access the services. (Target Date: June 2022)

Target Implementation Date: Varies

INDEPENDENT AUDITOR RESPONSE:

Management’s response generally addresses the recommendation. A follow-up audit to assess CRPU’s efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 10 - Valley Water’s CEO, with approval of the Board, should consider setting a goal for cost recovery from fees charged for permit services.

MANAGEMENT RESPONSE: Management agrees and will engage a consultant to assist with updating the fee schedule for Board approval, which incorporates an analysis of a target cost recovery goal.

Target Implementation Date: August 2022

INDEPENDENT AUDITOR RESPONSE:

Management’s response generally addresses the recommendation. A follow-up audit to assess CRPU’s efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 11 - The CPRU Manager, in coordination with the Valley Water Chief Financial Officer, should update the current fee schedule based on the results of a fee study. The study should evaluate charging an hourly rate for inspections completed versus the current flat inspection fee.

MANAGEMENT RESPONSE: Management agrees and will engage a consultant to assist with updating the fee schedule for Board approval, which incorporates an analysis of a target cost recovery goal.

Target Implementation Date: August 2022

INDEPENDENT AUDITOR RESPONSE:

Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 12 - The CPRU Manager should adopt a risk-based permit review strategy to reduce processing time for low-risk, repetitive types of permit applications. Clarify in the strategy how time spent on the review of permit applications and other processing tasks should be tracked and invoiced.

MANAGEMENT RESPONSE: Management agrees with this recommendation.

CPRU Manger will consider strategies to reduce processing time for low-risk, repetitive types of permit applications. CPRU Manager and experienced staff, through permit guidance instructions will add further clarity for new and less experienced staff and reduce ambiguity in the process. (Target Date: June 2022)

Implementation of Recommendation 6 via the implementation of the Data Consolidation Capital Project Proof of Concept and the ERP Capital Project and the results of the fee study with the implementation of Recommendation 11, and results from Recommendation 13 will provide better information and insight to strategize the tracking and invoicing of permit applications and other processing tasks. (Target Date: June 2023 depending on the research outcome in Recommendation 13)

Target Implementation Date: Varies

INDEPENDENT AUDITOR RESPONSE:

Management's response generally satisfies the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 13 - The CPRU Manager and the Chief Financial Officer should seek to identify an IT solution to ensure timely and accurate recording of invoices, payments, and deposits. One option to consider is to use Valley Water's core financial management information system.	
MANAGEMENT RESPONSE: Management agrees and will engage in the research, specification, selection, procurement, and implementation of a comprehensive tool capable of ensuring accurate recording of invoices, payments, and deposits. Target Implementation Date: June 2023 depending on research outcome.	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 14 - The CPRU Manager, in coordination with the Chief Financial Officer, should establish processes for invoicing and collection of payments that includes a robust framework of financial management internal controls, in particular the segregation of duties for billing and collections; cash management; monitoring of aging receivables; and reconciliation.	
MANAGEMENT RESPONSE: Management agrees and will approach the implementation of this recommendation in phases: <ol style="list-style-type: none"> 1. Implement the suggested financial management internal controls under the current CPRU data base system, (Target date – July 2021). 2. Engage a consultant to assist in the development of a billing and revenue collection policy that incorporates best practices (Target date – March 2022). 3. Implement an IT solution for invoicing that is linked to Valley Water's core financial system and aligns with Valley Water's billing and revenue collection policy (Target date – June 2023 depending on the research outcome (R13)) Target Implementation Date: Varies.	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

APPENDIX D: Management's Response

RECOMMENDATION 1 - The Watersheds' Chief Operating Officer should consolidate overlapping functions between CPRU and other Valley Water units (such as real estate transactions to RESU and CEQA reviews to the Environmental Planner) to reduce CPRU staff workloads and allow CPRU staff to focus on the provision of permit services.	
<p>MANAGEMENT RESPONSE: Management agrees with the recommendation.</p> <p>CPRU's critical function is to protect Valley Water assets where community and land development activities overlap. In doing so, staff collaborates with a wide variety of Valley Water staff. CPRU will brainstorm with RESU and Environmental Planning Unit ways to engage SMEs in these units to streamline workflow processes. In addition, Valley Water will be hiring an environmental planner which will help to reduce the overlap of this function.</p> <p>Target Implementation Date: March 2022</p>	<p>INDEPENDENT AUDITOR RESPONSE:</p> <p>Management's response generally satisfies the recommendation.</p> <p>This recommendation is closely related to the Independent Auditor's recommendations to the Watersheds' Chief Operating Office to evaluate the feasibility of consolidating the CPRU and RESU to better streamline activities implemented by each unit, as described in a prior performance audit of the Real Estate Services Unit (<i>Real Estate Services can be a More Effective Resource for Valley Water</i>).</p> <p>A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p>
RECOMMENDATION 2 - The CPRU Manager should complete standardization of permit review policies, practices, roles, and responsibilities.	
<p>MANAGEMENT RESPONSE: Management agrees with the recommendation.</p> <p>CPRU will update and complete the existing permit review policies, practices, and instruction guidance for various types of transactions to bring consistency in the review of projects.</p> <p>Target Implementation Date: June 2022</p>	<p>INDEPENDENT AUDITOR RESPONSE:</p> <p>Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p>

RECOMMENDATION 3 - The CPRU Manager should develop and implement a training program that includes various courses on: <ul style="list-style-type: none"> a. Permit processing for new and inexperienced staff, which will reduce time spent on final review and approval of draft permits. b. Customer service, building on the training experience of some CPRU staff completed earlier this year. c. Risk management, through coordination with the Valley Water Risk Manager, on Valley Water's insurance requirements. 	
MANAGEMENT RESPONSE: Management agrees with the recommendation. <ul style="list-style-type: none"> a) CPRU Manager and experienced staff will share their knowledge on permit processing and hold training sessions on permit review and processing, and guidance instructions for staff. b) CPRU Manager will incorporate customer service protocol into staff training sessions and look for training opportunities in the area of customer service and encourage staff to take the training. c) CPRU Manager and experienced staff will coordinate with Valley Water Risk Manager to develop and implement a training program to educate new staff on a regular basis and develop a guide sheet for customers. <p>Target Implementation Date: March 2022</p>	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 4 - The CPRU Manager should establish criteria for the order in which permit applications will be reviewed, who has the authority to authorize exemptions from that process and under what special circumstances authority could be delegated to issue a permit.	
MANAGEMENT RESPONSE: Management agrees with the recommendation. CPRU Manager will establish criteria for the order in which permit applications will be reviewed. Typically, the projects submittals are reviewed in the order they are received. The criteria will provide guidance for exceptions, which may be made on a case-by-case basis or as directed by the Permit Authority (CPRU Manager is designated as the Permit Authority). Prior to the planned absence of Permit Authority or other special circumstance, Permit Authority will designate an acting staff member authorized to issue a permit. <p>Target Implementation Date: March 2022</p>	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 5 - The CPRU Manager should assign customer liaison responsibilities (to one or two individuals) to ensure consistent and timely communication on permit applications to help meet customer expectations.

MANAGEMENT RESPONSE:

Management partially agrees with the recommendation.

In general, the assignment of liaison responsibilities will increase confusion and will take more time of the staff reviewing the permit to provide and explain the details of customer's request to the liaison. CPRU Manager will explore the role of a liaison where this may increase efficiency and coordinate with IT to explore other tools to integrate with the database (See response to Recommendation 6).

CPRU Manager will request additional resources from Management. Use of additional technicians to assist in background research for projects and review of routine, low-risk tasks will free up time to allow engineers to ensure consistent and timely communication on permit applications.

Target Implementation Date: October 2022

INDEPENDENT AUDITOR RESPONSE:

Management's response generally addresses the recommendation. The use of additional resources – either a liaison or technician(s) – to perform provide customer service, would allow engineers more time to perform the technical reviews of permit applications and help to reduce review times. These additional resources may be critical to meeting customer's expectations while Valley Water's planned implementation of a new information systems for customer resource management (CRM) is undertaken that will also interface with another new information system that is planned to replace the current CPRU database. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 6 - The CPRU Manager, in collaboration with Valley Water Information Technology Unit, should continue efforts to identify and implement the solutions for desired functionality needed to strengthen permit processing, which include:

- a. Electronic submission of permit applications and supporting documents that automatically creates an electronic permit review file.
- b. Expanded search function for researching past projects and permits.
- c. Customizable dashboards and/or reports that facilitate management oversight of permit processing timeliness, invoice aging, and other measures of performance.
- d. Tools, such as a request form or ticketing system, to help CPRU track requests for services in addition to permit reviews received from internal and external stakeholders.
- e. Ability for customers to self-check the status of their applications and other service requests through interface of the new customer resource management system with the new document management system.
- f. Minimize the administrative burden of tracking and reporting time spent on permit review and other asset protection services by CPRU and other Valley Water units.

MANAGEMENT RESPONSE: Management agrees and will approach the implementation of this recommendation in phases:

1. Modernize processes, support submission of permit applications, track requests, complete reviews, facilitate online reporting for customers and reduce administrative burden of tracking and reporting through the selection and implementation of a new CPRU online portal. Management will consider options to include this functionality within other active projects such as the Wells Management System Upgrade and Access Valley Water. (6a, d, e, f)
2. Expand search/research functions and reduce administrative burden via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022. (6b, f)
3. Create Dashboards and reports via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022, the ERP Capital Project currently underway. (6c)"

Target Implementation Date: Varies

INDEPENDENT AUDITOR RESPONSE:

Management's response generally addresses the recommendation. A target date to complete all activities should be established and a follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 7 - The CPRU Manager should renew regular consultations with other member agencies of the Water Resources Protection Collaborative to allow CPRU to plan for upcoming large land review development requests and to establish a process for monitoring the status of existing agreements.	
<p>MANAGEMENT RESPONSE: Management agrees with this recommendation.</p> <p>CPRU Manager will contact the cities within Santa Clara County to establish a process or set up regular coordination meetings to plan for upcoming large land development projects.</p> <p>CPRU Manager will explore tools with IT that allow staff to set a trigger and inform of the status of existing agreements several months before the expiration to allow sufficient time for renewal or renegotiation. CPRU staff will also establish a periodic check in with each city to review responsibilities under these agreements.</p> <p>Target Implementation Date: June 2022</p>	<p>INDEPENDENT AUDITOR RESPONSE:</p> <p>Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p>

RECOMMENDATION 8 - The CPRU Manager, in coordination with the Valley Water Risk Management Unit Manager, should develop communication strategies, such as instructional videos, screen shots, and/or brochures to make it easier for applicants and insurance brokers to understand Valley Water's insurance requirements.	
<p>MANAGEMENT RESPONSE: Management agrees with this recommendation.</p> <p>CPRU Manager and staff will coordinate with Risk Management Unit Manager to develop communication strategies and re-evaluate the existing insurance requirements to align with the most up-to-date standards in the insurance practices, to make it easier for applicants and insurance brokers.</p> <p>Target Implementation Date: March 2022.</p>	<p>INDEPENDENT AUDITOR RESPONSE:</p> <p>Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p>

RECOMMENDATION 9 - The CPRU Manager, with the assistance of the Watershed's Chief Operating Officer, should explore the feasibility of adopting strategies of other local agencies to promote their permit services, such as: <ol style="list-style-type: none"> Change the name of CPRU to a name that better describes its functions. Adopt a new model for the allocation of work among staff to minimize delays due to heavy demand, such as separating the roles of project coordination from technical review. Conduct regular outreach by letter or other communication to neighboring property owners (and to new buyers of neighboring property) describing Valley Water's permit services, the reason for the permit process, and how to access the services. 	
MANAGEMENT RESPONSE: Management agrees with this recommendation. <ol style="list-style-type: none"> CPRU Manager will explore and brainstorm with staff and stakeholders to consider change of unit's name. (Target Date: March 2022) CPRU Manager will ascertain a new model to consider separation of project coordination from technical review for low-risk, repetitive permit applications and will request additional resources to pursue implementation of the new model. (Target Date: October 2022) CPRU Manager and staff will work with Communication Unit to conduct outreach to neighboring property owners, engineering consulting firms, and city staff describing Valley Water's permit process, and how to access the services. (Target Date: June 2022) Target Implementation Date: Varies	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 10 - Valley Water's CEO, with approval of the Board, should consider setting a goal for cost recovery from fees charged for permit services.	
MANAGEMENT RESPONSE: Management agrees and will engage a consultant to assist with updating the fee schedule for Board approval, which incorporates an analysis of a target cost recovery goal. Target Implementation Date: August 2022	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 11 - The CPRU Manager, in coordination with the Valley Water Chief Financial Officer, should update the current fee schedule based on the results of a fee study. The study should evaluate charging an hourly rate for inspections completed versus the current flat inspection fee.	
MANAGEMENT RESPONSE: Management agrees and will engage a consultant to assist with updating the fee schedule for Board approval, which incorporates an analysis of a target cost recovery goal. Target Implementation Date: August 2022	INDEPENDENT AUDITOR RESPONSE: Management’s response generally addresses the recommendation. A follow-up audit to assess CRPU’s efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 12 - The CPRU Manager should adopt a risk-based permit review strategy to reduce processing time for low-risk, repetitive types of permit applications. Clarify in the strategy how time spent on the review of permit applications and other processing tasks should be tracked and invoiced.	
MANAGEMENT RESPONSE: Management agrees with this recommendation. CPRU Manger will consider strategies to reduce processing time for low-risk, repetitive types of permit applications. CPRU Manager and experienced staff, through permit guidance instructions will add further clarity for new and less experienced staff and reduce ambiguity in the process. (Target Date: June 2022) Implementation of Recommendation 6 via the implementation of the Data Consolidation Capital Project Proof of Concept and the ERP Capital Project and the results of the fee study with the implementation of Recommendation 11, and results from Recommendation 13 will provide better information and insight to strategize the tracking and invoicing of permit applications and other processing tasks. (Target Date: June 2023 depending on the research outcome in Recommendation 13) Target Implementation Date: Varies	INDEPENDENT AUDITOR RESPONSE: Management’s response generally satisfies the recommendation. A follow-up audit to assess CRPU’s efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 13 - The CPRU Manager and the Chief Financial Officer should seek to identify an IT solution to ensure timely and accurate recording of invoices, payments, and deposits. One option to consider is to use Valley Water's core financial management information system.	
MANAGEMENT RESPONSE: Management agrees and will engage in the research, specification, selection, procurement, and implementation of a comprehensive tool capable of ensuring accurate recording of invoices, payments, and deposits. Target Implementation Date: June 2023 depending on research outcome.	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

RECOMMENDATION 14 - The CPRU Manager, in coordination with the Chief Financial Officer, should establish processes for invoicing and collection of payments that includes a robust framework of financial management internal controls, in particular the segregation of duties for billing and collections; cash management; monitoring of aging receivables; and reconciliation.	
MANAGEMENT RESPONSE: Management agrees and will approach the implementation of this recommendation in phases: <ol style="list-style-type: none"> 1. Implement the suggested financial management internal controls under the current CPRU data base system, (Target date – July 2021). 2. Engage a consultant to assist in the development of a billing and revenue collection policy that incorporates best practices (Target date – March 2022). 3. Implement an IT solution for invoicing that is linked to Valley Water's core financial system and aligns with Valley Water's billing and revenue collection policy (Target date – June 2023 depending on the research outcome (R13)) Target Implementation Date: Varies.	INDEPENDENT AUDITOR RESPONSE: Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.

2021 PERMITTING BEST PRACTICES AUDIT			
Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
Community Projects Review Unit (CPRU)	1	The Watersheds' Chief Operating Officer should consolidate overlapping functions between CPRU and other Valley Water units (such as real estate transactions to RESU and CEQA reviews to the Environmental Planner) to reduce CPRU staff workloads and allow CPRU staff to focus on the provision of permit services.	<p><u>Management Response:</u> Management agrees with the recommendation</p> <p>CPRU's critical function is to protect Valley Water assets where community and land development activities overlap. In doing so, staff collaborates with a wide variety of Valley Water staff. CPRU will brainstorm with RESU and Environmental Planning Unit ways to engage SMEs in these units to streamline workflow processes. In addition, Valley Water will be hiring an environmental planner which will help to reduce the overlap of this function. Target Implementation Date: March 2022</p> <p><u>Auditor Response:</u> Management's response generally satisfies the recommendation.</p> <p>This recommendation is closely related to the Independent Auditor's recommendations to the Watersheds' Chief Operating Office to evaluate the feasibility of consolidating the CPRU and RESU to better streamline activities implemented by each unit, as described in a prior performance audit of the Real Estate Services Unit (Real Estate Services can be a More Effective Resource for Valley Water).</p> <p>A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: On Target. Environmental Planner hired summer 2021 and now dedicated to CPRU responsible agency review and other necessary CEQA support, including developing streamlining checklists to issue standard exemptions for minor routine permits, including the Adopt a Creek Program. CPRU manager meets regularly with Senior Environmental Planner to coordinate on additional streamlining tools, upcoming projects, and high priority items.</p>

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Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
			<p>CPRU manager held an initial meeting with RESU and the Land Management Unit (LMU) to discuss overlapping functions such as documentation for right-of-way transactions and purchase and sale agreements, quitclaim of excess lands, and information requests for easement requirements. Both RESU and CPRU are currently in recruitment processes for new Unit Managers so these discussions will continue when permanent staff are in place.</p> <p>Status 5/2023:</p> <p>a) Complete. RESU, LMU, and CPRU held discussions in October 2023 and clarified process owner responsibilities and contact information for certain land use transactions which are reflected in an update to the RESU website (https://www.valleywater.org/how-we-operate/real-estate) to inform the public. Additional discussions regarding roles for specific administrative activities (preparation of agenda memos, purchase and sale agreements, etc.) to facilitate the land use transaction will continue when a new RESU manager is hired. The existing QEMS procedure for Real Estate Services will be utilized in the interim.</p> <p>b) Complete. The Senior Environmental Planner has been working with CPRU to provide programmatic CEQA coverage for repetitive permits such as Adopt a Creek and Fence Cost Shares, and a checklist for exemptions and “no project” determinations has been finalized to streamline CEQA coverage for permits. CPRU will continue to support ways to streamline CEQA coverage when possible.</p>
Community Projects Review Unit (CPRU)	2	The CPRU Manager should complete standardization of permit review policies, practices, roles, and responsibilities.	<p>Management Response: Management agrees with the recommendation. CPRU will update and complete the existing permit review policies, practices, and instruction guidance for various types of transactions to bring consistency in the review of projects. Target Implementation Date: June 2022</p> <p>Auditor Response:</p>

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Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
			<p>Management's response generally addresses the recommendation. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: On Target: Completed process improvement study with consultant (ReEngine) to develop current workflow maps and conceptual future-state recommendations for the six major CPRU processes: Priority Information Request, Early Consultation, Technical Peer Review, Permits, Agreements, and ROW transactions. Improvements to the Permit Function are recommended to be primarily technology based: upgrading the current database to allow users to track time for specific categories, create notifications and alerts, and integrate with an external website to allow customers to check on project status at their own convenience through a journeyboard-style dashboard. Other specific process improvement recommendations include cost recovery improvements (see Recommendation 11), revised standard procedures and timelines for internal review, and enhanced website to better inform customers about permit process and requirements.</p> <p>Non IT-based improvements (development and publication of revised/clarified procedures) are on track for implementation by June 2022. For IT-based improvements, see Recommendation 6.</p> <p>Status 5/2023: Ongoing. CPRU is undertaking an update to the Water Resources Protection Manual, an update to the Water Resources Protection Ordinance, and an update to the Fee Rate Schedule to provide clarity for customers and clearer guidance on permit requirements. For IT-based improvements, see Recommendation 6.</p> <p>Revised Target Implementation Date: June 2024</p>
Community Projects Review Unit (CPRU)	3	The CPRU Manager should develop and implement a training program that includes various courses on: a. Permit processing for new and	<p><u>Management Response:</u> Management agrees with the recommendation.</p>

2021 PERMITTING BEST PRACTICES AUDIT			
Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
		<p>inexperienced staff, which will reduce time spent on final review and approval of draft permits.</p> <p>b. Customer service, building on the training experience of some CPRU staff completed earlier this year.</p> <p>c. Risk management, through coordination with the Valley Water Risk Manager, on Valley Water's insurance requirements.</p>	<p>a) CPRU Manager and experienced staff will share their knowledge on permit processing and hold training sessions on permit review and processing, and guidance instructions for staff.</p> <p>b) CPRU Manager will incorporate customer service protocol into staff training sessions and look for training opportunities in the area of customer service and encourage staff to take the training.</p> <p>c) CPRU Manager and experienced staff will coordinate with Valley Water Risk Manager to develop and implement a training program to educate new staff on a regular basis and develop a guide sheet for customers.</p> <p>Target Implementation Date: March 2022</p> <p><u>Auditor Response:</u> Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: a) Complete/Ongoing CPRU Manager reorganized staff in summer 2021 to create an internal unit structure, appointing senior staff in supervisory roles. Among duties of supervisory staff is the onboarding of new members ensuring continual training/mentorship to provide high-level and efficient permit review and processing for direct reports. Acting Unit Manager instigated monthly training sessions, permit procedures training provided 2/22 b) Complete/Ongoing Training session on customer service protocol provided 3/22, new process information to be posted on website as part of Recommendation 2. c) Complete. Insurance requirement guidance sheet updated.</p> <p>Status 5/2023: a) Complete. Each Associate Engineer oversees an Assistant Engineer to provide direct guidance. The Sr. Engineer oversees the work of the Associates to ensure consistency in project reviews.</p>

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Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
			b) Complete. Ongoing customer service protocol training is provided. Staff have made improvements to the application to solicit necessary information up front, and the external website now provides more visibility to the Permits section information.
Community Projects Review Unit (CPRU)	4	The CPRU Manager should establish criteria for the order in which permit applications will be reviewed, who has the authority to authorize exemptions from that process and under what special circumstances authority could be delegated to issue a permit.	<p><u>Management Response:</u> Management agrees with the recommendation. CPRU Manager will establish criteria for the order in which permit applications will be reviewed. Typically, the projects submittals are reviewed in the order they are received. The criteria will provide guidance for exceptions, which may be made on a case-by-case basis or as directed by the Permit Authority (CPRU Manager is designated as the Permit Authority). Prior to the planned absence of Permit Authority or other special circumstance, Permit Authority will designate an acting staff member authorized to issue a permit. Target Implementation Date: March 2022</p> <p><u>Auditor Response:</u> Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: Complete. Initial review of applications occurs in the order the applications are received. However, the timeline for approval of applications is dependent on level of complexity, whether ROW transactions or other agreements are required, jurisdictional complexity (ie transactions/agreements between multiple external parties), timeline for other agencies to provide necessary and complete documentation, availability of internal reviewers from other units, legal complexity and level of risk, workload and competing priorities of legal staff, among many other factors. Criteria to elevate the priority of this review were identified to include regulatory requirements, urgency of request, importance of project to Valley Water interests, and special requests by Board members and executive staff. CPRU Manager delegates authority to an acting Manager during planned absences.</p>

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Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
Community Projects Review Unit (CPRU)	5	The CPRU Manager should assign customer liaison responsibilities (to one or two individuals) to ensure consistent and timely communication on permit applications to help meet customer expectations.	<p><u>"Management Response:</u> Management partially agrees with the recommendation. In general, the assignment of liaison responsibilities will increase confusion and will take more time of the staff reviewing the permit to provide and explain the details of customer's request to the liaison. CPRU Manager will explore the role of a liaison where this may increase efficiency and coordinate with IT to explore other tools to integrate with the database (See response to Recommendation 6). CPRU Manager will request additional resources from Management. Use of additional technicians to assist in background research for projects and review of routine, low-risk tasks will free up time to allow engineers to ensure consistent and timely communication on permit applications. Target Implementation Date: October 2022</p> <p><u>Auditor Response:</u> Management's response generally addresses the recommendation. The use of additional resources – either a liaison or technician(s) – to perform provide customer service, would allow engineers more time to perform the technical reviews of permit applications and help to reduce review times. These additional resources may be critical to meeting customer's expectations while Valley Water's planned implementation of a new information systems for customer resource management (CRM) is undertaken that will also interface with another new information system that is planned to replace the current CPRU database. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: Complete/Ongoing. Additional technicians (2) have been hired and onboarded to conduct routine, low-risk tasks, freeing time for more senior staff to conduct/coordinate technical review in a more timely fashion and provide updates to customers. Additional improvements to customer service and communication to be implemented via database upgrades and customer dashboards (see Recommendation 6).</p>

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Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
			<p>Status 5/2023: Ongoing. For IT-based improvements, see Recommendation 6.</p> <p>Revised Target Implementation Date: June 2024 (IT improvements)</p>
Community Projects Review Unit (CPRU)	6	<p>The CPRU Manager, in collaboration with Valley Water Information Technology Unit, should continue efforts to identify and implement the solutions for desired functionality needed to strengthen permit processing, which include:</p> <ul style="list-style-type: none"> a. Electronic submission of permit applications and supporting documents that automatically creates an electronic permit review file. b. Expanded search function for researching past projects and permits. c. Customizable dashboards and/or reports that facilitate management oversight of permit processing timeliness, invoice aging, and other measures of performance. d. Tools, such as a request form or ticketing system, to help CPRU track requests for services in addition to permit reviews received from internal and external stakeholders. e. Ability for customers to self-check the status of their applications and other service requests through interface of the new customer resource management system with the new document management system. 	<p><u>Management Response:</u> Management agrees and will approach the implementation of this recommendation in phases:</p> <ol style="list-style-type: none"> 1. Modernize processes, support submission of permit applications, track requests, complete reviews, facilitate online reporting for customers and reduce administrative burden of tracking and reporting through the selection and implementation of a new CPRU online portal. Management will consider options to include this functionality within other active projects such as the Wells Management System Upgrade and Access Valley Water. (6a, d, e, f) 2. Expand search/research functions and reduce administrative burden via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022. (6b, f) 3. Create Dashboards and reports via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022, the ERP Capital Project currently underway. (6c) <p>Target Implementation Date: Varies</p> <p><u>Auditor Response:</u> Management's response generally addresses the recommendation. A target date to complete all activities should be established and a follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022 Ongoing. IT-based improvements (database upgrades, notification/tracking and dashboard capabilities): team review of initial product workplans from Salesforce and OnBase</p>

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		f. Minimize the administrative burden of tracking and reporting time spent on permit review and other asset protection services by CPRU and other Valley Water units.	<p>Document Management anticipated in Spring 2022, implementation timeline TBD.</p> <p>Status 5/2023:</p> <ol style="list-style-type: none"> 1. Ongoing. CPRU is working on a RFP for the creation of an online customer service portal which it anticipates bringing to the Board for approval by the of 2023. 2. Ongoing. CPRU has specified that its online customer service portal must have expanded and agile search capabilities. 3. Ongoing. CPRU has specified that its online customer service portal must have configurable dashboards for management. <p>Revised Target Implementation Date: June 2024</p>
Community Projects Review Unit (CPRU)	7	The CPRU Manager should renew regular consultations with other member agencies of the Water Resources Protection Collaborative to allow CPRU to plan for upcoming large land review development requests and to establish a process for monitoring the status of existing agreements.	<p><u>Management Response:</u> Management agrees with this recommendation. CPRU Manager will contact the cities within Santa Clara County to establish a process or set up regular coordination meetings to plan for upcoming large land development projects. CPRU Manager will explore tools with IT that allow staff to set a trigger and inform of the status of existing agreements several months before the expiration to allow sufficient time for renewal or renegotiation. CPRU staff will also establish a periodic check in with each city to review responsibilities under these agreements. Target Implementation Date: June 2022</p> <p><u>Auditor Response:</u> Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: Complete/Ongoing. Regular consultations have been set up with Valley Transportation Authority, County Parks, and City of San Jose to discuss current, expiring, and new Joint Use and Joint Trail Agreements and allow for early input in the trails planning process. Monthly meeting with City of Sunnyvale Planning and Public Works department was set up, and meetings with other</p>

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			<p>cities to commence this spring. Database upgrades anticipated to include status reminders for agreements with upcoming expiration dates (within 2 years). CPRU staff maintain a current list of agreements and expiration dates.</p> <p>Status 5/2023: Complete. CPRU presented a refresher on the Guidelines and Standards to the Santa Clara County Association of Planning Officials and the Town of Los Altos Hills. CPRU is also a member of the Technical Advisory Committees at the City of Gilroy and City of Morgan Hill. Agreements are currently tracked on a spreadsheet for monitoring by expiration date, but staff expects to replace this manual process with an automated process as part of database upgrades—See recommendation 6 for IT-related updates.</p>
Community Projects Review Unit (CPRU)	9	<p>The CPRU Manager, with the assistance of the Watershed’s Chief Operating Officer, should explore the feasibility of adopting strategies of other local agencies to promote their permit services, such as:</p> <ul style="list-style-type: none"> a. Change the name of CPRU to a name that better describes its functions. b. Adopt a new model for the allocation of work among staff to minimize delays due to heavy demand, such as separating the roles of project coordination from technical review. c. Conduct regular outreach by letter or other communication to neighboring property owners (and to new buyers of neighboring property) describing Valley Water’s permit services, the reason for the permit process, and how to access the services. 	<p><u>Management Response:</u> Management agrees with this recommendation.</p> <ul style="list-style-type: none"> a. CPRU Manager will explore and brainstorm with staff and stakeholders to consider change of unit’s name. (Target Date: March 2022) b. CPRU Manager will ascertain a new model to consider separation of project coordination from technical review for low-risk, repetitive permit applications and will request additional resources to pursue implementation of the new model. (Target Date: October 2022) c. CPRU Manager and staff will work with Communication Unit to conduct outreach to neighboring property owners, engineering consulting firms, and city staff describing Valley Water’s permit process, and how to access the services. (Target Date: June 2022) <p>Target Implementation Date: Varies</p> <p><u>Auditor Response:</u> Management’s response generally addresses the recommendation. A follow-up audit to assess CRPU’s efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022</p> <ul style="list-style-type: none"> a. Complete. Unit brainstormed ideas for new name. Suggestion was made to change title to the Water Resources Protection Unit,

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Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
			<p>but some expressed concern that this title would lead to the public confusing Valley Water with the Regional Water Quality Control Board (which already occurs). Unit agreed that since the primary function is to review community projects, the unit is named appropriately.</p> <p>b. Complete. Two staff technicians added to conduct straightforward/routine engineering reviews and permit processing. Technicians perform first pass and conduct preliminary research into land rights, as-builts, flood information and qualifications, and other background research, and provide initial recommendations to staff.</p> <p>c. On Target. Supervising engineering technician coordinating with Communications unit to update external website and optimize visibility. Permit services discussed at regular meetings with city staff.</p> <p>Status 5/2023:</p> <p>c. Complete. The external website has been updated so that Permits can be seen on the main webpage to optimize visibility. A permit process timeline has been created for placement on the website for customers.</p>
Community Projects Review Unit (CPRU)	10	Valley Water's CEO, with approval of the Board, should consider setting a goal for cost recovery from fees charged for permit services.	<p><u>Management Response:</u> Management agrees and will engage a consultant to assist with updating the fee schedule for Board approval, which incorporates an analysis of a target cost recovery goal. Target Implementation Date: August 2022</p> <p><u>Auditor Response:</u> Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: On Target. Assessed need for consultant services to conduct comparative fee structure and cost recovery goal analysis, and present updated fee schedule for Board approval. Assessment</p>

2021 PERMITTING BEST PRACTICES AUDIT			
Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
			<p>concluded that internal experts will conduct the analysis and made recommendations.</p> <p>Status 5/2023: Ongoing. Internal finance experts will resume the analysis and make recommendations upon completion of the water utility rate setting process for FY24.</p> <p>Revised Target Implementation Date: December 2023.</p>
Community Projects Review Unit (CPRU)	11	The CPRU Manager, in coordination with the Valley Water Chief Financial Officer, should update the current fee schedule based on the results of a fee study. The study should evaluate charging an hourly rate for inspections completed versus the current flat inspection fee.	<p><u>Management Response:</u> Management agrees and will engage a consultant to assist with updating the fee schedule for Board approval, which incorporates an analysis of a target cost recovery goal. Target Implementation Date: August 2022</p> <p><u>Auditor Response:</u> Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: On Target See recommendation 10.</p> <p>Status 5/2023: Ongoing. See recommendation 10.</p> <p>Revised Target Implementation Date: December 2023.</p>
Community Projects Review Unit (CPRU)	12	The CPRU Manager should adopt a risk-based permit review strategy to reduce processing time for low-risk, repetitive types of permit applications. Clarify in the strategy how time spent on the review of permit applications and other processing tasks should be tracked and invoiced.	<p><u>Management Response:</u> Management agrees with this recommendation.</p> <p>a. CPRU Manger will consider strategies to reduce processing time for low-risk, repetitive types of permit applications. CPRU Manager and experienced staff, through permit guidance instructions will add further clarity for new and less experienced staff and reduce ambiguity in the process. (Target Date: June 2022)</p> <p>b. Implementation of Recommendation 6 via the implementation of the Data Consolidation Capital Project Proof of Concept and the ERP Capital Project and the results of the fee study with the</p>

2021 PERMITTING BEST PRACTICES AUDIT			
Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
			<p>implementation of Recommendation 11, and results from Recommendation 13 will provide better information and insight to strategize the tracking and invoicing of permit applications and other processing tasks. (Target Date: June 2023 depending on the research outcome in Recommendation 13) Target Implementation Date: Varies</p> <p><u>Auditor Response:</u> Management's response generally satisfies the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: a. Complete. See recommendation 9b (new staff) and 1 (checklist for streamlining CEQA responsible agency review of Adopt A Creek projects). b. On Target. See Recommendation 6.</p> <p>Status 5/2023: b. Ongoing. See Recommendation 6.</p> <p>Revised Target Implementation Date: June 2024.</p>
Community Projects Review Unit (CPRU)	13	The CPRU Manager and the Chief Financial Officer should seek to identify an IT solution to ensure timely and accurate recording of invoices, payments, and deposits. One option to consider is to use Valley Water's core financial management information system.	<p><u>Management Response:</u> Management agrees and will engage in the research, specification, selection, procurement, and implementation of a comprehensive tool capable of ensuring accurate recording of invoices, payments, and deposits. Target Implementation Date: June 2023 depending on research outcome.</p> <p><u>Auditor Response:</u> Management's response generally addresses the recommendation. A follow-up audit to assess CRPU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p>

2021 PERMITTING BEST PRACTICES AUDIT			
Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
			<p>Status 5/2022: On Target. An interim fix has been successfully deployed to temporarily address the issue. Software upgrade (see Recommendation 2) will provide a permanent fix. Consultant provided system requirement recommendations, which are currently under review, for inclusion in the new software process.</p> <p>Status 5/2023: Ongoing. See Recommendations 2 and 6 for IT upgrade status. CPRU has specified that its online customer service portal must have an ability to integrate invoicing.</p> <p>Revised Target Implementation Date: June 2024</p>
Community Projects Review Unit (CPRU)	14	The CPRU Manager, in coordination with the Chief Financial Officer, should establish processes for invoicing and collection of payments that includes a robust framework of financial management internal controls, in particular the segregation of duties for billing and collections; cash management; monitoring of aging receivables; and reconciliation.	<p><u>Management Response:</u> Management agrees and will approach the implementation of this recommendation in phases: a. Implement the suggested financial management internal controls under the current CPRU data base system, (Target date – July 2021). b. Engage a consultant to assist in the development of a billing and revenue collection policy that incorporates best practices (Target date – March 2022). c. Implement an IT solution for invoicing that is linked to Valley Water’s core financial system and aligns with Valley Water’s billing and revenue collection policy (Target date – June 2023 depending on the research outcome (R13) Target Implementation Date: Varies.</p> <p><u>Auditor Response:</u> Management’s response generally addresses the recommendation. A follow-up audit to assess CRPU’s efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 5/2022: a. Complete. CPRU Invoices are processed in MuniBilling as of April 2022. b. On Target. Valley Water engaged financial consultant (MGO) to provide expertise in drafting a new CPRU billing policy. Final Reports expected May 2022.</p>

2021 PERMITTING BEST PRACTICES AUDIT			
Action Item Owner	Ref #	Summary of Recommendation	Updates/Notes
			<p>c. On Target. Existing billing system (MuniBilling) has been leveraged as a temporary solution while new CPRU system is researched, identified and implemented. The temporary solution was successfully rolled out in April 2021 and is currently in use. See Recommendation 6.</p> <p>Status 5/2023:</p> <p>b. Complete. CPRU and Continual Improvement Team staff finalized a Billing Policy and Billing Process document based on the recommendations from MGO. CPRU will route the documents to management for approval and make the documents part of the QEMS system so that regular review and updates can occur.</p> <p>c. Ongoing. See Recommendations 2 and 6 for IT upgrade status. CPRU has specified that its online customer service portal must have an ability to integrate invoicing. Currently CPRU has to create invoices in Oracle and MuniBilling which created additional work to address the recommendation in the interim.</p> <p>Revised Target Implementation Date: June 2024</p>



Valley Water

Clean Water • Healthy Environment • Flood Protection



Permitting Best Practices: Community Projects Review Unit (CPRU) Performance Audit Progress Report

Board Audit Committee

May 15, 2023

Key Accomplishments

- Established dedicated environmental planner support and streamlined California Environmental Quality Act (CEQA) review.
- Identified IT system requirements and launched procurement process for permit database upgrades and financial software.
- Created a Billing Process and Policy to address financial controls.
- Updated permit forms and increased webpage visibility.

CPRU's **critical function** is to protect Valley Water assets where community and land development activities overlap.

7 Core Processes



Recommendations 1 and 2 **Confirm Core Functions and Standardize Processes**

- ✓ CEQA Categorical Exemption Checklist complete and in use
- ✓ Defined process owner roles for CPRU, Real Estate Services Unit (RESU), and Lands Management Unit (LMU) which are communicated on RESU external website
- ✓ Streamlined standard procedures and routine permits
- ✓ Revise Water Resources Protection Ordinance (WRPO), Water Resources Protection Manual (WRPM), and fee rate schedule

Status: Ongoing

WRPM REVISION

Internal Stakeholder Review

Raw Water Operations
Watershed O&M Water
Quality

Technical Review Panel

Santa Clara County Parks
Roads and Airports
City Public Works

External Stakeholder Review

Environmental groups
Private developers

Committee and Board Review

BPPC
EWRC
Public Hearing
Board Consideration

Opportunities
for Input

◀ Phase 1 - 2022

Right of Way Use Policy Project (Emerging
Leaders Program)

◀ Phase 2 - 2023

Revise WRPM

◀ Phase 3 - 2024

Complete public process

Recommendation 3 Training Program

- Implemented supervisory structure to improve knowledge sharing and mentoring
- Monthly training sessions by senior staff are standard in unit meetings
- Increased visibility on Valleywater.org
- Updated application to solicit necessary information up front

Status: Complete



valleywater.org

Recommendation 5 and 6 IT Upgrades—Cityworks RFP underway

#	TASK	Purpose: System Supporting Requirements	Broad Description	Specifications
1	Customer Relationship Management (CRM): Track Hours per project	Provide hour tracking mechanism for specific projects that can support resource management and cost recovery actions	New database features will allow users to track time for specific categories such as billable hours for technical peer review, permits, or agreements	Database must be able to track time dedicated to specific actions that is easily tracked, researched and used for dashboard integration
3	Database system notifications and flagging actions	Reminders for tasks and follow-up actions that do not require manual updating	Create system generated notifications to support Client notifications of information requests	System generates notifications to alert client on status changes for IR
4	Dashboard Integration from Database/CRM to promote visibility to all Internal VW Units	Promote visibility, transparency and accountability of VW Units that are pending information for a CPRU administrative action; provide VW leadership with a current status of projects at their convenience	Website Integration promotes Customer (internal or external) to check on their project status at their own convenience	External (Customer) users can look-up status of information or administrative requests that will promote visibility through customer access
5	Customer Relationship Management (CRM): Funnel all request to a centralized repository	Transparency, status, and assigned staff working open information requests.	Identify system that provides common operating picture through transparency to replace current "IR Drop-Box process" for requests pending in the que.	System provides Project Management tracking for information request; allows collaboration capability for multiple users to work single request

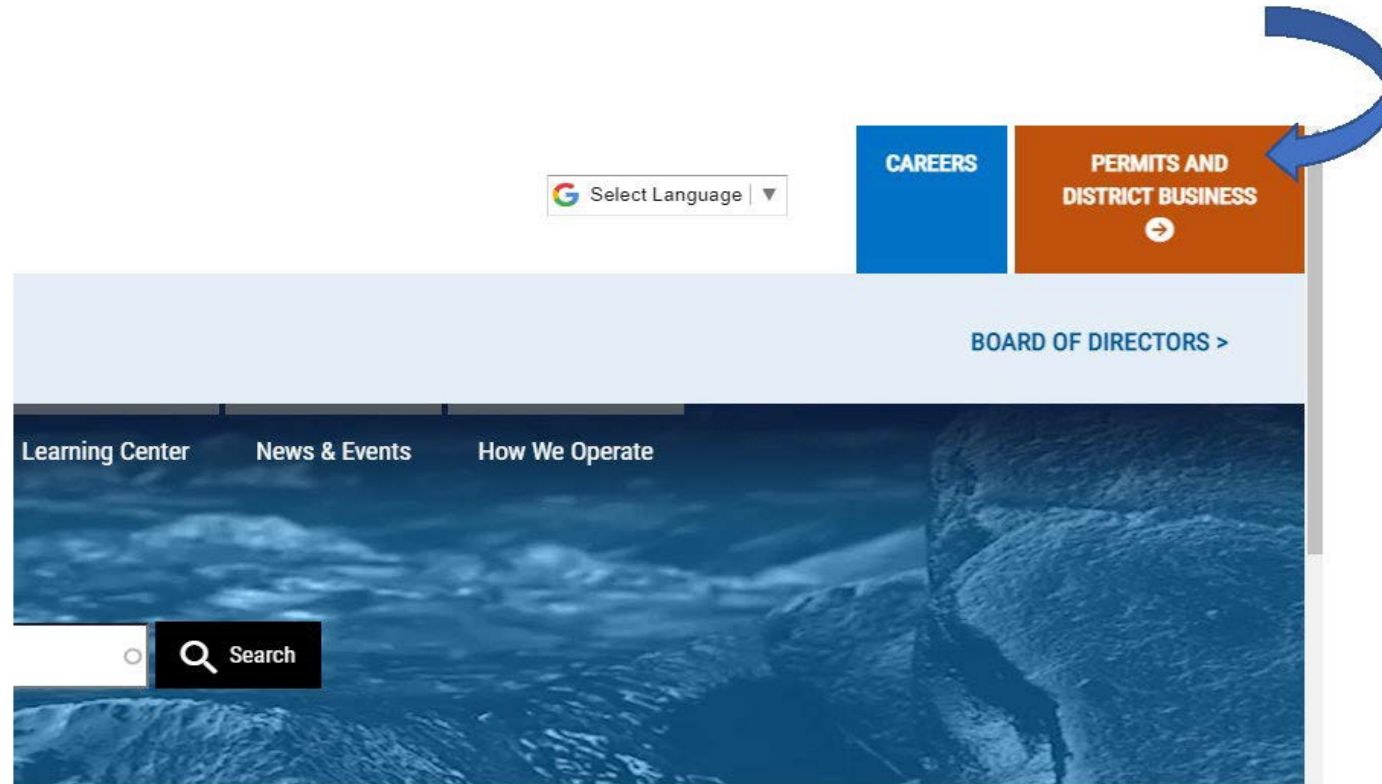
Recommendation 7: Regular Consultations with Municipalities

- Regular meetings with cities of Cupertino, Mountain View, San Jose, and Sunnyvale to discuss development projects
- A member of the Technical Advisory Committee with cities of Morgan Hill and Gilroy and part of planning review team for County of Santa Clara
- Annual meetings with all municipalities to promote protection of water resources/Valley Water assets
- Monthly meetings with key private developers to provide early input

Status: Complete

Recommendation 9: Promote Permit Services

- Permit webpage can be accessed from Valleywater.org page

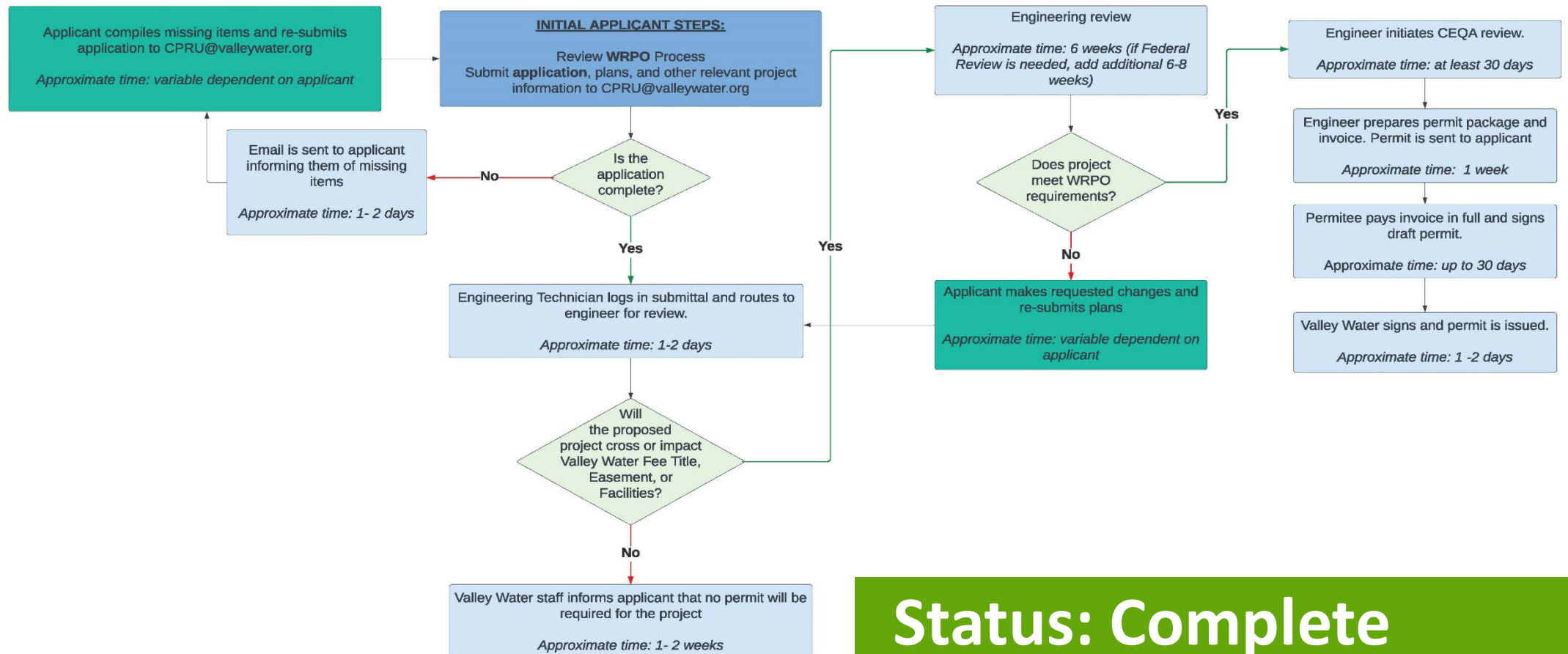


Status: Complete

Recommendation 9: Promote Permit Services

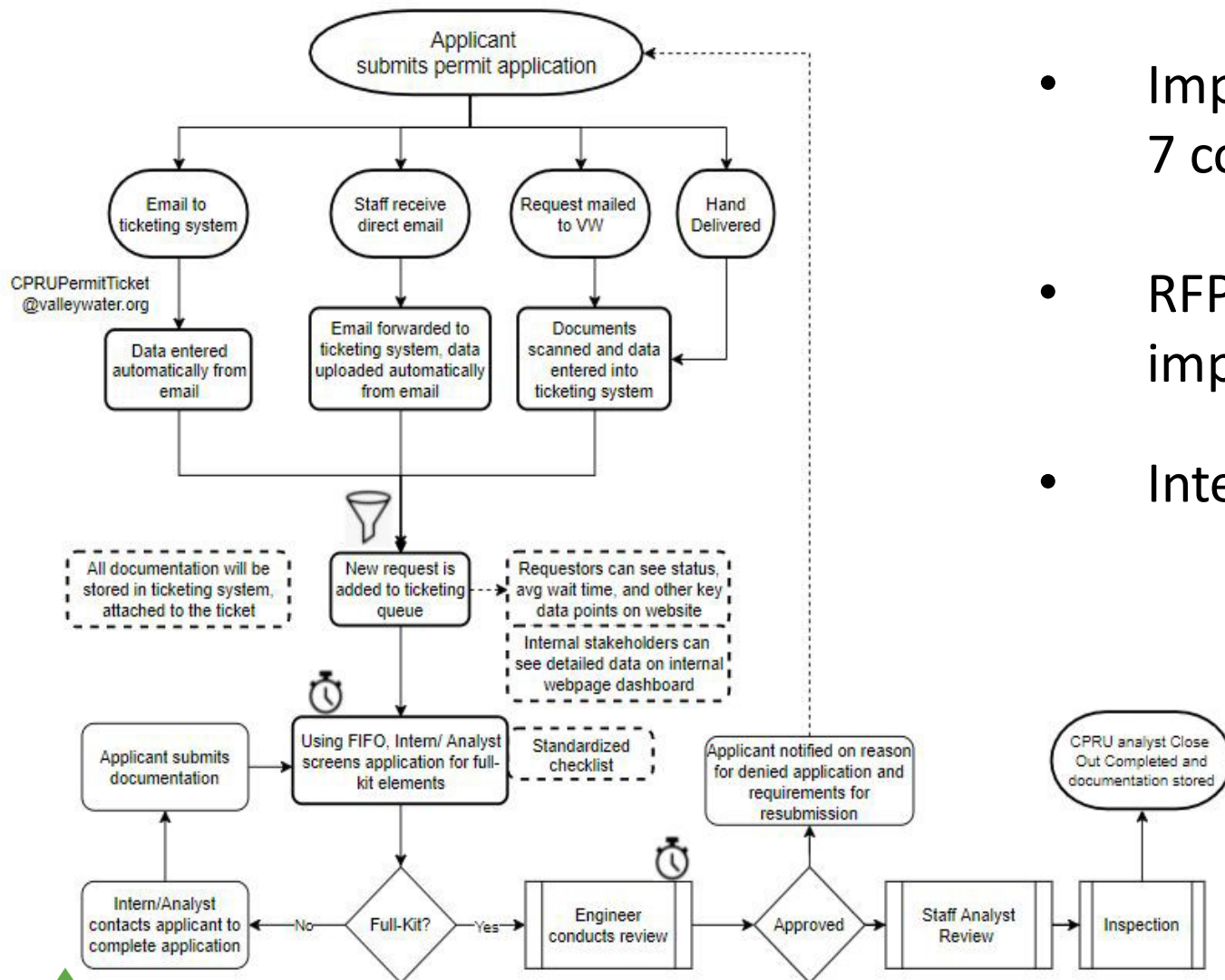
- Permit process flow chart created to clarify process for customers

Water Resources Protection Ordinance Permitting Process



Status: Complete

Recommendation 12 Improve Efficiency of Permit Processing



- Implement Recommendation 6 for the 7 core processes
- RFP process underway for Cityworks implementation
- Integrate invoicing system

- Billing and revenue collection policy and process created to establish financial management internal controls
- Cost recovery goal and comparative fee analysis—internal analysis underway
- Financial software tool for invoicing and collection anticipated as part of Recommendation 6 implementation

Status: Ongoing

Key Next Steps

- IT/CPRU implements financial, content management, and permit tracking tools: FY24 Q4
- Comparative fee analysis and cost recovery goal setting: FY24 Q2
- Continued clarification of roles, standard procedures/timelines, and checklists: ongoing
- WRPM Expansion: FY24 Q4
- Proactive coordination with developers and municipalities: ongoing

QUESTIONS



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Santa Clara Valley Water District

File No.: 23-0511

Agenda Date: 5/15/2023

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 2023 Capital Improvement Program Process Performance Audit Draft Report.

RECOMMENDATION:

Receive and discuss 2023 Capital Improvement Program (CIP) Process Performance Audit draft report.

SUMMARY:

On January 11, 2022, the proposed 2022-2024 Annual Audit Work Plan (Attachment 1) was approved by the full Board. Shortly thereafter, at its January 19th meeting, the Board Audit Committee (BAC) identified three areas of interest to be audited in 2022. The first audit selected was Valley Water's Capital Improvement Program (CIP) Process, which was the top-ranked audit topic, ID #1, in the 2022-2024 Annual Audit Work Plan.

At the April 20, 2022, BAC meeting, the Chief Audit Executive (CAE) reviewed the audit scoping document for the CIP Process Audit and on May 24, 2022, the full Board approved the initiation of the CIP Process Audit and approved Sjoberg Evashenk Consulting, Inc. as the auditor to conduct the audit. The CIP Process Audit was approved with an estimated cost of \$117,325.

The objective of the CIP Process Audit is 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. Consistent with this objective, the 2022-2024 Annual Audit Work Plan identified seven key questions related to the CIP process, including:

1. Are there opportunities to improve the capital improvement project planning process (project initiation to CIP plan approval)?
2. To what extent can early participation of Valley Water support units (environmental planning, permitting, purchasing, warehousing) on large capital projects prevent project delays and reduce cost overruns?
3. Can the Capital Improvement Plan be better right sized that considers the Agency's funding

and staffing levels?

4. Are there areas of Valley Water's capital project budgeting practices that can benefit from adopting best practices?
5. Have completed capital projects met their intended goals?
6. To what extent does Valley Water include performance measures to measure success and monitor financial management?
7. Are there lessons learned that can be adopted in future capital project plans to ensure goal accomplishments as well as implementation of alternative strategies to facilitate early communication to the Board of Directors of potential and actual problems, and to predict success such as performing cost vs. benefit analysis?

The CAE has prepared a PowerPoint presentation (Attachment 2) which summarizes the draft CIP audit report (Attachment 3) in order to facilitate a discussion on the results of the performance audit.

ATTACHMENTS:

Attachment 1: 2022-2024 Annual Audit Work Plan

Attachment 2: PowerPoint

Attachment 3: Draft CIP Audit Report

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



TAPInternational

FY 2022-2024 Annual Audit Work Plan

Updated as of November 22, 2022

ANNUAL AUDIT WORK PLAN

The Audit Work Plan serves as a tool for communicating audit priorities as determined by the Santa Clara Valley Water District's Board Audit Committee (BAC) and Board of Directors. The selection of audits for formal review and approval by the Board of Directors is an important responsibility of the Audit Committee.

Audits are an important oversight tool because they provide independent and fact-based information to management and elected officials. Those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making.

Audits can:

- Verify that programs, services, and operations are working based on your understanding.
- Assess efficiency and effectiveness.
- Identify the root cause or problems.
- Assess the progress of prior audit recommendations.
- Identify the impact of changes
- Identify leading practices.
- Assess regulatory compliance.
- Develop policy options.
- Assess the accuracy of financial information reported.

The types of audits that can be conducted include:

- Internal audits: Internal audits review the environment, information, and activities that are designed to provide proper accountability over District operations.
- Compliance audits: Compliance audits review adherence to policies and procedures, state regulatory requirements, and/or federal regulatory requirements.
- Performance audits (impact or prospective audits): Performance audits review the economy, efficiency, and effectiveness of Valley Water programs, services, and operations.
- Desk reviews: Small and quick audits.
- Follow up audits: Follow up audits assess the implementation status of recommendations included in prior audit reports.
- Best practices reviews: Compares current operations to best practices.

This proposed audit work plan is divided into sections. Section A describes anticipated ongoing support services to be provided by the independent auditor as well as other quality assurance activities planned by Valley Water's executive management. Section B describes the audits planned for implementation by the Independent Auditor.

SECTION A

ONGOING SUPPORT SERVICES AND SPECIAL PROJECTS

The following table lists non-audit services and special projects for the FY 2022 to 2024 audit work plan:

Project/Responsible Party	Scope	FY 2022 Planned Hours	FY 2023 Planned Hours	FY 2024 Planned Hours
Board of Director & Board Audit Committee Requests for Information/ Independent Auditor	Ongoing. Should the Board of Directors request information on activities implemented by other public agencies or on other matters of interests applicable to enhancing the efficiency and effectiveness of operations, the independent auditor will collect and summarize information.	80	80	80
Audit Training/ Independent Auditor	Annual. The Board Audit Committee Charter describes a requirement to provide audit training to Board Audit Committee members at least annually.	2	2	2
Support Services/ Independent Auditor	Ongoing. Provide support services to Board Directors and Valley Water staff applicable to specific initiatives or planning projects to prevent potential service delivery risks.	40	40	40
QEMS/Valley Water Continual Quality Improvement Unit	Ongoing. Provide services to ensure proper oversight and accountability.	As needed	As needed	As needed

Management Reviews/Valley Water Management	Ongoing. Valley Water's Chief Executive Officer ,as needed, will initiate internal quality assurance reviews of business practices and operations. These reviews are to be shared with the audit committee.	As needed	As needed	As needed
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SECTION B

AUDIT SERVICES — INDEPENDENT AND ON-CALL AUDITORS

Labor Summary

Project/Responsible Party	Scope	FY 2022 Planned Hours	FY 2023 Planned Hours	FY 2024 Planned Hours
Independent and On-Call Auditors	Audits and Follow-up Audits Based on the Audit Work Plan	TBD	TBD	TBD

Recommended Audits

The Board Audit Committee will select and recommend audits described below for approval by the Board of Directors.

ID	Risk Area(s)	Risk Factor	Audit Topic	Type of Audit	Suggested Audit Objectives
1	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	CIP Planning Process	Cross-Functional Performance Audit	<ol style="list-style-type: none"> Are there opportunities to improve the capital improvement project planning process (project initiation to CIP plan approval)? To what extent can early participation of Valley Water support units (environmental planning, permitting, purchasing, warehousing) on large capital projects prevent project delays and reduce cost overruns? Can the Capital Improvement Plan be better right sized that considers the Agency's funding and staffing levels?
2	Inventory Control	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Inventory Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> Does Valley Water effectively manage, account for and record inventory across the agency? What resources (e.g., staffing, systems, facilities) and business processes (communication and coordination) are necessary to meet current and future needs including centralizing inventory management?
3	Emergency Response Emergency Detection Emergency Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Monitoring	Cross-Functional Performance Audit	<ol style="list-style-type: none"> To what extent do the emergency management plans variously established by Valley Water contain gaps and activities to ensure proper prevention, detection, response, and recovery activities? Do gaps exist in surveillance and detection of potential problems across Valley Water's infrastructure?

					<ol style="list-style-type: none"> 3. To what extent is the virtual Emergency Operations Center aligned with FEMA best practices? 4. Are there lessons learned from past emergencies to prevent disruptions to regular operations while providing additional manpower and resources to respond to emergencies?
4	Emergency Cost Recovery Data Management & Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent has Valley Water been able to claim the full reimbursement of costs for eligible expenses from FEMA? 2. Are business practices aligned with federal and state aid requirements for emergency cost reimbursement? To what extent are information systems and other business processes configured to capture information needed for cost reporting and recovery?
5	Financial Oversight Purchasing and Contracting Processes	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Performance Audit	<ol style="list-style-type: none"> 1. To what extent do Valley Water procurement programs for low dollar purchases (i.e., P-Cards, & Standing Orders) comply with established policies and procurement limits? 2. Are added policies and procedures needed to control spending and prevent work arounds to formal competitive bids?
6	Data Management Data Integrity Data Accuracy	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Business Process	Cross Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent does Valley Water use multiple data stores for the same information?
7	Plan Implementation Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Organizational Culture	Culture Audit	<ol style="list-style-type: none"> 1. How has Valley Water's organizational culture impacted implementation of plan established across the agency? 2. To what extent does Valley Water demonstrate and practice common cultural characteristics including:

- a) Defining organization's values and proactively emphasize and model those values.
- b) Ensuring strategies are consistent with the values and holding management accountable.
- c) Executing their duties within the organization's risk appetite.
- d) Management reinforces the values and culture through clear communication of expectations across the organization.
- e) Management actively gathers and listens to feedback.
- f) All levels are open to constructive criticism and problem solving through methods including information obtained from second- and third-line functions via inputs such as well-received and acknowledged employee suggestion/question program, ethics hotlines, open door policies, employees' events, and meetings, and more.
- g) All employees (to the extent possible) are engaged in objective setting and strategy discussions.

8	<p>Grant Management</p> <p>Financial Management Coord. & Comm.</p> <p>Financial Oversight</p> <p>Data Accuracy</p>	<p><input checked="" type="checkbox"/> Financial</p> <p><input type="checkbox"/> Reputational</p> <p><input type="checkbox"/> Operational</p>	<p>Grant Reimbursement</p>	<p>Performance Audit</p>	<p>1. Can Valley Water's process for tracking labor and expense activities on state grants awarded to Valley Water benefit from updating?</p> <p>2. How timely are claims for reimbursement submitted to awarding state agencies?</p> <p>3. What circumstances have contributed to lost opportunities</p>
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					for reimbursement by awarding state agencies?
9	Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Human Resources Management	Cross-Functional Performance Audit	1. What progress has been made in implementing existing workforce development and succession planning plans? 2. What evidenced-based factors have been significant in facilitating the hiring of technical and operational staff? 3. To what extent have position descriptions and classification evolved to ensure that Valley Water has the technical capability to meet future demands to solve complex problems in an agile and creative manner?
10	Aging Infrastructure Detection Aging Infrastructure Monitoring	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Asset Management	Cross-Functional Performance Audit	1. To what extent do Valley Water divisions and units ensure compliance to specification standards to prevent substandard replacements of parts, equipment, and capital assets? 2. Is Valley Water adequately meeting the needs of equipment maintenance?
11	Data Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Unmetered Groundwater Measurement	Desk Review	1. Is the methodology supporting unmetered groundwater usage measurement valid and include all applicable methodological assumptions?
12	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Capital Project Budgeting	Performance Audit	1. Are there areas of Valley Water's capital project budgeting practices that can benefit from adopting best practices?
13	IT Security Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	SCADA	Performance Audit	1. What is the status of implementation of prior audit recommendations? 2. Will the recommendations as implemented by Valley Water accomplish intended goals and objectives?

					3. Are changes needed in the frequency of communications to the Board on the progress and status of cybersecurity and other IT needs?
14	Plan Monitoring Management Plan Implementation	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Strategy Development and Implementation	Cross-Functional Performance Audit	1. To what extent are management plans underway or completed across Valley Water? 2. To what extent do the plans need a completion date or require updating? 3. Are strategy and management plans developed across the Agency right sized to the divisions and/or units' staffing levels and workloads? 4. What progress has Valley Water made in implementing management plans to manage risks?
15	Program Monitoring Governance Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Homelessness Programs	Performance Audit	1. To what extent has Valley Water implemented its homelessness plan? 2. Can other cost-effective strategies implemented in other jurisdictions to prevent the creation and establishment of homeless encampments on Valley Water property? 3. How can Valley Water enhance its homelessness encampment clean-up activities to ensure the protection of health and safety of employees?
16	Grant Management	<input checked="" type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Financial Management	Follow-Up Audit	1. Have improvements occurred in the timeliness of grant reimbursements? 2. To what extent has the grant management and administration implemented prior audit recommendations? 3. What improvements in program outcomes have occurred in the timeliness of grant application review, reimbursement, and accomplishment of deliverables?

17	Program Monitoring Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Encroachment Program	Performance Audit	1. Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?
18	Data Management Data Accuracy	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Business Process	Cross Functional Performance Audit	1. To what extent have Valley Water units established business processes to ensure accurate data collection and input? 2. What gaps remain in automating data collection and input?
19	Operations	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Risk Management	Performance Audit	1. Can risk management business processes benefit from updating? (i.e., overall operations, data management, contract claims, workers compensation, small claims, claims administration and management, workers compensation administration, and all risk management activities, including insurance & self-insurance.
20	Emergency Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Peer Review	Best Practices Review	1. Can regulatory permitting practices administered by other utilities districts help reduce barriers and other challenges experienced by Valley Water?
21	IT Project Management & Communication Data Accuracy	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	System Implementation	Post IT Implementation Audit	1. Has the current large ERP project implementation produced the desired functionality? 2. To what extent have all contract deliverables been met? 3. To what extent have data quality issues surfaced post-implementation? 4. What lessons learned can apply to future information system implementations?

22	Emergency Response Emergency Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Procurement	Performance Audit	<ol style="list-style-type: none"> 1. Have Valley Water's procurement policies been flexible and agile to effectively and timely respond to and recover from past emergencies? 2. Are other procurement and operational activities needed to ensure prompt and reliable emergency services?
23	Environmental Sustainability Framework Development Program Monitoring Governance	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Measurement & Evaluation	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. What level of success has Valley Water's environmental stewardship activities had on preventing environmental damage and promoting environmental sustainability? 2. To what extent has Valley Water adopted sustainability indicators on specific projects to measure progress? 3. To what extent has Valley Water adopted sustainability indicators in its decision-making?
24	Program Monitoring Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Outcomes Business Process	Performance Audit	<ol style="list-style-type: none"> 1. To what extent has Valley Water mitigated the environmental hazards caused by non-use of the percolator ponds? 2. In a non-drought year, are barriers present that prevent Valley Water from filling percolator ponds? 3. What processes need development to prevent expiration of groundwater charge permits?
25	Financial Management Coord. & Comm. Financial Oversight	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Capital projects	Desk Review	<ol style="list-style-type: none"> 1. What potential financial risks could occur on the California WaterFix project?
26	CIP Monitoring	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Capital Project Evaluation and Monitoring	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. Have completed capital projects met their intended goals? 2. To what extent does Valley Water include performance measures to measure success and monitor financial management?

					Are there lessons learned that can be adopted in future capital project plans to ensure goal accomplishments as well as implementation of alternative strategies to facilitate early communication to the Board of Directors of potential and actual problems, and to predict success such as performing cost vs. benefit analysis?
27	IT Security Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	IT Risk Management	Desk review	1. To what extent is IT risk management activities aligned with best practices, such as National Institute of Standards and Technology (NIST) guidance, including whether acceptable risk appetites and risk tolerances have been formally documented and approved by the Board of Directors?
28	Purchasing and Contracting Processes	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Financial Oversight	Desk Review	1. Can Valley Water benefit from updating its qualifications and experience criteria to include in future competitive bids for external financial audit services?
29	IT Strategic Planning Emergency Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Disaster Planning	Performance Audit	1. Does Valley Water's prioritization for systems and data recovery meet the agency's needs for sustained business continuity? 2. To what extent does Valley Water's process for determining the prioritization of systems and data recovery adhere to best practices (ex. NIST)?
30	Plan Development Plan Implementation Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Decision-Making	Cross-Functional Performance Audit	1. What lessons has Valley Water learned from its ad hoc cross-functional efforts to proactively address current or emerging risks?
31	Financial Oversight	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Outsourcing of Legal Services	Desk Review	1. How have changes occurred in District Counsel Office spending

for contracting external legal services?

2. To what extent are the nature of services provided by contracted legal firms presently outside of the District Counsel Office's expertise?
 3. Can expanding outsourced legal services prevent project delivery delays?
-

SECTION C

AUDIT SERVICES — VALLEY WATER RESPONSIBILITY

QEMS ACTIVITIES

Under development

COMPLIANCE AND FINANCIAL AUDITS

FINANCIAL AUDITS
Financial Audits
Treasurer's Report
Appropriation's Limit
Compensation and Benefit Compliance (odd years)
Travel Expenses Reimbursement (even years)
Single Audit (if applicable)
WUE Fund Audit



PERFORMANCE AUDIT OF VALLEY WATER'S CAPITAL IMPROVEMENT PROGRAM (CIP)

BY SJOBERG EVASHENK CONSULTING, INC.

BOARD AUDIT COMMITTEE
MAY 15, 2023

OBJECTIVE:

DETERMINE WHETHER VALLEY WATER'S CAPITAL PROJECT PLANNING PROCESS IS CONSISTENT WITH ESTABLISHED POLICIES AND BEST PRACTICES.

Policies

Reviewed and
Evaluated CIP-
Related Policies

CIP Cycle

Documented
the CIP planning
process
workflow and
compared
against existing
policies

Benchmarking

Reviewed
leading
practices and
practices of
peer water
districts

Data

Reviewed
underlying
support for data
presented in the
CIP

FIVE KEY OBSERVATIONS

VALLEY WATER IMPLEMENTED MANY LEADING PRACTICES AND CONTINUOUS IMPROVEMENT REMAINS IN PROGRESS

1

CIP Contains Most Required Information

Valley Water Practices Consistent with Most Recommended CIP Policies

Substantial progress in the CIP has been observed since 2019, and continuous improvement is ongoing

Capital projects routinely lagged expenditure and schedule milestones

Outdated cost estimates, increased project costs, and limited capacity likely contributes to missed milestones

Additional Performance Metrics Would Enhance Ongoing Reporting and Evaluation of Program Outcomes

2

OPPORTUNITIES EXIST TO BETTER ENSURE VALLEY WATER DELIVERS CAPITAL PROJECTS AS PROGRAMMED

FIVE KEY OBSERVATIONS

**WHILE VALLEY WATER IMPLEMENTED
MANY LEADING PRACTICES,
OPPORTUNITIES FOR IMPROVEMENT EXIST**

3

Enhancements Include:

Project Prioritization

Formalizing & Centralizing CIP
Policies & Procedures

Enhanced Reporting of Anticipated
Operations & Maintenance Costs

Identifying and
Reporting Lessons Learned

Capital Budget Amounts Were Not
Consistently Reported in the CIP 5-Year
Plan, and Did Not Always Align with
Valley Water's Financial System

Change Management Memos Often Did
Not Always Provide Sufficient &
Consistent Justification for Cost
Increases & Schedule Delays

4

**TRANSPARENCY AND CONSISTENCY OF
INFORMATION REPORTED CAN BE
IMPROVED**

KEY OBSERVATIONS

REVENUE FORECASTS WERE REASONABLE AND CONSISTENT WITH PEERS

5

Revenue Forecasts Were Reasonably
Close to Actuals

Revenue Forecasting Methodology
Aligned with Industry Leading Practices

Valley Water Debt Management
Practices are Board-Vetted and
Generally Align with Peers

KEY RECOMMENDATIONS



Improve CIP planning processes by ensuring projects are selected and prioritized using a defined criteria, and that key goals and milestones in the CIP plan are achievable given agency resources.



Enhance the CIP 5-Year Plan by continuing ongoing efforts to implement leading practices as identified in this report.



Improve transparency and consistency of information reported in the CIP by implementing enhanced quality assurance procedures and ensuring compliance with Change Management Procedures.



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Santa Clara Valley Water District Independent Board Auditor



Performance Audit of Valley Water's Capital Improvement Program

May 2023

DRAFT REPORT



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Introduction and Background

The Santa Clara Valley Water District (Valley Water) is Santa Clara County's water resource management agency responsible for providing safe, clean water, flood protection, and stewardship of streams through its management of water treatment and distribution systems, construction and maintaining flood control channels, and overseeing water rate setting and conservation efforts. Valley Water is led by a seven-member Board of Directors (Board), with each Board director representing one of seven equally-divided districts in the Silicon Valley. The mission of Valley Water is to provide safe, clean water for a healthy life, environment, and economy.

In pursuit of this mission, Valley Water has established an annual Capital Improvement Program (CIP) planning process to plan, manage, and carry out capital improvements in compliance with laws and regulations, Board policies, and objectives and goals established by the Board. The result of this planning process is the updating and adoption of the rolling CIP 5-Year Plan, and includes updating the status of existing projects, identifying new projects to be added to the plan, and projecting capital expenditures, funding, and schedules associated with each project. The most recent iteration is the CIP 5-Year Plan for Fiscal Years (FY) 2022-23 through 2026-27. The CIP 5-Year Plan serves as a budget and project guide that implements the Valley Water Board's policies and directives, identifies funding sources for planned capital projects, and aligns with local land use jurisdiction's General Plans.

A leading practice in the capital planning lifecycle is to conduct an entity-wide capital needs assessment and call for projects, which includes determining the current state of capital assets and identifying both current and future capital needs. After a universe of potential projects is identified, an organization can develop a long-range CIP strategic plan that aligns the agency's capital plan with its long-term goals and objectives. Generally, the long-range CIP plan includes a combination of funded and unfunded projects. Once the long-range CIP plan is developed, an agency begins to identify funding sources to meet its capital needs and develops a short-range CIP plan.

In developing the short-range CIP, a leading practice is to develop an organization-wide prioritization process that ties quantitative and qualitative metrics to agency goals and objectives and helps to ensure the right mix of projects is programmed to best meet an agency's short- and long-term objectives. This plan includes projects that are planned to begin over the next five to six years and includes detailed project information, such as project scope of work, anticipated project costs by year and phase, funding sources, and project schedules and key milestones.



The short-range CIP provides a foundation to develop the annual capital budget, which generally includes planned capital expenses over the next one- to two-year period. After the annual capital budget is adopted, programmed projects are implemented and the capital planning life-cycle starts over again.

Valley Water maintains a CIP 5-Year Plan, updating it annually.

CIP Policies & Governance

Valley Water develops its CIP 5-Year Plan in accordance with California Government Code Section 65403, California Public Contract Code, and guidelines established by the Government Finance Officers Association (GFOA). To guide capital planning efforts and manage its assets Valley Water has a variety of program plans, master plans and asset management plans based on business areas, that define three primary goals:

- 1) To achieve a reliable water supply,
- 2) Improved flood protection, and
- 3) Healthy and resilient ecosystems.

In line with these plans, Valley Water's capital improvements are intended to comply with the Board established Ends Policies that describe the outcomes or results to be achieved by Valley Water staff and Executive Limitations that were established to balance the Ends Policies and set limits on staff activities in fulfilling them. Additionally, Valley Water follows Executive Limitations 4.4.1 and 4.4.3 that require an annual rolling CIP 5-Year Plan with the first year serving as the adopted capital budget and the remaining years in place as a projected capital funding plan and requires Valley Water to demonstrate to the Board how projects included in the CIP 5-Year Plan align with the Board's capital priorities.

Valley Water's CIP 5-Year Plan is developed with projects selected based on their alignment with the following Ends Policies established by its Board:

- ✓ **Ends Policy E-2:** Valley Water provides a reliable, safe, and affordable water supply for current and future generations in all communities served.
- ✓ **Ends Policy E-3:** Natural flood protection is provided to reduce risk and improve health and safety for residents, businesses, and visitors, now and into the future.
- ✓ **Ends Policy E-3.1:** Maintain flood protection facilities to design levels of protection.
- ✓ **Ends Policy E-3.2:** Assist people, businesses, schools, and communities to prepare for, respond to, and recover from flooding through equitable and effective engage.
- ✓ **Ends Policy E-4:** Water resources stewardship protects and enhances ecosystem health.

According to Valley Water, program plans, master plans and asset management plans are developed to achieve the results established by the Ends Policies and to further define the goals and objectives of each Ends Policy. In Exhibit 1 is an illustration of how Valley Water's CIP process aligns with Ends Policies and the various plans used by Valley Water to program capital projects.

EXHIBIT 1. VALLEY WATER CIP PROCESS ALIGNMENT WITH ENDS POLICIES



Source: Valley Water CIP 5-Year Plan FY 2022-26

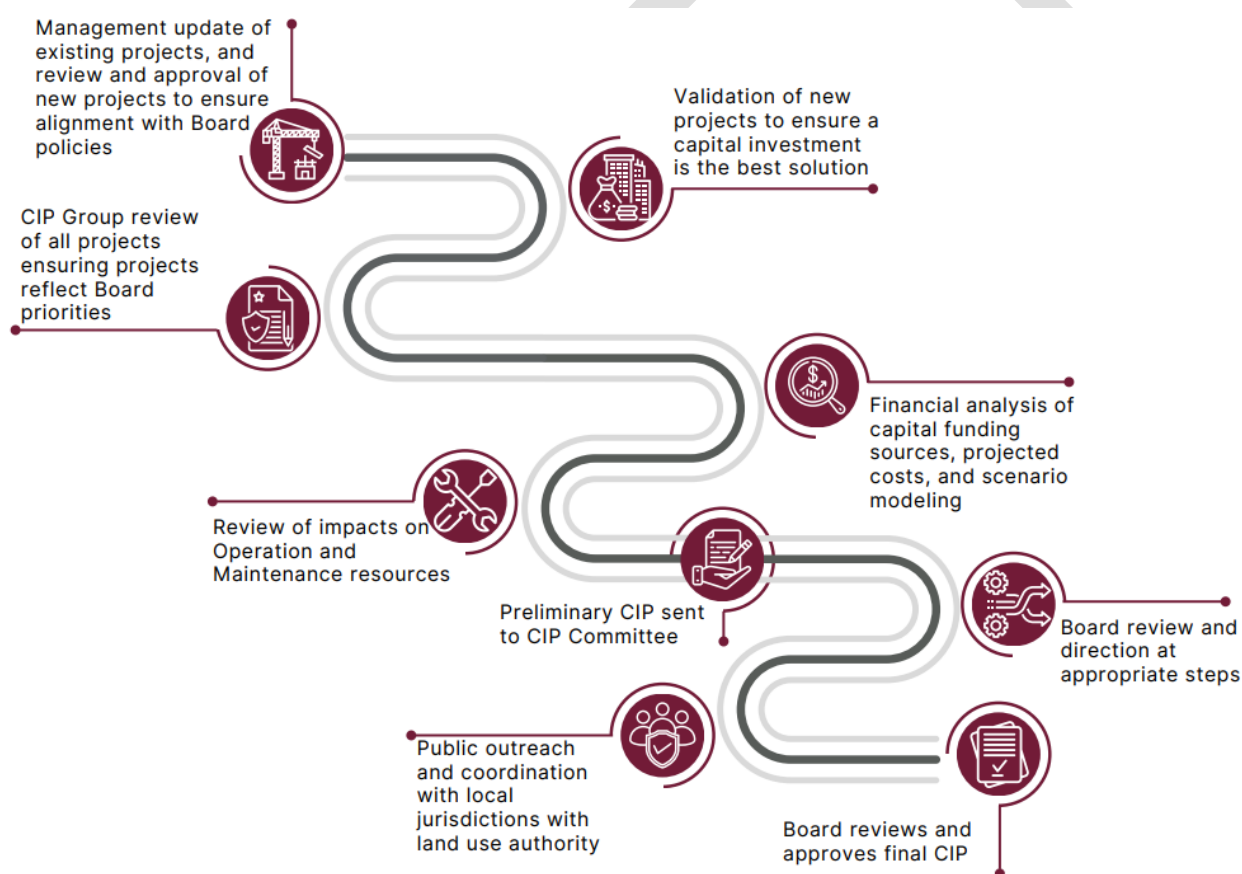
Note: The Ends Policies were updated after the CIP 5-Year Plan was published and therefore do not reflect the updated Ends Policies presented above.

Consistent with these policies, Valley Water has established various formal and informal procedures to guide both capital planning and capital project delivery activities. For instance, Valley Water established procedures detailing the roles of its internal capital planning committee, project change management memo process, and capital project delivery process. These and other organizational procedures are stored in a repository referred to as Quality and Environmental Management System (QEMS). This includes, standard forms, such as project proposal templates, project calculation cover sheets, and individual project plan guideline templates—all of which promotes consistency and standardization in CIP planning processes.

Valley Water Annual CIP 5-Year Plan Update Process

As shown in Exhibits 2, Valley Water established an annual process to update its CIP 5-Year Plan. This process begins in April each year and is completed in the last quarter of the fiscal year with the Board's approval of the final CIP 5-Year Plan.

EXHIBIT 2. ANNUAL CIP 5-YEAR PLAN UPDATE PROCESS



Source: Auditor Generated from Valley Water CIP 5-Year Plan FY 2022-26 and Valley Water CIP training materials.

Specifically, beginning in April of each year, the CIP Coordinator, initiates a call for potential capital projects for the coming fiscal year cycle. As part of the call for projects, Valley Water staff develop project proposals, referred to as business cases, for new projects that they would like to be considered for inclusion in the CIP. The project proposals provide analyses that compare the business case for alternative solutions for a

given problem or failure using life-cycle cost analysis. These business cases were designed with the intent to reduce long-term costs, provide justification for project expenditures, better define the proposed project scope of work, and provide greater fiscal responsibility and public transparency. As part of the validation process, the CIP Group (also referred to as the CIP Evaluation Team), which is comprised of Valley Water capital division deputies, chiefs, Assistant Chief Executive Officer (ACEO), and Chief Executive Officer (CEO), is responsible for initiating and implementing capital projects, reviews and approves or rejects proposed projects, and ensures proposed projects align with Board policies and approved program plans.

In addition, Valley Water staff in the Business Planning and Analysis Unit's Capital Improvement Program meets with individual project managers and program management in August and September each year to review existing projects and discuss updates to the project scope of work, schedule, and budget. Project budgets, schedules, and/or scope of work may be modified for a variety of reasons, such as changes in market conditions, inflation, unforeseen conditions, additions and deletions to the project scope of work, and project delays. If changes are needed to the scope, schedule, or budget, then the Business Planning and Analysis Unit staff work with the project manager to develop a Change Management Memo (CMM) that formally documents the requested change and provides justification for the change. The CMM must be reviewed and approved by the associated project deputy.

Once all new project requests have been reviewed and existing projects updated, the CIP Group reviews all projects for alignment with Board priorities and conducts financial analysis to assess Valley Water's ability to fund projects based on known funding sources. Between November and December of each year, the CIP Group reviews financial modeling prepared by the Financial Planning and Revenue Collection Unit with assistance from the Treasury-Debt Management Unit and, in doing so, assesses the impact completed projects will have on Operations and Maintenance resources. The Board's CIP Committee also reviews management's project recommendations and Preliminary CIP 5-Year Plan and, in the following January, management presents the Preliminary CIP 5-Year Plan to the Board.

Feedback and direction provided by the CIP Committee and Board is incorporated into a draft CIP 5-Year Plan that is presented to the Board in February and used for public outreach and coordination with other land-use jurisdictions in March. A public hearing is held in April for community feedback and comments. The final CIP 5-Year Plan is submitted to the Board in May and reviewed and approved by the Board in June.

CIP Programs

The CIP is divided into five programs based on types of improvements: Water Supply Improvements, Flood Protection, Water Resources Stewardship, Building and Grounds, and Information Technology, as shown in Exhibit 3. The first three program improvement areas are directly aligned with the three primary goals set forth in Valley Water's various program plans, master plans and asset management plans—specifically Valley Water's goals to achieve a reliable water supply, improved flood protection, and healthy and resilient ecosystems. These programs further support the Board's Ends Policies, which describe the outcomes or results to be achieved by Valley Water staff. The final two types of improvement program areas—Building and Grounds and Information Technology—support the overall infrastructure of management for Valley

Water. Valley Water's CIP 5-Year Plan FY 2022-26 includes 68 projects within these five programs totaling \$8.0 billion, of which \$2.6 billion is planned for the next five years.

EXHIBIT 3. CAPITAL IMPROVEMENT PROGRAM MAJOR PROGRAMS



Source: Valley Water CIP 5-Year Plan FY 2022-26

These capital improvement programs are described below.

- ✓ **Water Supply Program.** Providing clean and safe drinking water to the community is a foundational purpose of Valley Water and is a top priority in its CIP. The Water Supply Program is responsible for the planning, design, and construction of capital infrastructure related to water storage, treatment, and transmission. A large focus for the Water Supply Program moving forward will be maintaining and upgrading the infrastructure that is currently in place, including: storage facilities, including 10 surface reservoirs, 393 acres of recharge ponds, 76 miles of in-stream recharge, and Ground water basins; transmission facilities, including 142 miles of pipelines and three pump stations; three treatment facilities; and two recycled water facilities. Much of this infrastructure is approaching 50-60 years in age.
- ✓ **Flood Protection Program.** Safeguarding the local area against flooding through management of watersheds is also a top priority in the CIP, as Flood Protection is critical for community safety. Valley Water has jurisdiction over and manages approximately 275 miles of creeks in Santa Clara County which span across five separate watersheds: Lower Peninsula, West Valley, Guadalupe, Coyote, San Francisco Bay Shoreline, and Uvas/Llagas. Another key component of this program is maintaining and rehabilitating flood protection infrastructure.
- ✓ **Water Resource Stewardship Program.** Striving towards environmental enhancement has been a priority since 1999 and has served to bolster other program areas with its focus on healthy eco systems, clean and safe drinking water, and improved open space quality of life. Valley Water's environmental stewardship has yielded key results for the community including 92 projects that

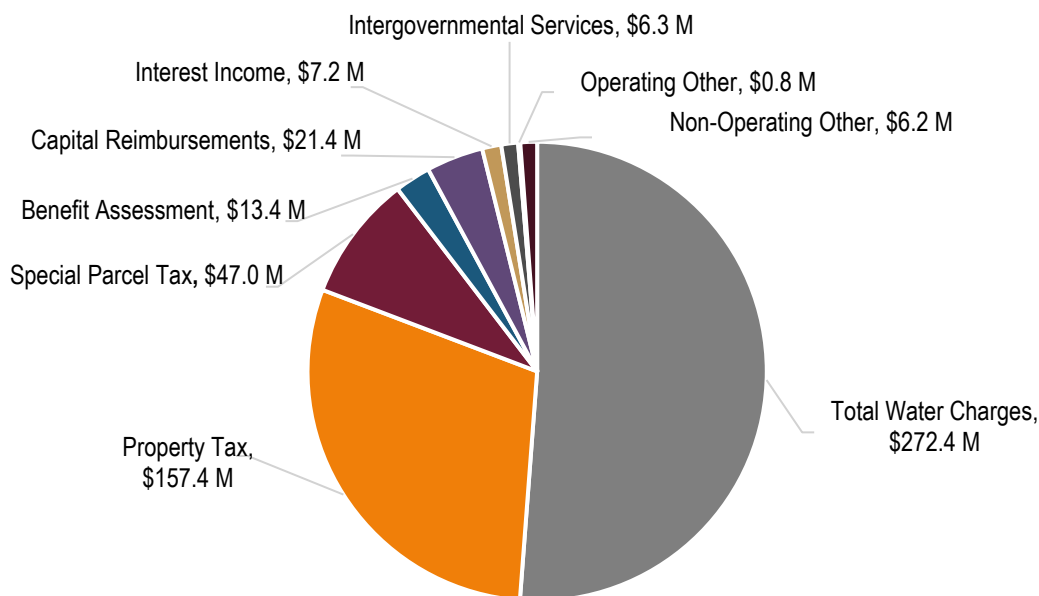
resulted in 71 miles of public access, removing 15,000 lbs. of mercury from the creeks, and the removal of 20 fish passage impediments.

- ✓ **Building and Grounds Program.** This program is focused on the maintenance and upkeep of Valley Water's campus in San Jose, including facility management, small capital improvements, and updates to the Headquarters Operations Building.
- ✓ **Information Technology Program.** The Information Technology Program serves the technical support and management needs of Valley Water, with projects focused on data consolidation, information technology disaster recovery, and software upgrades. These technology improvements serve to achieve Valley Water's goals of managing their core responsibilities which are Water Supply, Flood Protection, and Water Resources Stewardship.

Funding Sources

In FY 2021-22, Valley Water received \$532 million in revenue for its CIP—90 percent of the revenue received was from three revenue sources, as show in Exhibit 4. The largest revenue source consists of water rates charged to customers, which accounted for half of the total CIP revenue, and is dependent on both annual water rates set by the Valley Water Board and water consumption. The second largest revenue source is the ad valorem property tax which was nearly a third of the total CIP funding. This is a 1 percent property tax that is dependent on annual property values. The third largest revenue source, accounting for 9 percent of total CIP revenue, is a special parcel tax, referred to as Measure S, that is based on fixed parcels of land. These revenues can only be used for the Safe, Clean Water and Natural Flood Protection Program. The remaining 10 percent of CIP funding comes from a mix of benefit assessments, interest income, capital reimbursements, such as grants, and other revenue sources.

EXHIBIT 4. VALLEY WATER REVENUE SOURCES, FY 2021-22 ACTUALS

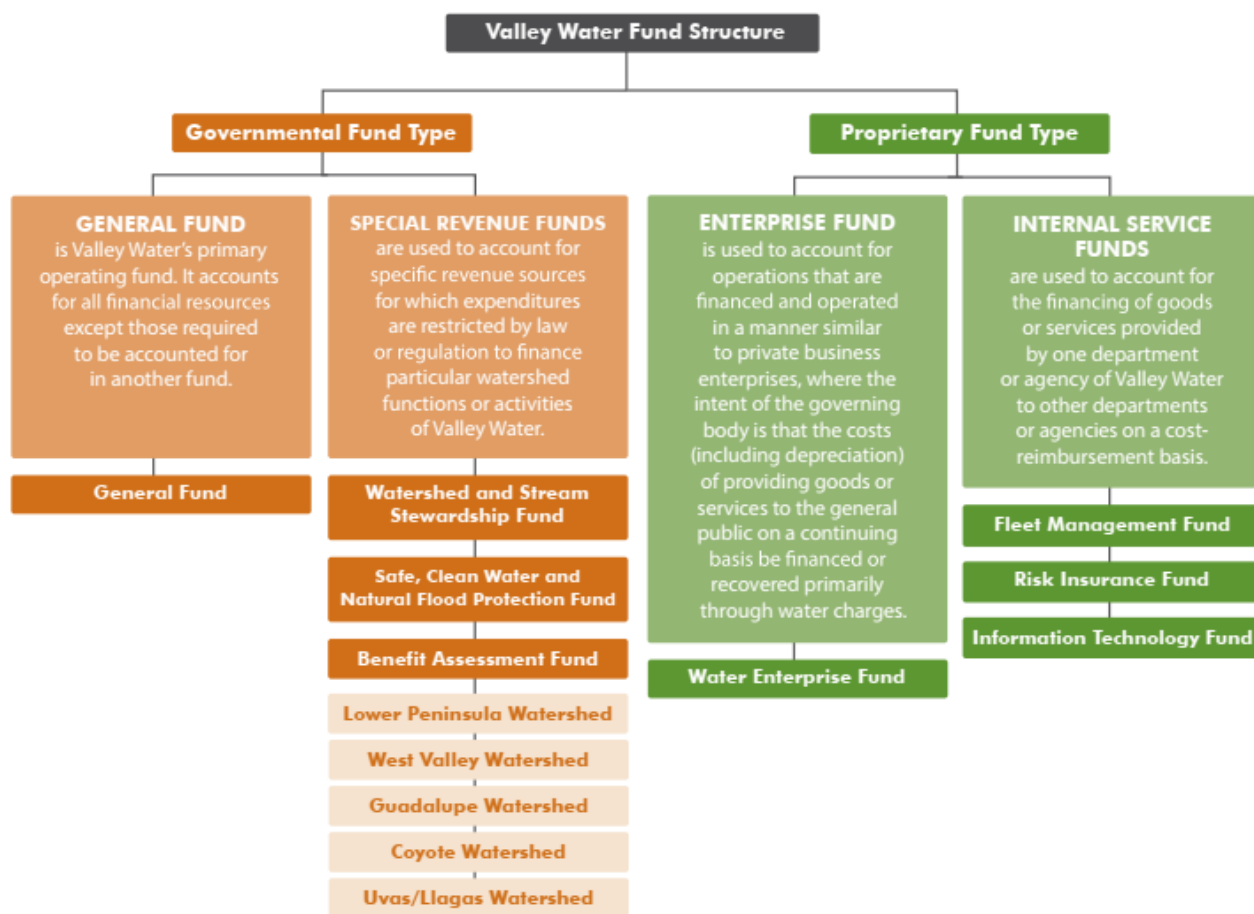


Source: Auditor generated based on data provided by the Chief Financial Officer for revenue actuals from FY 2021-22

Note: Total Water Charges reflect combined amounts for groundwater production, treated water, and surface recycled water charges.

Valley Water utilizes a combination of government funds and proprietary funds for its CIP.¹ Within these two fund types Valley Water has established a total of eight funds, as shown in Exhibit 5 below. Each fund has specific revenue sources according to their intended purposes, and each fund is an independent accounting entity with a self-balancing set of accounts comprised of its assets, liabilities, fund equity, revenue, and expenditures or expenses, as appropriate. Further, each of these funds can only finance specific types of projects.

EXHIBIT 5. VALLEY WATER FUND STRUCTURE



Source: Valley Water CIP 5-Year Plan FY 2022-26

Of these eight funds, four funds are primarily used to track and manage the six primary revenue sources that fund capital projects, including water charges, property tax, special parcel tax, benefit assessments, capital reimbursements, and interest.² Exhibit 6 shows which fund each revenue source is organized into, and what type of improvements can be pursued by those funds for the three largest programs in the CIP.

¹ A governmental fund is generally used to account for tax-supported government activities. A proprietary fund is used to account for business-type activities often supported by fees or charges.

² Grant revenue receipts are categorized as capital reimbursements.

EXHIBIT 6. KEY CAPITAL PROGRAMS AND FUNDING SOURCES

	Key Revenue Sources	Fund	Capital Program		
			Water Supply	Flood Protection	Water Resources Stewardship
1	Water Charges	Water Utility Enterprise Fund	✓		✓
2	Property Tax (Ad Valorem)	Watershed and Stream Stewardship Fund	✓	✓	✓
3	Special Parcel Tax (Measure S)	Safe, Clean Water and Natural Flood Protection Fund	✓	✓	✓
4	Benefits Assessments	Benefit Assessment Fund ^A		✓	
5	Capital Reimbursements	Multiple Funds ^B	✓	✓	✓
6	Interest	Multiple Funds ^B	✓	✓	✓

Source: Auditor generated based on Valley Water CIP 5-Year Plan FY 2022-26

Notes:

A: According to the Chief Financial Officer, this pays for debt service associated with past debt issuances for flood protection projects.

B: Capital reimbursements do not have a separate stand-alone fund. Individual projects from different improvement type areas can receive capital reimbursements and monies would return to the specific funds that the project is funded by. Similarly, earnings from interest are reallocated proportionally back into the funds driving the interest earned.

Results of 2021 Risk Assessment

In 2021, the independent Board auditor issued an agency-wide risk assessment that identified several factors that, in the view of the auditor, presented challenges to the CIP planning process. This included three primary concerns:

- The CIP is not right-sized given Valley Water's resources and the availability of key personnel, including sufficient project staff and outsourced service providers as well as various support units (e.g., General Services and Real Estate Services), leading to the potential overcommitment of staff and predictable project delays.
- Potential projects are sometimes included in the CIP even when it is expected that the projects would not start within the established schedule, consuming limited staff resources for financial analysis and project planning.
- CIP projects lack performance indicators that effectively measure program or project success, or enable management and the Board to evaluate whether intended goals have been met.

Based on these concerns, the CIP planning process was included in the 2022-2024 Annual Audit Work Plan with the intent that it would identify opportunities to improve the CIP planning process (project initiation to CIP plan approval), evaluate potential steps that can be taken to right-size the CIP in a manner that considers the Agency's staffing resources, identify potential performance measures to measure success and monitor financial management, and identify best practices and lessons learned that can be adopted in future CIP 5-Year Plans.

Scope and Methodology

On January 11, 2022, the proposed 2022-2024 Annual Audit Work Plan was approved by the Valley Water Board. Based on this work plan, the Board Audit Committee recommended that the Board initiate a performance audit of Valley Water's CIP Process, which was the top-ranked audit topic in the 2022-2024 Annual Audit Work Plan. On May 24, 2022, the Board approved the initiation of this audit and selected Sjoberg Evashenk Consulting as the auditor to conduct the audit. The objective of this audit was to determine the extent to which Valley Water activities associated with planning, developing, executing, and monitoring its CIP 5-Year Plan are consistent with relevant requirements, policies, and best practices. To meet the audit's objectives, SEC performed the following audit steps:

- Interviewed key CIP, project management, and Finance staff, as well as representatives of Valley Water management and the Board; reviewed all relevant policies, procedures, and staff guidance; and selected a samples of project files for review.
- Evaluated the processes employed by Valley Water to identify and prioritize projects for inclusion on the CIP 5-Year Plan; identify and secure funding sources to implement the CIP, including grant funding and administration, rate setting, debt financing; develop, monitor, and update the plan; and assess project outcomes and overall performance.
- Mapped out the CIP cycle, identifying key parties involved and business processes; identified potential gaps, inefficiencies, or opportunities for improvement.
- Determined whether CIP practices were in-line with the Board's policies and goals for the CIP.
- Evaluated historic trends relating to the CIP, including target start and completion dates, project budgets, and project goals, and compared to actual results; evaluated metrics established to define and evaluate project success or measure program performance.
- Conducted benchmarking research to identify leading practices in CIP planning and monitoring, and compared results with practices observed at Valley Water and, based on the results, identified potential opportunities for improvement.

Audit fieldwork was performed between August 2022 and March 2023. On April 28, 2023, a draft of this report was provided to management for review and discussion, and an exit conference was held with management on May 2, 2023. Responses and feedback provided by management were considered and incorporated where applicable in this draft report. The official response from Valley Water management will be incorporated into the final report prior to issuance.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Audit Findings

An effective CIP facilitates the planning, prioritization, and reporting related to long-term investments in capital infrastructure and technology. This requires reliable methods for identifying current and future needs, assessing costs and funding sources, prioritizing projects based on need and resource availability, developing timelines for project completion, evaluating performance based on the CIP plan, identifying lessons learned, and incorporating improvements based on lessons learned in CIP plan updates. By prioritizing investments and providing a roadmap for future expenditures, a CIP helps ensure that resources are used in the most effective and efficient manner to meet the needs of the community and organization.

This audit assessed Valley Water's processes for identifying needs, assessing costs and funding sources, prioritizing projects, developing project timelines, and evaluating project performance against the CIP 5-Year Plan. We found that Valley Water's CIP planning process incorporated many sound business practices, as detailed in the first finding of this report.

However, we also found that, for each of these critical steps in the CIP planning and delivery process, opportunities for improvement exist. For example, despite continuous improvement in CIP planning processes, opportunities continue to exist to better ensure Valley Water delivers capital projects as programmed. Achieving planned milestones or targets in the CIP 5-Year Plan proved challenging primarily because cost estimates were outdated; actual staffing resources required to hit CIP targets and milestones were not fully identified and available; established schedules did not always sufficiently account for external factors, such as permitting and California Environmental Quality Act (CEQA) requirements, and coordination with external agencies; and management's overall performance in meeting CIP goals and capital project delivery was not sufficiently monitored. Beyond, this however, this audit notes that while Valley Water had implemented numerous best and leading practices, opportunities for improvement include implementing protocols to more formally prioritize capital project investments, quantifying and measuring performance, incorporating additional information regarding ongoing operations and maintenance costs associated with capital improvements, and implementing quality control measures to ensure accuracy and consistency in data reported throughout the CIP 5-Year Plan. These findings are addressed in the remainder of this report.

Valley Water Implemented Many Leading CIP Planning Practices and Continuous Improvement Efforts Remain Ongoing

Valley Water implemented many leading practices related to the development and reporting of its CIP 5-Year Plan. Our review found that many of the practices and policies established by Valley Water align with leading practices identified by the California Society of Municipal Finance Officers (CSFMO),³ GFOA,⁴

³ CSFMO criteria to achieve the Meritorious and Excellence Award for Capital Budgets as cited in [The CSMFO Budget Awards Program Overview & Explanation of Criteria](#)

⁴ [GFOA Capital Planning Policy](#)

California Multi-Agency Statewide CIP Benchmarking Study,⁵ and practices implemented by peer agencies reviewed. Valley Water's capital planning practices generally aligned with leading practices and peers.

For example, Valley Water's CIP 5-Year Plan FY 2022-26 met most of the applicable criteria established by CSMFO. In some cases, the criteria set forth by CSMFO are relatively basic and focused on aesthetics—such as including a summary schedule of capital revenues by source, the identification of specific projects, the use of graphics and maps to clearly present relevant information, and ensuring readability and accessibility. Valley Water generally followed these recommended practices. More importantly, however, the CSMFO also sets forth criteria designed to establish a sound basis for planning capital projects in a transparent manner. This includes tying planned projects to specific revenue sources, reflecting estimated expenditures for the budget year and future years, including total project costs for multi-year projects, ensuring budget numbers are accurate and consistent throughout the document, connecting capital projects to agency-wide goals, reasonable estimates of future annual operating and maintenance costs of the infrastructure once delivered, and reliable revenue forecasts, among others. In most cases, we found Valley Water's CIP 5-Year Plan to be consistent with the criteria set forth by the CSMFO. We provide a table summarizing Valley Water's implementation of key components for capital budgets as identified by CSMFO in Appendix A of this report.



**Valley Water Implementation of CSMFO
Leading Practices:**

- ✓ Clear summary schedules of capital revenue and expenditures by both project type and major type of improvement.
- ✓ Project details include clear narratives discussing the project status, details and timeline for project completion.
- ✓ For multi-year projects a total cost for the project is identifiable.
- ✓ The document demonstrates good use of graphics, artwork, maps, and charts and is readable and clear.

In addition to the leading practices set forth by the CSMFO, Valley Water reports in its CIP 5-Year Plan FY 2022-26 that it follows GFOA standards in the development and reporting of its plan. The GFOA generally requires agencies to establish CIP governance policies that address how the organization will approach CIP planning, address stakeholder input, define roles and responsibilities, and monitor the CIP program. Our review found that processes and practices implemented generally aligned with the leading practices identified in the GFOA Capital Planning Policy, as shown in Exhibit 7. For instance, in the CIP 5-Year Plan FY 2022-26, Valley Water provided a clear definition of what constituted as a capital improvement project and included an overview of its capital planning process.

⁵ [California Multi-Agency Statewide CIP Benchmarking Study Annual Report](#) – Update 2022

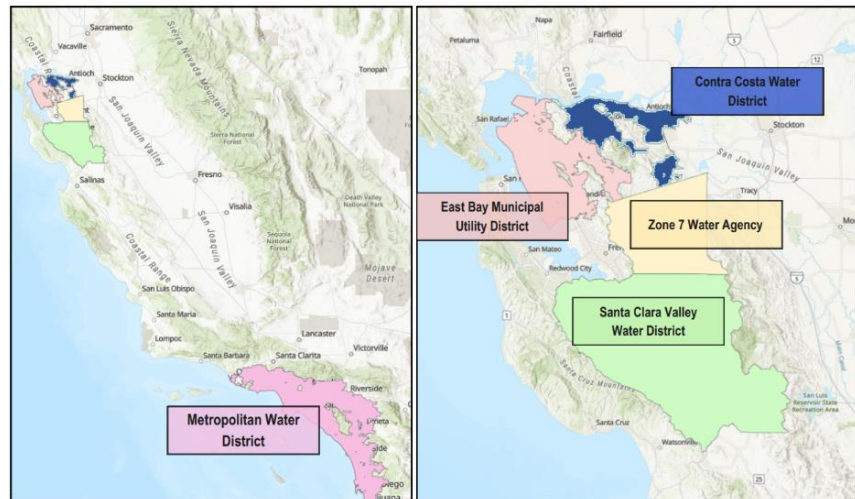
EXHIBIT 7. VALLEY WATER'S IMPLEMENTATION OF GFOA CAPITAL PLANNING LEADING PRACTICES

	A description of how an organization will approach capital planning, including how stakeholder departments will collaborate to prepare a plan that best meets the operational and financial needs of the organization.	✓
	A clear definition of what constitutes a capital improvement project.	✓
	Establishment of a capital improvement program review committee and identification of members	✓
	A description of the role of the public and other external stakeholders in the process. (The level and type of public participation should be consistent with community expectations and past experiences.)	✓
	Identification of how decisions will be made in the capital planning process including a structured process for prioritizing need and allocating limited resources	P
	A requirement that the planning process includes an assessment of the government's fiscal capacity so that the final capital plan is based on what can realistically be funded by the government rather than being simply a wish list of unfunded needs.	✓
	A procedure for accumulating necessary capital reserves for both new and replacement purchases.	✓
	A policy for linking funding strategies with useful life of the asset including identifying when debt can be issued and any restrictions on the length of debt	✓
	A requirement that a multi-year capital improvement plan be developed and that it include long term financing considerations and strategies.	✓
	A process for funding to ensure that capital project funding is consistent with legal requirements regarding full funding, multi-year funding, or phased approaches to funding.	✓
	A requirement that the plan include significant capital maintenance projects.	✓
	Provisions for monitoring and oversight of the CIP program, including reporting requirements and how to handle changes and amendments to the plan.	✓

Source: Auditor Generated from GFOA Capital Planning Policies and Valley Water CIP 5-Year Plan FY 2022-26
Key: ✓ = Criterion Met and P = Criterion Partially Met

In addition to evaluating the extent to which Valley Water's CIP planning process aligns with CSMFO and GFOA, we interviewed and researched the CIP practices of four similarly situated peer water agencies: Contra Costa Water District, East Bay Municipal Utilities District, Zone 7 Water Agency, and Metropolitan Water District.

Our review of these four agencies revealed Valley Water’s capital planning practices to be generally consistent with its peers. For example, peer agencies’ CIP plans ranged in duration from two years to 10 years—the Valley Water CIP plan covers a 5-year period. In addition, as discussed later in this report, Valley Water’s approach to debt financing and revenue forecasting, funding sources and methods, as well as challenges obtaining permits resulting in delays generally aligned with peers. In addition, although Valley Water’s CIP budget was the largest amongst peers, Valley Water utilized similar staffing resources to develop its CIP 5-Year Plan although it updated its CIP annually; whereas, peers updated their short-range CIP biennially.



Recent Process Improvements Have Been Implemented, But Time is Needed to Measure Benefits

According to staff, the overall CIP planning process had generally remained consistent between FY 2006-07, when the Capital Program Planning and Analysis Unit developed Valley Water’s first CIP, and about FY 2018-19. Over the last four years, a number of changes have been implemented to the CIP planning process as a result of direction from the Board of Directors, executive team, and initiatives led by new units established from organization restructuring prior audit recommendations. Specifically, starting in 2019, Valley Water’s new Business Planning and Analysis Unit took on the CIP planning process duties. Exhibit 8 shows a summary of recent process improvements impacting the CIP planning process that have been adopted since 2019.

EXHIBIT 8. RECENT CHANGES IMPACTING THE CIP PROCESS



Source: Auditor generated based on interviews with Valley Water staff, review of presentations and reports to the Board, and example documents provided by staff.

These changes are consistent with leading practices and are fully expected to strengthen various aspects of the CIP planning process. For instance, establishing a Grants Management Team dedicates efforts to secure external funding to bolster available CIP funding. Holding Annual CIP Trainings and Individual Project Team Meetings should improve coordination across project teams and divisions in preparation for the annual CIP, reduce miscommunication, and clarify roles and expectations of involved parties. Implementing new tools like ProjectMates and Vemo could advance Valley Water's ability to manage underlying CIP project data and needs related to budgeting, change management, and staffing.

Yet, at the time of this audit, the changes shown in Exhibit 8 had only recently been implemented in the last four years. With capital projects often spanning several years from initial planning to design to construction, it will take many years before the effects of these efforts will become fully evident in CIP and project documentation. While it is too early to determine their full impact, it is evident that Valley Water has demonstrated positive effort toward improving the annual CIP process. As Valley Water continues to roll out these new initiatives, it should determine a timeline and plan for how it will assess whether these efforts produced intended results and improved the existing process.

Opportunities Exist to Better Ensure Valley Water Delivers Capital Projects as Programmed

As noted previously, an effective CIP facilitates the planning, prioritization, and reporting related to long-term investments in capital infrastructure and technology. The CIP 5-Year Plan is a plan for such investments, and an organization's measurable progress in meeting established targets and milestones is an indicator of, in the case of a CIP, the organization's performance in delivering programmed capital projects or of the achievability of the plan itself. This audit found, as noted above, that Valley Water's CIP planning process employs many of the policies and practices recommended by professional associations and observed in leading practices. Yet, our review of capital expenditures and project schedules over the past five fiscal years found that projects have not progressed in a manner envisioned by the CIP 5-Year Plan, and that actual capital spending was consistently and significantly less than planned despite having adequate financial resources to deliver the projects. This could suggest that:

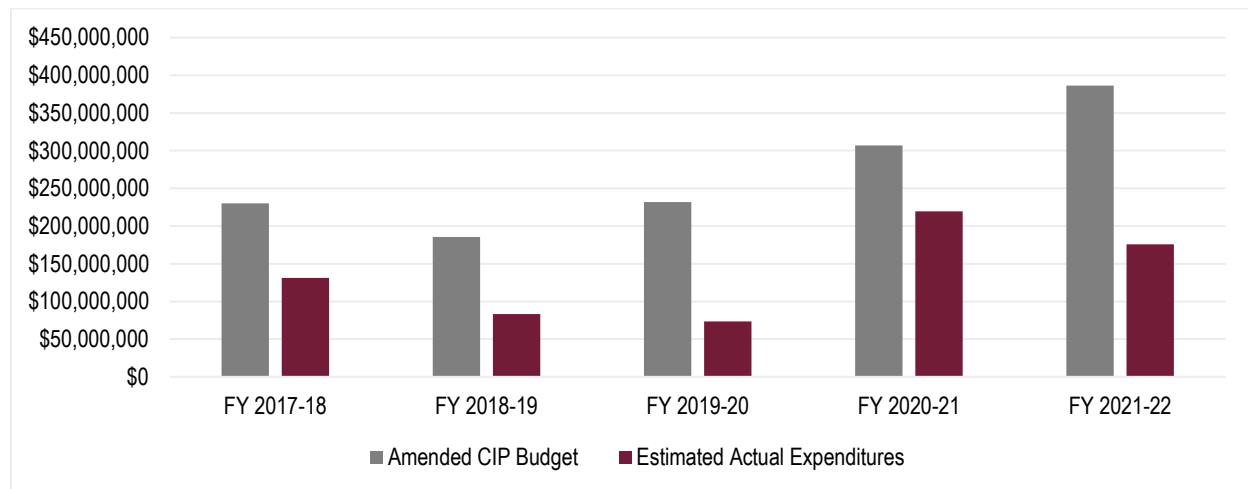
- a) Projects are not progressing as planned for reasons within and outside of Valley Water's control,
- b) Budget data developed and provided for the annual capital budget is imprecise,
- c) Annual capital budget requests are inflated, or
- d) Internal and external staffing resources may be insufficient to meet project demands.

In this finding, we provide some detail demonstrating that projects are not progressing as planned. We also describe several factors that appear to contribute to this trend.

Annual Capital Expenditures Were Consistently and Significantly Less Than Planned

Best practices suggest that budget data should be carefully developed and tied to project phasing and timing, with on-going tracking and monitoring by an independent division of agency-wide capital project delivery. Over the past five fiscal years, FY 2017-18 through FY 2021-22, Valley Water consistently spent less in capital expenditures than budgeted, as shown in Exhibit 9. For example, although \$386.3 million was budgeted for capital expenditures in FY 2021-22, only \$175.8 million was expended—\$210.5 million or nearly 54.5 percent less than budgeted.

EXHIBIT 9. ANNUAL CAPITAL BUDGET VERSUS ACTUAL EXPENDITURES, FY 2017-18 – FY 2021-22



Source: Valley Water CIP 5-Year Plans FY 2018-22 through FY2023-27 and Estimated Actuals provided by the Chief Financial Officer

Between FY 2017-18 and FY 2021-22, two programs, Water Supply Program and Flood Protection Capital Improvement Program, accounted for approximately 95 percent of the total capital budget—averaging \$253.7 million of the average total capital budget of \$268.1 million. Actual capital expenditures for both programs each year have been significantly less than planned, with an average of 43 percent of the budget spent by the Water Supply Program and 59 percent of the budget spent by the Flood Protection Capital Improvement Program over this five-year period. These two programs accounted for more than 90 percent of the unspent capital budget each fiscal year.

Within these two programs, several projects significantly contributed to the annual variances noted, as shown in Exhibit 10. For example, although the FY 2021-22 adjusted budget for the Anderson Dam project was \$127.4 million in the CIP, actual expenditures during the fiscal year were only \$42.7 million, a difference of \$84.7 million, or 66 percent. In another example, although the FY 2019-20 and FY 2020-21 adjusted project budgets for the San Francisco Bay Project were reported as \$33.4 million and \$48.3 million respectively in the CIPs, there were no project expenditures during either fiscal year. According to Valley Water, although actual expenditures were less than planned, if actual expenditures are combined with amounts encumbered for contracts issued during the fiscal year, total amounts are closer to the annual budget amount. However, despite awarding contracts and encumbering funds for the fiscal year, little was actually spent against the encumbrances during the fiscal year, resulting in significant budget and encumbrance carry forwards to the next fiscal year.

EXHIBIT 10. ANNUAL ADJUSTED CIP PROJECT BUDGET COMPARED TO ANNUAL ESTIMATED ACTUAL EXPENDITURES, FY 2017-18 THROUGH FY 2021-22 (\$ IN MILLIONS)

	FY 2017-18		FY 2018-19		FY 2019-20		FY 2020-21		FY 2021-22	
Program/ Project	CIP Adjusted Budget	Est. Actual Expend.	CIP Adjusted Budget	Est. Actual Expend.	CIP Adjusted Budget	Est. Actual Expend.	CIP Adjusted Budget	Est. Actual Expend.	CIP Adjusted Budget	Est. Actual Expend.
Water Supply Program	\$140.2	\$66.7	\$103.8	\$37.2	\$121.3	\$11.5	\$155.5	\$122.1	\$217.4	\$96.5
Anderson Dam (91864005)	\$7.9	\$4.3	\$10.6	\$5.8	\$12.9	\$6.4	\$36.1	\$44.4	\$127.4	\$42.7
Pacheco (91954002)	-	-	\$17.3	\$4.3	\$35.1	0	\$27.9	\$3.6	(\$8.5)	\$5.7
South County Recycled Water Pipeline (91094009)	\$0	\$0.7	\$0	\$0.3	\$0	\$0.1	\$0.2	\$0.7	\$15.3	\$7.2
Flood Protection	\$75.3	\$58.0	\$69.0	\$41.3	\$101.7	\$53.2	\$142.2	\$82.0	\$141.9	\$68.2
San Francisquito Creek (26284002)	\$7.3	\$2.2	\$5.1	\$5	\$2.8	\$1.0	\$0.4	\$1.0	\$12.8	\$1.2
Berryessa Creek (40174005)	\$0	\$2.8	\$17.5	\$2.9	\$0	\$1.9	\$10.7	\$2.8	\$12.8	\$15.5
Llagas Creek (26174052)	\$0	\$1.1	\$0	\$2.1	\$10.2	\$23.0	\$47.5	\$45.7	\$58.3	\$29.5
San Francisco Bay Shoreline (00044026)	\$2.7	\$0	\$0	\$0	\$33.4	\$0	\$48.3	\$0	\$0	\$0
Watersheds Assets Rehab Program (62084001)	\$11.0	\$4.2	\$9.9	\$7.3	\$11.5	\$2.6	\$3.5	\$5.2	\$10.9	\$3.2

Source: Valley Water CIP 5-Year Plans FY 2019-23 through FY 2023-27 and expenditure reports provided by the Chief Financial Officer.

While the Capital Budget Division is responsible for gathering information from its project managers to develop the annual capital budget, it historically has not been tasked with capturing related expenditure data to compare or track amounts to related budget items or project delivery milestones. Valley Water recognized a need for actual annual capital expenditures to closely align with planned capital expenditures and in FY 2022-23 implemented a target to spend 80 percent of budgeted capital dollars each year. To help ensure this target is met, Valley Water included the reporting of the 80 percent expenditure target as part of its Quarterly Capital Project Monitoring Reports, which are reviewed by the capital deputies and executive

leadership, on a quarterly basis, which includes review of actual project expenditures to assess progress towards meeting this goal. This newly established target is in-line with industry leading practices and practices implemented by peers. Specifically, a leading practice is to establish goals or targets for annual capital expenditures to closely align with planned amounts. For instance, East Bay Municipal Utilities District (EBMUD) established a formal target to spend between 90 to 110 percent of the capital budget each year. Similarly, although a formal policy has not been established, Metropolitan Water District targets for actual annual capital expenditures to closely align with budgeted amounts and reported that actual capital expenses are generally 90 percent or more of budgeted amounts.

While the benefits from this new process cannot yet be assessed, establishing budgets and schedules that closely align with available resources and actual project progression and closely monitoring progress at both the project and program level, will help to better ensure projects are delivered as programmed, enable management to assess the effectiveness of both individual project delivery and overall CIP delivery, help build a culture where it is the expectation that projects are delivered on schedule and within budget, and better ensure capital expenditures align with cash flow as well as cash projections for short- and long-term needs.

Capital Projects Consistently Experienced Total Project Cost Increases and Schedule Delays

Although total planned capital spending is overstated year to year, our review of 48 projects included in both the CIP 5-Year Plans FY 2018-22 and FY 2023-27, found that the total project costs (TPC) were often underestimated, requiring either additional funding or modifications to planned scope of work to complete projects, and most projects experienced schedule delays.

Specifically, TPC was increased for 36 of the 48 projects reviewed, or 75 percent, with TPC increases ranging from \$23,000 up to nearly \$791.6 million. However, Valley Water did not track project baseline budget-to-actuals and did not provide documentation necessary to assess the frequency and magnitude of capital project budget increases in total over the full life of the projects. There are a number of valid reasons why project costs could increase, such as changes to the scope of work and unforeseen conditions. However, routine and persistent project budget increases could be indicative of poor project planning and cost estimating.

Valley Water recognized the need for better project cost estimates and recently procured independent cost estimate services to validate project cost estimates. This change is in line with a leading practice identified in the 2022 California Multi-Agency Statewide CIP Benchmarking Study, which recommends agencies establish criteria for obtaining independent cost estimates which take in consideration both project characteristics and volatility of the market. Having to re-design and re-bid a project on which bids come in over budget can significantly impact project delivery cost. Accurate estimates at the end of each design phase, performed by unbiased, independent, qualified professionals with an understanding of local market conditions will reduce the potential for receiving unexpected bids.

Additionally, while it is common for jurisdictions to make changes to programmed projects and adjust project timelines as priorities and resources change, our review of 48 projects found that Valley Water experienced a significant backlog in delivering projects within the schedules programmed. Specifically, we

found that of the 42 projects⁶ with schedules, 40 projects, or 95 percent, experienced delays in project delivery and only two projects, or 5 percent, of the projects were expected to be delivered on-time or early according to the CIP 5-Year Plan 2023-27. Again, this could be indicative of inaccurate and poor project planning, where established project timelines are not aligned with available resources and scheduling assumptions do not align with the current environment, whether it be permitting timelines, required regulatory reviews, procurement and contracting timelines, etc.

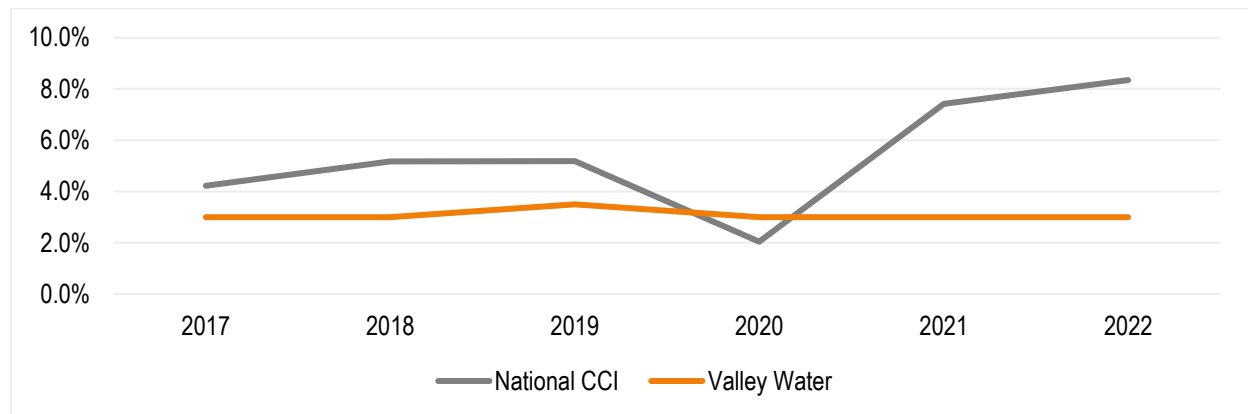
As discussed later in this report, during our review of CMMs for eight projects, we identified schedule delays that were the result of both factors within and outside of Valley Water's control. For instance, some project delays were due to Valley Water contracting and procurement activities taken longer than anticipated and internal staffing attrition, whereas others were related to delays in permitting, coordination with external agencies, and unanticipated CEQA requirements. While it is impossible to mitigate all risks with a project, a leading practice for agencies to help mitigate some risks is to document lessons learned and use this information to help make future project management and delivery more efficient and cost effective. For example, if a project experiences delays obtaining permits, as was a common factor for delays cited in the CMMs reviewed, this should be noted in a lessons learned document, and additional time for permitting factored into timelines when developing project schedules for future similar projects. In the past, Valley Water's Technical Review Committee has been responsible for collecting lessons learned and conducting workshops/presentations to address them. More recently, Valley Water recognized the need for a more consistent approach to documenting and tracking lessons learned and, as discussed previously, implemented a new project management system (ProjectMates) that incorporates a more robust method for tracking factors impacting project changes, process improvements, and lessons learned.

Outdated Cost Estimates and Increased Project Costs Affect Valley Water's Ability to Hit CIP Targets

The estimates used to initially project TPC may become stale and outdated as market conditions change. In FY 2021-22, an analysis conducted by Valley Water found that construction costs were significantly increasing and recommended escalating construction costs by 12 percent in FY 2024-25, then returning to an annual escalation factor of 3 percent for future years beginning in FY 2025-26 through FY 2033-34. Historically since 2010, Valley Water has recommended annual escalation factors ranging from 2 percent to 3.5 percent. In Exhibit 11, we compared the construction cost index recommend by Valley Water to the National Construction Cost Index reported in the Rider Levett Buckhall: North America Quarterly Construction Cost Report. This revealed that the escalation rates recommended by Valley Water each year were generally lower than the national average. This could imply that costs escalations applied by Valley Water were not keeping pace with the market and would result in project cost estimates that were lower than they should be, which may explain some of the project cost increases noted earlier.

⁶ Six of the 48 projects did not include project delivery schedules.

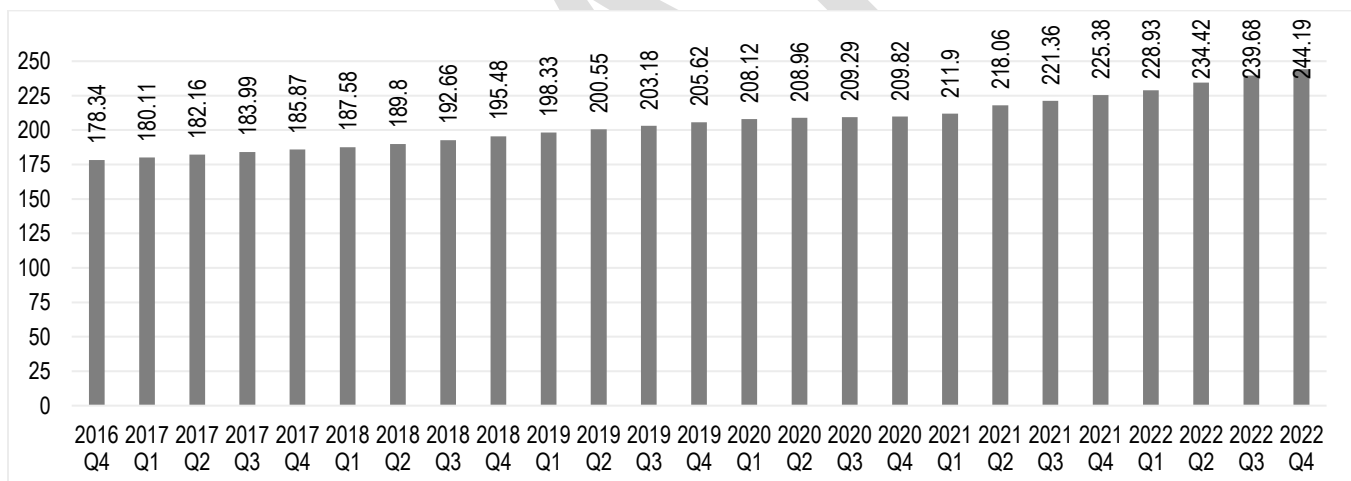
EXHIBIT 11. VALLEY WATER RECOMMENDED COST VS NATIONAL CONSTRUCTION COST ESCALATION RATE



Source: Rider Levett Buckhall: Fourth Quarter North America Quarterly Construction Cost Report 2021 and 2022 and Valley Water CIP 5-Year Plan FY 2024-33 Recommendation for Construction Cost Escalation Factors.

Between the fourth quarter of 2016 and the fourth quarter of 2022, the national construction cost index increased from 178.34 to 244.19, an increase of nearly 37 percent, with annual increases between 2 and 8.3 percent.

EXHIBIT 12. NATIONAL CONSTRUCTION COST INDEX



Source: Rider Levett Buckhall: Fourth Quarter North America Quarterly Construction Cost Report.

Key: Q = Quarter

As a result, allocated funds may not be sufficient to cover the scope of work initially envisioned in the CIP 5-Year Plan. In addition to cost escalations, delays in project delivery could impact the applicability of studies conducted in earlier stages of projects, such as environmental impact and air quality studies; such studies may become outdated over time and may need to be re-evaluated, further increasing project cost. Ultimately impacting Valley Water's ability to deliver all programmed projects as promised.

In FY 2021-22, Valley Water utilized an on-call contract with an Independent Cost Estimator (ICE) to validate its construction cost escalation factor analysis. It further made the business decision that, moving forward, it will employ a consultant to determine construction cost escalation factors to ensure that Valley Water is keeping pace with the market and to better ensure accuracy and reliable in future TCP estimates.

Internal and External Staffing Resources Do Not Appear Sufficient to Meet Project Demands

According to the 2022 California Multi-Agency CIP Benchmarking Survey, a leading practice in CIP planning is to “resource load” all CIP projects for design and construction. This allows the agency to identify the resources required to deliver projects according to the CIP schedule, including staffing resources within the project teams and support units, and it helps ensure a common understanding among all parties with a role to play in the delivery of a project of resources required to deliver the CIP on schedule. As noted previously, the 2021 Risk Assessment raised concerns regarding whether the CIP was right-sized given Valley Water’s resources and the availability of key personnel, including sufficient project staff and outsourced service providers as well as various support units (e.g., General Services and Real Estate Services), and that overcommitting limited resources was resulting in project delays. We found this concern to be valid. This audit revealed, however, that while staff indicated that the underlying support for budgets developed in the CIP include staff hours, project managers have historically needed to coordinate with supporting units to verify the availability of resources, and often experienced delays due to the lack of resources.

The trends described above related to actual expenditures on programmed capital projects suggest at least in part that while Valley Water has the fiscal capacity to deliver planned capital projects, it lacks other required resources—specifically, project staff and outsourced service providers. During interviews with the CIP Team and project personnel, staff and management described being spread thin among too many projects, and that this indicates the CIP is over-committing existing Valley Water staff on projects in the hopes that, if additional staff or contractors are needed, Valley Water would have the funding to hire them. While the scope of this audit did not include a staffing analysis, nor did it evaluate staffing resources or project delivery methods on capital project teams, anecdotal evidence lends credibility to the concerns raised by staff during this audit. Not only has Valley Water struggled to deliver projects as programmed, we have observed similar challenges among public works agencies within California—a shortage of professional engineers and project staff both in-house and through professional service firms. This shortage has been persistent since before the pandemic and has reportedly only gotten worse since. As discussed earlier, Valley Water recognized the need for enhanced internal staffing resource management, and in FY 2022-23 implemented a new tool, Vemo, to improve its resource planning.

Impacts of Delayed Project Delivery Could Be Substantial

The CIP 5-Year Plan, including the funding needs identified in the plan, impacts Board decisions relating to water rates. An overly-ambitious plan that contributes to program expenditures that are substantially lower than planned, year after year, could result in rate increases or bond issuances being implemented sooner than necessary. Commitments to deliver, persistent delays in project progress, increasing project costs, and the implementation of rate increases, could lead to the public perception that public investment in necessary infrastructure is not producing the promised outcomes. This could impact ratepayer and stakeholder confidence in Valley Water’s ability to deliver projects as promised. This could impact public support for rate increases and future voter-approved measures.

Beyond this, there are a number of organizational implications when management information for capital projects is not shared and assessed across the organization.

- ✓ **Opportunity Cost:** Valley Water exposes itself to opportunity cost and runs the risk of programming and funding projects that cannot be delivered as planned over projects that may better meet Valley Water's goals and objectives and are ready to begin.
- ✓ **Risk of Loss of Funding:** Some funding sources may be tied to project timelines. If projects experience significant delays, Valley Water may be at risk of losing funding. This risk becomes increasingly important as Valley Water expands its efforts to obtain additional grant funding for its capital projects. Some grants may be tied to project delivery timelines. As a result, the Valley Water would need to identify alternative funding sources. Further, if capital oversight is deemed inadequate, Valley Water could be at risk of losing current and future funding.
- ✓ **Stale Projects:** Depending on how long projects have been delayed, previously programmed projects may not be in line with Valley Water's current goals and priorities, or may require re-evaluation to ensure project information and potential impacts remain current.

Additional Performance Metrics Would Enhance Ongoing Reporting and Evaluation of Program Outcomes

In addition to establishing objective criteria for prioritizing projects, establishing a performance measurement system facilitates program monitoring, oversight, and reporting—and therefore improves the effectiveness of both capital project delivery and the CIP. As noted previously, the GFOA recommends establishing protocols for monitoring and oversight of the CIP program, including substantive reporting processes. Building on this recommended leading practice, the GFOA notes that sound monitoring, oversight, and reporting protocols provides a basis for accountability and credibility in decision-making. According to the Federal Highway Administration, performance measurement systems offer four key benefits:

- Provide transparency to public and accountability to public officials
- Understand where problems are
- Direct the best mix of investments
- Evaluate how well past investments worked

While Valley Water has established robust reporting of project status to both management and its Board, including certain performance measures and reporting for the "Safe, Clean Water Program," Valley Water has not developed a comprehensive system to report both project delivery and overall CIP performance. Our review of information provided to Valley Water management and its Board related to the CIP, found that while detailed information was reported on the status of each project, reports and presentations lacked a comprehensive discussion of how each projects status impacted the delivery of the program and did not answer questions on the effectiveness of Valley Water's capital planning. For instance, based on reports provided and information presented, management and the Board could not easily assess the effectiveness of capital project delivery and the overall CIP. Particularly, the following two key performance questions are left unanswered:

- Do capital planning and budgeting practices result in realistic project delivery schedules and cost projections?
- Are capital projects delivered on-time and within budget?

While the newly implemented 80 percent target for annual capital spending is a step in the right direction, there are other metrics that Valley Water should consider tracking to assess project and program performance. In Exhibit 13, we provide additional leading industry metrics that Valley Water should consider tracking and reporting at the project level, program level (e.g., Water Supply Program, Flood Protection Program, etc.), and in-total for all capital projects.

EXHIBIT 13. EXAMPLES OF OTHER INDUSTRY PERFORMANCE INDICATORS FOR CAPITAL CONSTRUCTION PROJECTS

KPI Category	Indicator
Cost	Percent that a project is over or under budget
	Estimated design cost vs. actual design cost
	Initial Budget estimate vs. actual project cost
	Revised estimate vs. actual project cost
	Engineer's estimated contract amount vs. contract award
	Construction cost: revised estimate vs. actual cost
	For a program, percent of all projects that are "on-budget" upon substantial completion
	Number and/or value of change orders compared to initial and revised contract totals
Schedule	Number of weeks from planned substantial completion to actual substantial completion
	Number of adjustments made to the schedule
	Numbers of RFIs and the average duration to review and respond to RFIs
	Planned design time vs. actual design time
	Planned bid opening date vs. actual bid opening date
	Planned notice to proceed date vs. actual notice to proceed date
	Revised estimated construction completion vs. actual construction (Consider incentive/disincentive bidding)
	Planned project start date vs actual start date
	Planned project completion date vs. actual completion date
Safety	Incident rate ^(A)
	Lost hours
Quality Control	Rework cost
	Number and percent of non-compliance records compared to inspections conducted
	Hours spent to fix defects
Stakeholder Satisfaction	Number of non-emergencies and/or construction-related complaints

Source: Vancouver Regional Construction Association; Project Management Institute (PMI) - Construction Extension, 29th World Congress International Project Management Association; Project Management Software; and Journal of Construction Engineering and Management

These metrics should be tracked at the project level and then aggregated to provide performance of Valley Water's execution of the overall capital improvement program. Such information can be a valuable tool for

management and the Board to assess the overall effectiveness of capital planning practices and the performance of the CIP from one year to the next. It can also help to identify trends and help identify areas where practices can be enhanced to produce more accurate budgets and schedules. In Exhibit 14 we provide some examples of information that could help management measure and track the execution of the CIP.

EXHIBIT 14. EXAMPLES OF CIP PERFORMANCE MONITORING AND REPORTING

Cost Performance	
<ul style="list-style-type: none"> Number of Projects Completed Within Initial Budgeted Amounts <ul style="list-style-type: none"> Total Baseline Budget Total Actual Cost Variance between Baseline Budget and Actual Percent of Projects Completed Within Initial Budgeted Amounts 	
<ul style="list-style-type: none"> Number of Projects Completed Within Revised Budgeted Amounts <ul style="list-style-type: none"> Total Baseline Budget Total Actual Cost Variance between Baseline Budget and Actual Percent of Projects Completed Within Initial Budgeted Amounts 	
<ul style="list-style-type: none"> Number of Projects with Design Costs Completed Within Baseline Budgeted Amounts <ul style="list-style-type: none"> Total Baseline Budgeted for Design Total Actual Design Cost Variance Between Budgeted and Actual Percent of Projects with Design Costs Under Budget 	
<ul style="list-style-type: none"> Number of Projects Where Independent Cost Estimate was within X% of Contract Award <ul style="list-style-type: none"> Total Cost Estimate Total Contract Award Variance between Cost Estimates and Award Percent of Projects Where Independent Cost Estimate was within X% of Contract Award 	
Schedule Performance	
<ul style="list-style-type: none"> Overall Schedule Adherence <ul style="list-style-type: none"> Number of Projects Completed Within Baseline Schedule <ul style="list-style-type: none"> Percent of Projects Completed Within Baseline Schedule Average # of Days Ahead Number of Projects Ahead or On Schedule Number of Projects Behind Schedule Average # of Days Behind Percentage of Projects Ahead of or On Schedule Number of Projects Started Within Baseline Schedule <ul style="list-style-type: none"> Percent of Projects Started Within Baseline Schedule 	
<ul style="list-style-type: none"> Design Schedule Performance: <ul style="list-style-type: none"> Average # of Days Ahead Number of Projects Ahead or On Schedule 	

<ul style="list-style-type: none"> ○ Number of Projects Behind Schedule ○ Average # of Days Behind ○ Percentage of Projects Ahead of or On Schedule
<ul style="list-style-type: none"> ● Construction Schedule Performance: <ul style="list-style-type: none"> ○ Number of Projects Ahead or On Schedule ○ Number of Projects Behind Schedule ○ Average # of Days Ahead ○ Average # of Days Behind ○ Percentage of Projects Ahead of or On Schedule
<ul style="list-style-type: none"> ● Bid Opening Date Performance: <ul style="list-style-type: none"> ○ Number of Projects Ahead or On Schedule ○ Number of Projects Behind Schedule ○ Average # of Days Ahead ○ Average # of Days Behind ○ Percentage of Projects Ahead of or On Schedule

Source: Auditor generated from industry experience and resources from the PMI and City of San Luis Obispo Capital Improvement Program Process Assessment

In addition to metrics described above, other agencies, such as EBMUD, establish key performance indicators to track progress towards specific agency goals, including goals related to its capital planning and delivery. For example, EBMUD set a goal for the number of water system pipeline breaks per 100 miles of pipe to be less than or equal to 20. Its actual performance over three fiscal years was reported in its Biennial Budget. As discussed later in this report, Valley Water should consider setting tangible targets to measure how well its capital improvement program is helping the agency progress towards its established goals. Lastly, performance measures serve to not only provide a report that can be reviewed for oversight purposes, but also serves as a communication tool to the public of the goals Valley Water is meeting and the challenges that occur.

While Valley Water's CIP Planning Process Adheres to Many Leading Practices, Additional Opportunities for Improvement Exist

In addition to ensuring key CIP targets are reasonable and aligned with available staffing resources, this audit found that opportunities exist to better align the CIP planning process with industry leading and peer practices. This includes establishing more robust project prioritization processes, performance metrics to evaluate program success, and comprehensive capital planning policies and procedures, among others. In the following sections we provide a discussion of several ways Valley Water's CIP planning process could be more closely aligned with leading practices or its peer water agencies.

Leading Practices Provide a Guide for Enhanced Project Prioritization Processes

Establishing a process to prioritize capital projects based on agency goals and capital needs, regulatory requirements, and ensure the best use of limited resources is a leading practice that is recognized by the CSFMO, GFOA, California Multi-Agency Statewide CIP Benchmarking Study, and peers. For instance,

GFOA recommends the use of an objective and quantifiable rating system to facilitate decision-making and recommends that, when evaluating capital requests, governments should first prioritize based on:

- Health and Safety – Priority should be given to high-risk safety issues that require a capital project to correct;
- Asset Preservation – Capital assets that require renewal or replacement based on capital asset life cycle; and
- Service/Asset Expansion/Addition – Infrastructure improvements needed to support government's policies, plans, and studies.

Although Valley Water conducts annual calls for projects and requires project proposers to provide a detailed project justification form, Valley Water does not establish formal criteria for selecting and prioritizing projects and does not tie project prioritization to measurable targets and outcomes. Instead, Valley Water indicated that its internal CIP Group, which is comprised of management and representatives from different program areas, meet to discuss proposed projects, review the project justification forms submitted for alignment with Board priorities, and to assess Valley Water's ability to fund projects based on known funding sources. From these discussions, Valley Water develops a proposed CIP 5-Year Plan for the Board's review and approval. However, Valley Water did not provide documentation detailing the discussions held, factors considered, and justification for decisions made to prioritize one project over another. In the fall of 2022, Valley Water incorporated an additional process to provide "funding filters for prioritization" to its Board. While Valley Water provided its Board with a matrix of projects that detailed whether the projects met the following criteria, it did not provide a justification for the selection or advancement of one project over another. These filters included:

- Replace/Repair Existing Infrastructure
- Public Health and Safety
- Shovel Ready (Permits and Lands Rights Secured)
- Multi-benefit Project
- Multi-benefit Project: Environmental Justice Project
- Partially Externally Funded (Grants and Partnerships)
- Description of the project.

According to Valley Water management, it had a process to prioritize and rank projects in the past, but the process was found to be unclear and the preference of both management and the Board was to shift away from this approach. Valley Water's current process ensures consensus building—a critical component of the planning process; however, objective criteria for prioritization is also relevant. While eliminating a process that provided a confusing output is reasonable, it in itself does not eliminate the need for a project prioritization process that provides comprehensible justification for project selection and decisions made. A leading practice identified by the GFOA includes the use of a rating system to facilitate decision-making.

Other government entities have developed and incorporated robust project prioritization processes that help to provide linkage between projects selected and agency goals and priorities. For instance, the Contra Costa Water District assigns each CIP project a priority level according to its prioritization methodology. Their methodology ranks or rates the importance of a project based on various criteria such as protection of health and safety, legal requirements, and rate of return on their investment. The priority levels provide a basis for determining which projects should be done in any given year and how projects should be scheduled over their 10-year CIP span. Contra Costa Water District only includes projects with a priority level 1 or 2 ranking in its Ten-Year Financial Plan and Rate Model. Additionally, Contra Costa Water District conducts studies within its sub-programs, such as Treated Water Facilities Program, to identify and prioritize projects. For instance, in 2018 a study was conducted to identify and prioritize pipelines renewal and replacement projects for the treated water system.

In another example, the City of San Diego adopted a formal CIP prioritization policy “to establish an objective process for ranking CIP projects to allow decision-makers to have a basis for choosing the most compelling projects for funding.” The policy includes the following four criteria for ranking and comparing projects:

- Projects within restricted funding categories will compete only with projects within the same funding category.
- Projects will compete only with projects within the same asset type (project type).
- Projects will compete only with projects within the same level of completion or project development phase (planning, design and construction).
- Projects scores will be updated as the condition of the project changes or other information becomes available.

Further, similar to the categories in Valley Water’s “Funding Filter for Prioritization”, the policy established weights for specific factors, such as health and safety effects, for both non-transportation and transportation projects that it considers and uses to prioritize projects, as shown in Exhibit 15.

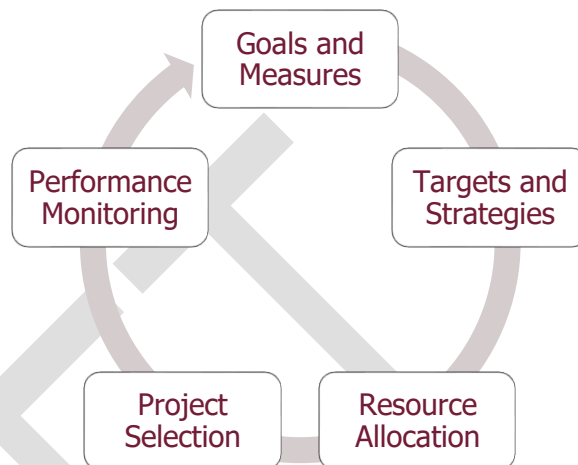
EXHIBIT 15. PROJECT PRIORITIZATION FACTORS CONSIDERED BY CITY OF SAN DIEGO

Non-Transportation Projects	Weight	Transportation Projects	Weight
Health and Safety Effects	25%	Health and Safety Effects	25%
Regulatory or Mandated Requirements	25%	Capacity and Service (Mobility)	20%
Implication of Deferring the Project	15%	Project Cost and Grant Funding Opportunity	20%
Annual Recurring Cost or Increased Longevity of the Capital Asset	10%	Revitalization, Community Support and Community Plan Compliance	15%
Community Investment	10%	Multiple Category Benefit	10%
Implementation	5%	Annual Recurring Cost or Increased Longevity of the Capital Asset	5%
Project Cost and Grant Funding Opportunity	5%	Project Readiness	5%
Project Readiness	5%		
Total	100%	Total	100%

Source: City of San Diego Capital Improvements Program Project Prioritization Policy

Valley Water Should Consider Whether a Performance-Based Prioritizing Process Would Be Feasible and Appropriate

If Valley Water chooses to implement a performance-based prioritization process, it would first need to identify qualitative measures for Valley Water's overarching goals, such as the goals identified by its Board. Then it would need to establish targets and quantifiable performance metrics to measure progress towards meeting established goals. Once the goals and performance metrics are identified, Valley Water can establish a prioritization process that links resource allocation and project funding based on projects that will have the greatest impact, or highest performance outcome, to achieve established goals and targets. Factors to be considered when planning projects should also include sources of funding, availability of staff resources, such as project teams and procurement and contracting staff, and time required to achieve necessary permits—all of which impact a projects ability to meet project delivery and spending schedules. As projects are completed, Valley Water would assess actual outcomes against expected results.



We also recommend that Valley Water consider additional financial techniques for evaluating potential projects including comparing estimated total project life cycle costs versus the benefits of the project, calculating payback period on debt to be incurred, and determining projected availability of cash flow over the project period, as appropriate. Funding source also impacts the ability to prioritize projects.

Leading Practices Suggest the Need for More Formal CIP Planning Policies and Procedures

While Valley Water's capital planning processes and practices generally aligned with the leading practices stated in the GFOA Capital Planning Policy, Valley Water has not established a formal capital planning policy that is comprehensive of the entire capital planning process and inclusive of the key policy elements identified by the GFOA. Instead, as shown in Exhibit 16, our review found that information was disjointed and located in multiple documents, such as the Board policies and directives, staff presentations to the Board, the CIP 5-Year Plan, and internal policies and procedures. The lack of a comprehensive capital planning policy increases the risk of inconsistency processes being applied from one year to the next, and could result in incongruencies between documents when one document is updated without reviewing other related documents.

EXHIBIT 16. KEY PLANNING POLICIES ARE LOCATED IN MULTIPLE LOCATIONS

GFOA Planning Policies	Valley Water Policy Source
<ul style="list-style-type: none"> A description of how an organization will approach capital planning, including how stakeholder departments will collaborate. A clear definition of what constitutes a capital improvement project. 	FY 2022-26 CIP
<ul style="list-style-type: none"> Establishment of a capital improvement program review committee and identification of members as well as responsibilities of the committee and its members. Provisions for monitoring and oversight of the CIP program, including reporting requirements and how to handle changes and amendments to the plan. 	QEMS Policy
<ul style="list-style-type: none"> A description of the role of the public and other external stakeholders in the process. A requirement that the planning process includes an assessment of the government's fiscal capacity. 	Executive Limitations/ FY 2022-26 CIP
<ul style="list-style-type: none"> Identification of how decisions will be made in the capital planning process including a structured process for prioritizing need and allocating limited resources 	Asset Management Plan / FY 2022-26 CIP / Funding Filter
<ul style="list-style-type: none"> A procedure for accumulating necessary capital reserves for both new and replacement purchases. A requirement that a multi-year capital improvement plan be developed and that it includes long term financing considerations and strategies. A process for funding to ensure that capital project funding is consistent with legal requirements regarding full funding, multi-year funding, or phased approaches to funding. 	Executive Limitations
<ul style="list-style-type: none"> A policy for linking funding strategies with useful life of the asset including identifying when debt can be issued and any restrictions on the length of debt. 	Debt Management Policy
<ul style="list-style-type: none"> A requirement that the plan include significant capital maintenance projects. 	Ends Policies

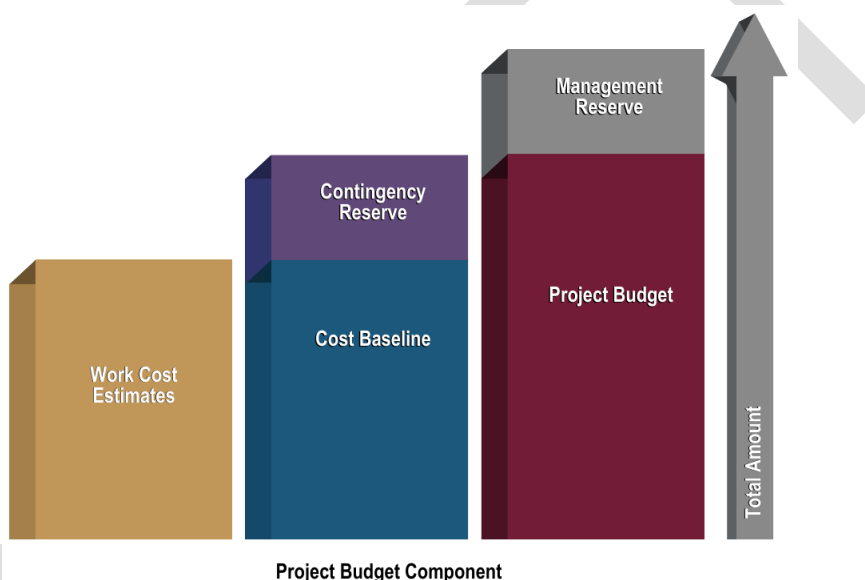
Source: Auditor generated from GFOA Capital Planning Policy and review of Valley Water documents.

According to the GFOA Capital Planning Policy, government agencies should develop and adopt capital planning policies that take into account their unique organizational characteristics including the services they provide, how they are structured, and their external environment. The GFOA notes that capital planning policies not only provide an essential framework for managing these tasks and for assuring that capital plans are consistent with overall organizational goals, but also help to assure the sustainability of its infrastructure by establishing a process for addressing maintenance, replacement, and proper fixed asset accounting over the full life of capital assets. In addition, capital planning policies can strengthen a government's borrowing position by demonstrating sound fiscal management and showing the jurisdiction's commitment to maximizing benefit to the public within its resource constraints. To better ensure the consistency of its capital planning, Valley Water should consider established a formal, written Capital Planning Policy that incorporates the key elements identified by the GFOA Capital Planning Policy.

Formal CIP Planning Policies and Procedures Should Include Guidance Regarding Contingencies and Reserves

There are generally two types of contingency reserves, a project level contingency and management contingency. According to the Project Management Body of Knowledge (PMBOK) 7th Edition, the “project budget should include contingency reserve funds to allow for uncertainty.” In addition, “Management reserves are set aside for unexpected activities related to in-scope work. Depending on the organization’s policies and organization structure, management reserves may be managed by the project, the sponsor, product owner, or the PMO [Project Management Office] at the program or portfolio level.” At Valley Water, construction contingency reserves are included in the project budget and management reserves are tracked separately from project budgets at the fund level.

EXHIBIT 17. CONTINGENCY / RESERVE BEST PRACTICE



Source: Project Management Institute PMBOK 7th Edition

The 2018 Construction Management Association of America (CMAA) Cost Management Guidelines states that in absence of a formally established risk management program, a 10 percent contingency fund is typically used. However, organizations ideally should perform risk analyses of projects to calculate the probability of the risk occurring with consideration of the costs and rough order of magnitude as the basis for establishing contingency. In short, there should be a defensible procedure for how project and program contingency is established. This can include having an organization-wide baseline contingency with allowability for variation from this baseline if certain conditions met and approvals are obtained by decision-makers. Factors such as unique risk or project delivery method should be considered for why a specified contingency amount is decided upon. Moreover, after contingencies are developed, rules for authorized use should be clearly defined.

Valley Water has a Cost Estimating Manual and Construction Manual that provides some guidance regarding the application of contingencies on capital projects, and this provides guidance for developing, recommending, and using risk-based contingency reserve amounts. However, contingencies are not

sufficiently addressed in the various formal CIP policies established by Valley Water, including those noted in Exhibit 16, which require Board input and approval.

In developing a CIP policy, as described above, Valley Water should incorporate a policy that identifies the types of contingency reserves utilized by Valley Water, the purpose of reserves, and how contingency amounts should be determined, including a process to formally memorializing the assumptions and rationale behind project contingency amounts.

Review of the existing contingency guidelines and rules for authorized use have been added to the 2023 CIP Committee Work Plan for discussion, and management noted that the CIP Committee will consider whether any policy level recommendations should be brought to the Board for consideration.

Most Peer Entities Reviewed Update Their CIP Plan Biennially

One of the more distinguishable differences between Valley Water and the peers sampled is that Valley Water updates its CIP 5-Year Plan annually, whereas all four peers reviewed update their short-range CIP biennially. Both peers and Valley Water staff interviewed indicated that the process to update the CIP was labor intensive and required significant coordination amongst multiple program areas within the organization, public and stakeholder outreach, and time to prepare for and present changes to executive management and oversight bodies. The level of primary staffing dedicated to CIP development appeared to be similar across the peers sampled, with most peers reporting three to four fully dedicated staff and assistance from programs responsible for delivering capital projects as well as fiscal staff. Yet, Valley Water had the largest short-term CIP budget, although the number of capital projects included in Valley Water's CIP 5-Year Plan was similar to peers, and updated its plan more frequently. For example, the Metropolitan Water District reported that three full-time staff were primarily responsible for updating their short-range CIP.

While there is no formal industry standard on how frequently an agency should update its short-range CIP, implementing a biennial renewal process would provide additional time for staff to compile the necessary information to update the CIP, could reduce the risks of reporting errors resulting from compressed timelines, allow more time to analyze project changes and prioritize projects, and provide additional time for project teams to focus on project delivery. Switching to a biennial update, would not negate the need for regular capital project updates to be presented to both executive management and the board. In fact, similar to Valley Water, peer agencies also provided periodic capital project updates, such as quarterly and annual updates, to both board Capital Planning Committees and the full Board throughout the fiscal year.

Valley Water indicated that in developing its CIP 5-Year Plan it follows Government Code § 65403, which requires government agencies following the provision to develop a 5-year plan that is updated annually. However, the implementation of this provision is at the discretion of Valley Water's Board and our review of the Ends Policy and Executive Limitations Policies did not find any reference requiring Valley Water follow Government Code § 65403. Rather, Executive Limitation Policy 4 sections 4.4.1 stated that Valley Water must "Produce an annual Rolling Five-Year Capital Improvement Plan with the first year serving as the adopted capital budget and the remaining years in place as a projected capital funding plan." If Valley Water's Board determines that Valley Water should move from annual to biennial updates, Executive Limitation Policy 4 would need to be revised.

Enhanced Detail in Anticipated Operations and Maintenance Costs Is Warranted

According to leading practices described by the CSMFO, CIPs should include operating budget impacts and/or contain future estimates of annual operating and maintenance costs. Valley Water does include an operational costs impact section for each project in the same fashion as its peers. However, the extent to which Valley Water provides context for their projections is lacking, specifically on projects where Valley Water has determined that there will be an estimated operational impact, but does not provide context or projected details for the consideration of the Board or public. For example, the Calero and Guadalupe Dam Seismic Retrofit explains that there are anticipated to be impacts on future operating costs, but no further details are described in terms of why there will be increased operations costs nor any estimates for what that impact will be, and further states that it will be determined during the design phase. Future operational cost impacts are an integral part of the Board's decision-making process and without context the Board cannot make an informed decision on the long-term impacts of undertaking these projects.

Opportunities Exist to Implement Agency Wide Lessons Learned to Enhance Future Development of Project Schedules and Budgets

Several CMMs attributed permitting delays, scope increases, issues with design, and time required to work with external government agencies as reasons for increases to TPC and schedule delays for capital projects. These stated reasons echo what Valley Water staff attested to be delivery challenges for CIP projects to auditors during interviews and align with some risks flagged in the 2021 Risk Assessment conducted by the Board appointed independent auditor.

For instance, at least three reviewed projects mentioned permitting challenges that led to scope changes, cost increases, and/or schedule delays. A change memo from February 27, 2020, for Lower Penitencia Creek Improvements, Berryessa to Coyote Creeks noted that there was a two-month delay in the environmental phase due to delays in obtaining resource agency permits, as well as a three-month delay in design due to a need to acquire an encroachment permit and right-of-way from the City of Milpitas. The subsequent change memo dated September 25, 2020, cited further delays—nearly one year for the start of construction, attributed to negotiations with the same government bodies. The Almaden Lake project also had delays attributed to permit negotiations—indicating in a September 25, 2020 memo that the start of construction would be delayed a year as a result. Finally, the Almaden Dam project cited a one-year delay in design in its March 5, 2015, change memo due to CA Fish & wildlife permits that were predicted to be difficult to obtain.

Anecdotally, Valley Water staff stated that on a project or division basis staff are conducting analyses to track historical data of delays and cost increases to estimate future planning and apply lessons learned against some of these known causes to delivery challenges. Additionally, staff stated that the technical review committee also has presented lessons learned. Yet, there is no evidence that this occurring comprehensively and consistently organization-wide with knowledge shared across project teams and divisions. The 2022 California Multi-Agency Statewide Benchmarking Survey states that as a best practice, agencies should develop formal post project reviews and identify lessons learned. These documents should be made available to staff on projects of a similar scope and nature to make future project management and delivery more efficient and cost effective.

Management noted that it is developing a lessons-learned database as part of ProjectMates in response to a recommendation from the 2019 Contract Change Order Audit. This database could be used as a tool to comprehensively memorialize, share, and track planning and delivery lessons learned rather than rely on ad hoc lessons learned shared and presented by staff or knowledge siloed within certain teams. Valley Water should begin formally memorializing underlying causal trends for CIP cost increases and schedule delays and share the results of those analyses agency-wide in this new database to strengthen future CIP planning to avoid delivery obstacles where historical data may exist to forecast patterns.

Opportunities Exist to Improve Transparency and Consistency of Information Reported

As a public agency, Valley Water has the inherent obligation to maintain and report clear and accurate information both internally for operational use among staff and externally to the public. This includes ensuring the CIP reports information in a clear and consistent manner, and that data reported is supported by underlying systems, project files, and financial systems. Our review of information detailed in annual CIPs, CMMs, and underlying financial and project planning data showed that there were variances in reported data, differing levels of sufficient justification for cost increases and delays, and inconsistencies between corresponding documents. Overall, we found that opportunities exist to strengthen the reliability and consistency of data used in and by the CIP 5-Year Plan to ensure that Valley Water is more transparent and accountable to the public.

Annual Capital Budget Amounts Were Not Always Consistently Reported in the CIP and Did Not Always Align with Valley Water's Financial System

The first two years of each of Valley Water's annually CIP becomes the capital budget for the current year and plan for the following year. For instance, in the adopted CIP 5-Year Plan FY 2023-27, the capital budgets reported for FY 2022-23 will become the adopted capital budget for that year and the amounts reported for FY 2023-24 will become the plan for that year in Valley Water's rolling biennial budget. To assess the accuracy of annual capital budget information reported in the CIP 5-Year Plan, we assessed the mathematical accuracy and consistency of amounts reported in the plan and compared initial and amended capital budgets reported in the CIP 5-Year Plan to annual capital budgets and expenditures recorded in Valley Water's financial system over a five-year period—FY 2017-18 through FY 2021-22. During our review, we found:

- Information was not always consistently reported in the CIP 5-Year Plan;
- Inconsistencies in the presentation of budget amounts and other minor discrepancies in the CIP 5-Year Plan; and
- Inconsistencies between approved annual budget amounts in the CIP 5-Year Plan and Valley Water's financial system.

While it does not appear the discrepancies identified were intentional and a variety of factors contributed to the variances noted, these inconsistencies make it challenging to determine the accurate annual project

budget and TPC, hindered transparency of information reported, and may cause stakeholders to question the reliability of information reported in the CIP 5-Year Plan.

- ✓ **Information Is Not Always Consistently Reported in the CIP:** Our review of annual capital budget information reported for five fiscal years in six CIP 5-Year Plans,⁷ identified inconsistencies with TPC and annual budget information reported on individual capital project summary pages and/or program summary pages for most of the years reviewed. These inconsistencies included variances in information reported from one plan to another and inconsistent TPC and annual budget amounts reflected in different tables and graphs. For example, for one project, the Hale Creek Enhancement Pilot Study, the baseline project start date was reported as May 2015 in the CIP 5-Year Plan FY 2018-22, but was changed to July 2014, approximately a year earlier, in the CIP 5-Year Plan FY 2023-27.

In another example, in the CIP 5-Year Plan FY 2018-22, for a different project (Berryessa Creek, Calaveras Boulevard to Interstate 680), different amounts were reported for the TPC in the schedule and status graph (\$57.3 million), expenditure schedule (\$57.6 million), and funding schedule (\$60.2 million), as shown in Exhibit 18. For other projects, we generally found that the total amount reflected in the schedule and status graph aligned with the total uninflated project costs reflected in the expenditure schedule. This was consistent with how information was reflected for the same project in the CIP 5-Year Plan FY 2023-27. However, we noted some cases where the total in the funding schedule aligned with the total inflated costs in the expenditure schedule and other cases it did not when the allocated funding exceeds planned expenditures—as was the case for the Berryessa Creek, Lower Penitencia Creek to Calaveras Boulevard project \$209.4 million versus \$212.6 million. Valley Water appropriately included a note to explain the variance for this project. Nevertheless, it is recommended practice to consistently report information from one project to the next and throughout related graphs and tables.

⁷ CIP 5-Year Plans FY 2018-22 through FY 2023-27

EXHIBIT 18. BERRYESSA CREEK, CALAVERAS BOULEVARD TO INTERSTATE 680 PROJECT PAGE INCONSISTENCIES

CIP 5-Year Plan, FY 2018-22

SCHEDULE & STATUS

January 2000 to June 2020

Phase	Cost	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27
Plan	8,232											
Design	560											
Design	10,438											
Construct	38,063											
Closeout	50											
	57,343											

EXPENDITURE SCHEDULE

(in thousands \$)

Project	Actuals Thru FY16	FY17	FY18	FY19	FY20	FY21	FY22	Future	Total
26174041-Berryessa Creek, Corps Coordination	22,016	12,997	2,832	200	200	0	0	0	38,245
with inflation	22,016	12,997	2,832	215	225	0	0	0	38,285
26174042-Berryessa Creek, LERRDs	19,325	0	0	0	0	0	0	0	19,325
with inflation	19,325	0	0	0	0	0	0	0	19,325
TOTAL	41,341	12,997	2,832	200	200	0	0	0	57,570
with inflation	41,341	12,997	2,832	215	225	0	0	0	57,610

Actuals include project expenditures, and encumbrances.

FUNDING SCHEDULE

(in thousands \$)

Project	Budget Thru FY16	Adj. Budget FY17	Est. Unspent FY18	FY19	FY20	FY21	FY22	Future	Total
26174041-Berryessa Creek, Corps Coordination	24,729	14,747	4,463	0	0	0	0	0	39,476
26174042-Berryessa Creek, LERRDs	20,674	0	1,349	0	0	0	0	0	20,674
TOTAL	45,403	14,747	5,812	0	0	0	0	0	60,150

Adjusted Budget includes adopted budget plus approved budget adjustments. Allocated funding exceeds planned expenditures by approximately \$2,540,000. Excess funds will be returned to Fund Reserves at the end of the project.

CIP 5-Year Plan, FY 2023-27

SCHEDULE & STATUS

January 2000 to June 2024

Phase	Cost	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32
Plan	8,333											
Permits	1,831											
Design	11,961											
Construct	27,022											
Closeout	253											
	53,274											

Total project cost may include expenditures not yet allocated to a specific phase.

EXPENDITURE SCHEDULE

(in thousands \$)

Project	Actuals Thru FY21	FY22	FY23	FY24	FY25	FY26	FY27	Future	Total
26174041-Berryessa Creek, USACE Coordination	23,393	531	398	11,286	0	0	0	0	35,608
with inflation	23,393	531	398	12,041	0	0	0	0	36,363
26174042-Berryessa Creek, LERRDs	17,666	0	0	0	0	0	0	0	17,666
with inflation	17,666	0	0	0	0	0	0	0	17,666
TOTAL	41,059	531	398	11,286	0	0	0	0	53,274
with inflation	41,059	531	398	12,041	0	0	0	0	54,029

Actuals include project expenditures, and encumbrances.

FUNDING SCHEDULE

(in thousands \$)

Project	Budget Thru FY21	Adj. Budget FY22	Est. Unspent FY23	FY24	FY25	FY26	FY27	Future	Total
26174041-Berryessa Creek, USACE Coordination	35,594	0	11,670	0	769	0	0	0	36,363
26174042-Berryessa Creek, LERRDs	17,666	0	0	0	0	0	0	0	17,666
TOTAL	53,260	0	11,670	0	769	0	0	0	54,029

Adjusted Budget includes adopted budget plus approved budget adjustments.

Source: Valley Water CIP 5-Year Plans FY 2018-22 and FY 2023-27

Lastly, we identified instances where the total project budget in individual project pages did not align with the budget reported for the same project in the program summary. While some of the inconsistencies noted were immaterial and likely due to rounding, others were not. For example, we found that the FY 2020-21 adjusted budget for the Llagas Creek–Upper, Buena Vista Avenue to Llagas Road project was inconsistently reported between the project page and program summary page in the FY 2022-26 CIP, as shown in Exhibit 19. Specifically, in the Flood Protection summary page, the budget was reflected as \$47.5 million; however, the project page reflected a budget of \$53.7 million—\$6.2 million more than the project budget in the summary page. Additionally, the “Budget Thru” FY 2019-20 reported on the project page was \$142.8 million; whereas the summary page indicated it was \$125.3, a difference of \$17.5 million. The variances noted appear to be related to one sub-project, 50C40335, that is included in the project page, but excluded in the summary page.

In another example, although the FY 2020-21 adjusted budget for the Calero and Guadalupe Dams Seismic Retrofits was reported as \$2.9 million in the Water Supply summary page, the project page reflected a budget of \$2.0—\$900,000 less than the summary page. According to Valley Water, some of the differences noted were the result of fund transfers that were included in the amounts shown on project page, but were not included in the program summary page. To ensure information reported throughout the CIP aligns, Valley Water should ensure a consistent approach is used when reporting budget transfers.

EXHIBIT 19. EXAMPLE OF BUDGET INCONSISTENCIES BETWEEN PROGRAM SUMMARY PAGE AND PROJECT PAGE

Flood Protection Capital Improvements Summary Page					Llagas Creek—Upper, Buena Vista Avenue to Llagas Road (26174051s) Project Page			
Project Number	PROJECT NAME	Through FY20	FY21	FY21 Unspent	FUNDING SCHEDULE (in thousands \$)			
LOWER PENINSULA WATERSHED						Budget Thru	Adj. Budget	Est. Unspent
10394001	Palo Alto Flood Basin Tide Gate Structure Improvements	4,392	83	552	Project	FY20	FY21	
10244001s	Permanente Creek, SF Bay to Foothill Expressway	108,572	7,645	178	26174051-Llagas Ck—Upper, LERRDs	45,040	0	82
10284007s	San Francisquito Creek, SF Bay thru Searsville Dam (E5)	62,751	370	1	26174052-Llagas Ck—Upper, USACE Coordination	50,636	47,476	0
WEST VALEY WATERSHED					26174053-Llagas Ck—Upper, Technical Studies	1,446	0	0
26074002	Sunnyvale East and West Channels (E2)	35,438	2,033	17,302	26174054-Llagas Ck—Upper, Design	28,193	0	4,473
GUADALUPE WATERSHED					50C40335-Llagas Ck—Upper, Construction Rch 5, 6, & 7b	17,510	6,180	0
30154019	Guadalupe River Tasman Dr - I-880	1,080	1,838	(1)	TOTAL	142,825	53,656	4,555
26154001s	Guadalupe River—Upper, I-280 to Blossom Hill Road (E8)	134,642	-	23,964	Adjusted Budget includes adopted budget plus approved budget adjustments.			
26154001	Guadalupe Rv—Upper, Fish Passage Mods	2,651	-	-				
COYOTE WATERSHED								
26174041	Berryessa Ck, Calaveras-I-680 - Corps	35,566	29	-				
40174004	Berryessa Ck, Lower Penitencia Ck to Calaveras Blvd Phs 1	50,191	-	3,339				
26174043	Coyote Creek, Montague Expressway to Tully Road (E1)	15,036	2,199	2,528				
40264011	Cunningham Flood Detention Certification	11,806	4	3				
40334005	Lower Penitencia Ck Improvements, Berryessa to Coyote Cks.	11,287	7,745	7,503				
40264007s	Lower Silver Creek, I-680 to Cunningham (Reach 4-6)	102,288	167	784				
40324003s	Upper Penitencia Creek, Coyote Creek to Dorel Drive	19,016	3,898	5,038				
UVAS LLAGAS WATERSHED								
50284010	Llagas Creek—Lower, Capacity Restoration, Buena Vista Road to Pajaro River	6,947	-	2,763				
26174051s	Llagas Creek—Upper, Buena Vista Avenue to Llagas Road (E6)	125,315	47,476	4,555				
MULTIPLE WATERSHEDS								
00044026s	San Francisco Bay Shoreline (E7)	71,469	48,316	1				
62084001	Watersheds Asset Rehabilitation Program	35,831	3,531	7,809				
TOTAL		912,689	136,052	76,319				

Source: Valley Water CIP 5-Year Plan FY 2022-26

- ✓ **Inconsistencies Existed Between Summary and Detailed Capital Project Budget Pages:** Our review of summary pages for the five capital programs, identified nine instances where the total annual project budgets for all projects was inconsistently reported. For example, in the CIP 5-Year Plan FY 2021-25, the total FY 2019-20 adjusted budget for the Flood Protection Program was reported as \$84.2 million; however, the sum of all the individual project budgets listed in the summary page totaled \$101.7 million, a difference of \$17.5 million. In another example, in the CIP 5-Year Plan FY 2020-24 the Water Supply program total adjusted budget for FY 2018-19 was reported as \$104.7 million; however, the sum of individual project budgets was \$103.8 million, a difference of \$900,000. In some cases, such discrepancies may have been intentional (e.g., when future budget adjustments were planned but not yet incorporated into the CIP), but the CIP plan document lacked explanatory footnotes or other information clearing up the discrepancies.

- ✓ **Inconsistencies Between Annual Capital Project Budget Amounts Reported in the CIP and Valley Water's Financial System:** Our comparison of the annual adjusted capital project budgets reported in the CIP to the annual capital project budgets recorded in Valley Water's financial system identified between 19 and 57 variances between the two each year for the five fiscal years reviewed, FY 2017-18 through FY 2021-22. In some cases, the budget reflected in the financial system aligned with the initial project budget and in other instances it did not align with either the initial or adjusted annual project budget. For example, the FY 2020-21 adjusted project budget for one project, Permanente Ck, Bay to Foothill Expwy – Clean, Safe Creeks Fund, was reported as \$7.6 million in the CIP 5-Year Plan FY 2021-25 and \$3.9 million in the financial system, a difference of \$3.7 million. According to Valley Water, the difference is due to a planned budget adjustment that was included in the CIP 5-Year Plan; however, the plan indicated that the amount reported was the approved budget and approved budget adjustments. In another example, for the Calero Dam Seismic Retrofit-Design and Construct project, the FY 2020-21 initial and adjusted project budget was \$0 in both the CIP 5-year Plans FY 2021-25 and FY 2022-26; however, the financial system reflected a budget \$865,000. According to Valley Water, the difference is due to a combination of carry forward project reserves and a mid-year budget adjustment that is reflected in the financial system, but not in the CIP 5-Year Plan. In a third example, for another project, Coyote Warehouse, the CIP 5-Year Plan FY 2022-26 reflected a FY 2020-21 adjusted budget of \$284,000; however, the budget recorded in the financial system for this project was \$285,000. According to Valley Water, the \$1,000 difference was due to rounding.

Based on analysis conducted by Valley Water, the following factors caused the variances identified, including:

- Timing differences, such as budget adjustments from mid-year CMMs that are reflected in the financial system, but were not reflected in the CIP 5-Year Plan;
- Rounding differences between systems;
- Prior year budget carry forwards and project reserves reflected in the budget posted in the financial system;
- Planned budget adjustments reflected in some adjusted budgets in the CIP 5-year plan; and
- Budgets for small capital improvement projects “do not have capital offset applied to correct the over-request being updated” and indicated these differences are corrected in the following CIP cycle.

The reasons provided by Valley Water appear to be reasonable. However, to ensure information reflected in the CIP is clear and transparent, when Valley Water includes planned budget adjustments in the adjusted budget, it should include a footnote to the table describing that the amount reported includes the approved budget, approved budget adjustments, and the amount of the planned budget adjustment.

Not All CMMs Had Sufficient and Consistent Justification for Cost Increases and Schedule Delays

Consistent with leading practices, Valley Water created procedures requiring CMMs to ensure that all project changes are fully vetted by deputies and serve as one depository record for all substantive changes, such as schedule changes or budget increases. As is described in Exhibit 8 of this report, CMMs had been in use within the agency prior to 2019. However, in November 2019, management implemented an agency-wide CMM process to formally document and approve all capital project changes related to scope of work, cost, and schedule—effectively requiring CMMs to be used for all capital projects undertaken by Valley Water. This process was memorialized in a formal, written procedure in September 2020. Generally, this policy required project managers to complete a CMM form that details the proposed change(s) and provides justification for the change(s); such changes require management approval. In June 2022, management indicated that it updated its procedure and related forms to expand the amount and type of information required to be included in CMMs, including memorializing budget adjustments to projects that do not require management approval.

To identify the reasons for project cost increases and delays identified, we selected a sample of eight projects from the 48 projects discussed earlier to review documentation maintained by Valley Water to determine the causes for the schedule and budgets changes identified. Because the CMM process, more than most within the CIP, has evolved substantially since 2019, this analysis provides a snapshot illustrating how CMMs were used during the five-year period included in the scope of this audit and recognizes that the results of changes made to the CMM process in June 2022 will not be evident in this analysis. Nevertheless, past practice illustrates opportunities for improvement and the need to reinforce consistent recordkeeping on projects.

This analysis revealed that each of the eight projects reviewed had at least one CMM and all experienced delays and cost increases over the five-year period reviewed, with schedule delays ranging from 11 months to eight years and cost increases ranging from \$593,000 to \$52.9 million. In Exhibit 20, we show the changes to the schedule and total project budget from the CIP 5-Year Plans FY 2018-22 to FY 2023-27.

EXHIBIT 20. CHANGES TO PROJECT SCHEDULE AND BUDGET FOR SAMPLED PROJECTS (\$ IN THOUSANDS)

	Project Name & Number	Program Area	CIP 5-Year Plan FY 2018-22		CIP 5-Year Plan FY 2023-27		Schedule Change	Budget Change
			Project Start & End Date	Budget	Project Start & End Date	Budget		
1	Almaden Dam Improvements - 91854001	Water Supply	Start: Jul. 1995 End: Jun. 2024	\$53,021	Start: Jul. 1995 End: Jun. 2031	\$53,615	+7 years	+\$594
2	Coyote Pumping Plant ASD Replacement - 91234002	Water Supply	Start: Jul. 2017 End: Jun. 2021	\$14,730	Start: Jul. 2017 End: Nov. 2025	\$26,432	+4 years	+\$11,702
3	Permanente Creek, SF Bay to Foothill Expressway - 10244001s	Flood Protection	Start: Jul. 2001 End: Jun. 2019	\$92,352	Start: Jul. 2001 End: Jun. 2024	\$113,084	+5 years	+20,732

			CIP 5-Year Plan FY 2018-22		CIP 5-Year Plan FY 2023-27		Schedule Change	Budget Change
	Project Name & Number	Program Area	Project Start & End Date	Budget	Project Start & End Date	Budget		
4	Lower Penitencia Ck Improvements, Berryessa to Coyote Cks. - 40334005	Flood Protection	Start: Oct. 2010 End: Jan.2025	\$27,081	Start: Oct. 2010 End: Dec. 2025	\$35,093	+11 months	+\$8,012
5	Cunningham Flood Detention Certification - 40264011	Flood Protection	Start: Aug. 1999 End: Jun. 2020	\$10,654	Start: Aug. 1999 End: Jun. 2022	\$11,840	+2 years	+\$1,186
6	Hale Creek Enhancement Pilot Study (D6) - 26164001	Water Resources	Start: May 2015 End: Jun. 2019	\$4,753	Start: Jul. 2014 End: Jun. 2026	\$8,959	+7 years	+\$4,206
7	Almaden Lake Improvements (D4.1a) - 26044001	Water Resources	Start: Jul. 2011 End: Jun. 2019	\$4,636	Start: Jul. 2011 End: Dec. 2027	\$57,528	+8 years	+\$52,892
8	ERP System Implementation - 73274002	IT	Start: Jul. 2013 End: Jun. 2019	\$18,227	Start: Jul. 2013 End: Mar. 2023	\$18,820	+4 years	+\$593

Source: Valley Water CIP 5-Year Plans FY 2018-22 and FY 2023-27

Our review of CMMs for eight projects identified three areas where additional oversight and improvement are necessary. Specifically, we found that changes in memos did not always have sufficient detail to determine why the change occurred; were not always completed for all project changes to budget, scope of work, and schedule, as required; and we noted some common trends across projects where Valley Water could benefit from lessons learned and use information to better develop schedules and costs for future projects.

- ✓ **CMMs Did Not Always Include Sufficient Detail:** While some of the CMMs reviewed included sufficient detail to determine why the change had occurred, our review found that for four of the eight projects, one or more of the CMMs did not have adequate explanations of why cost or schedule increases occurred as shown in Exhibit 21.

EXHIBIT 21. SAMPLE PROJECTS WITH CMMs LACKING SUFFICIENT EXPLANATIONS

Project (Project Number)	CMM Date	Change	Explanation Provided
Hale Creek Enhancement Pilot Study (26164001)	September 29, 2022	Cost increase of \$3.4 million	Contract award amount being higher than the Engineer's Estimate
Lower Penitencia Creek Improvements, Berryessa to Coyote Creeks (40334005)	October 7, 2021	Cost increase of \$7 million	Increase in design and construction cost

Cunningham Flood Detention Certification (40264011)	December 23, 2019	Cost increase of \$320,000	Increase in construction phase
Almaden Dam Improvements (91854001)	October 18, 2021	Schedule delay of 2 years	To progress environmental review

Source: Project CMMs provided by Valley Water.

While these sample memos flagged a cost increase or schedule delay, they did not sufficiently explain why such changes occurred. In some other change memos, staff did provide fuller explanations. For instance, change memo dated July 9, 2020, for Permanente Creek, San Francisco to Foothill Expressway, noted that there was a cost increase of \$3.2 million and a two-year schedule delay for that project. This memo attributed the changes to an unexpected discovery of archaeological resources during excavation of the detention basin at Rancho San Antonio which required more resources and time. The following change memo for that project dated October 30, 2020 increased the project an additional \$6.2 million because of challenges with soil acceptance at the quarry related to this excavation. The details provided in these memos allows for anyone reviewing the memo to understand why changes occurred, whereas the examples in Exhibit 21 lack adequate detail to justify delays and budget changes.

The Change Management Procedure W-751-125 provides examples of the level of detail that staff should include when completing a memo, as shown in Exhibit 22. While the examples are good, staff have not consistently followed that level of sufficient detail for all memos.

EXHIBIT 22. INSTRUCTIONS FOR SAMPLE LANGUAGE TO DOCUMENT CHANGES

For Project Cost: Changes to the planned expenditure were made per the CMM signed on March 14, 2020 (Attachment #), to increase the total project cost by \$375,000, due to refined cost estimates for design.

For Project Cost and Schedule: Changes to the planned expenditure and schedule were made per the CMM signed on March 14, 2020 (Attachment #), to 1) increase the total project cost by \$150,000; and 2) extend the project completion date by 3 months, due to unexpected delays in obtaining right of way. Delays were caused by additional review time required by property owners and request by owner for additional time.

For Project Cost, Schedule and Cost: Changes to planned expenditure, schedule, and scope were made per the CMM signed on March 14, 2020 (Attachment #), to add the stairwell upgrade to project scope, resulting in 1) increase to the total project cost by \$75,000; and 2) extension of the schedule by 4 months.

Source: CMM Procedure W-751-125

To ensure that reasons for changes are justified and transparently communicated, Valley Water should provide specificity to each CMM detailing the underlying cause for any such as whether the reason was unforeseen or what the basis for the specific dollar amount increase or schedule delay time length was.

✓ **Staff Did Not Document All Changes in CMMs, Including Administrative Adjustments:**

Through CMM procedure W-751-125, Valley Water recognized the importance of documenting and securing formal approval for changes to the scope of work, cost, and schedule for capital projects, as it helps to memorialize the rationale and justification behind key project decisions and provides evidentiary support of management approvals. According to the CMM procedure, CMMs help to

“ensure that project staff analyze and clearly communicate project changes and implications of the changes, as such changes become public record in the CIP.” A key purpose of the CMM is to document changes to scope, budget, or schedule, and for securing management approval for such changes.

This analysis revealed that not all changes were recorded in CMMs. Some were substantive modifications to the projects’ scope, cost, or schedule, and some were the result of administrative adjustments, such as budget reconciliations and the application of inflation factors. For six of the eight sample projects reviewed, cost and schedule data did not align in sequential CMMs, as shown in Exhibit 23. In part, this is because administrative adjustments to project costs have historically not been reflected or noted in CMMs.

The CMM procedure requires changes to be reflected in CMMs but is silent on administrative updates (such as the application of global inflationary rates and the budget reconciliation and rollover processes). This led to cost and schedule data not aligning in sequential CMMs because changes occurred outside the CMM process that were not reflected. According to Valley Water staff, administrative updates to project costs occur independent of the project management team, and therefore are not reflected in the CMMs. Specifically, inflationary rates are prepared by an independent cost estimator and approved by the ACEO and the budget is approved by the Board. Administrative updates are not documented in CMMs, but according to management are reflected in the capital project pages included in Vena.

EXHIBIT 23. CMMs WITH UNDOCUMENTED VARIANCES

Project Name (Project Number)	Number of CMMs Reviewed	Number of Instances Where Change Occurred without a CMM
Almaden Dam Improvements (91854001)	12	5 cost <u>2 schedule</u> 7 total
Almaden Lake Improvements (26044001)	3	1 cost <u>1 schedule</u> 2 total
Coyote Pumping Plant ASD Replacement (91234002)	3	1 cost
Lower Penitencia Creek Improvements, Berryessa to Coyote Creeks (40334005)	3	1 cost <u>1 schedule</u> 2 total
Hale Creek Enhancement Pilot Study (26164001)	3	2 cost
Enterprise Resource Planning System Implementation (73274002)	3	2 cost <u>1 schedule</u> 3 total

Source: Auditor generated from project CMMs provided by Valley Water.

Note: Project changes that occurred to non-Water Utility projects before Fall 2019 did not require a CMM, but were instead documented in project plans Change History in Vena (as of 2016) and preceding Vena in the Capital Dashboard system. Following Fall 2019, CMMs were required for all capital project changes to scope, schedule and cost.

In one example, the CMM from December 21, 2020 for Almaden Lake Improvements had a TPC of \$56.2 million. The next subsequent CMM provided by Valley Water was dated September 27, 2022—which reported that the last approved TPC was \$57.5 million, which leaves an unexplained discrepancy of \$1.3 million between the two memos. Valley Water noted that the delta was due to inflation adjustments, an administrative update to the project cost that was not documented or explained in the September 27, 2022, CMM.

Similarly, the Hale Creek Enhancement Pilot Study Project had a CMM from December 20, 2019, with a proposed TPC of \$8.6 million. The subsequent change memo was on October 12, 2021, and reported that the last approved TPC was \$8.8 million—an unexplained variance of approximately \$200,000. Like the Almaden Lake example, no notation was included to justify why there was a cost difference though staff noted that this project underwent inflation changes, budget reconciliation, and budget rollover during this time that could have impacted the difference.

However, review of underlying project data provided by staff from Vena and the CIP 5-Year Plan back up supporting documents showed that non-inflated costs were not listed such that reviewers could tie the values in the change memos to underlying support readily. Moreover, inflated project costs that corresponded to those memos still did not agree with inflated costs in corresponding CIP 5-Year Plans for the same period, as shown in Exhibit 24.

EXHIBIT 24. SAMPLE INCONSISTENT COST DATA (\$ IN THOUSANDS)

Project Name	CMM Date	Total Project Costs		Expenditure Schedule		Total Project Costs	
		CMM		CIP Expenditure Schedule		Vena Change History	CIP Page Back Up Change History
		Non-inflated	Inflated	Non-inflated	Inflated	Inflated	Inflated
Almaden Lake Improvements (26044001)	December 21, 2020	\$56,157	-	\$56,467 (CIP 5-Year Plan FY 2022-26)	\$58,198 (CIP 5-Year Plan FY 2022-26)	\$57,958	\$57,958
Hale Creek Enhancement Pilot Study (26164001)	December 20, 2019	\$8,617	-	\$8,717 (CIP 5-Year Plan FY 2021-25)	\$8,992 (CIP 5-Year Plan FY 2021-25)	\$8,991	\$8,991

Source: Auditor generated based on project, CMMs, CIP 5-Year Plans FY 2022-26 and FY 2021-25, and project files provided by staff

Note: Changes reflected on CMMs would be reflected on the CIP with the closest date following the CMM date. For instance, CMM dated December 21, 2020 should be reflected on the CIP 5-Year Plan FY 2022-26 because that plan has data through June 2021, and the prior CIP 5-Year Plan FY 2021-25 would only capture data through June 2020—before the CMM change took place.

The project level examples do not show significant variances, but small variances existing across many capital projects could be material and should be documented or noted.

Ultimately, this shows that while improvements were ongoing during the scope of this audit, gaps and inconsistencies persisted, and it highlights the importance of ensuring all project changes to scope, budget, and schedule comply with established process going forward. As the process, dating back to 2019, is silent on administrative updates, Valley Water needs to ensure that the CMM Procedure is updated to require that CMMs include notations regarding administrative

updates, refer the reader to supporting documentation where warranted, and provide explanations where values in sequential CMMs may differ.

Revenue Forecasts Were Reasonably Close to Revenue Actuals

While Valley Water has several different revenue sources to fund its CIP, the majority of its CIP revenue is impacted by factors outside of Valley Water's full control. Forecasted estimates have not always aligned with actual revenues coming in, but variances were reasonable—approximately within a ten percent margin.

A comparison of Valley Water's revenue forecasting from FY 2017-18 through FY 2021-22 to actual revenue received showed that while revenue forecasts agency-wide (including both CIP and operational revenue) were generally between three to ten percent of actual amounts received, Valley Water generally underestimated revenue receipts in its forecasts—though in FY 2021-22 Valley Water modestly overestimated revenues by 1.4 percent.⁸

Two key revenue sources, water rate charges and ad valorem property taxes, which account for 80 percent of CIP funding, are impacted by factors outside of Valley Water's direct control and revenues received vary from one year to the next. Revenue from water charges can fluctuate greatly depending on a variety of factors such as the cost of the rate, usage by customers, and external events such as drought, state conservation orders, and emergencies. Water rate charges for this period were generally within that 10 percent variance range, though each year was not consistently under or overestimated.⁹ Some of the reasons cited for these fluctuations included unexpected weather conditions such as drought, statewide water usage restrictions, and the Covid-19 pandemic—all of which were outside Valley Water's control. As the largest revenue source of the CIP, these fluctuations present delivery risks for the CIP if needed revenue does not actualize for planned work. Other comparable entities have similar funding sources, with heavy reliance on water rate charges. For example, EBMUD also depends primarily on water rate charges and bond funding to fund its CIP.

The second largest revenue source, ad valorem property taxes, can also vary depending on the changing values of properties assessed each year based on market conditions—though in recent years property values have generally gone up in value. However, values may decline in the event of a recession or other market changes, which is a consideration that Valley Water monitors. Between FY 2017-18 through FY 2020-21, Valley Water consistently underestimated revenues and received more monies than expected for the property tax, ranging from 8 percent to 16 percent.

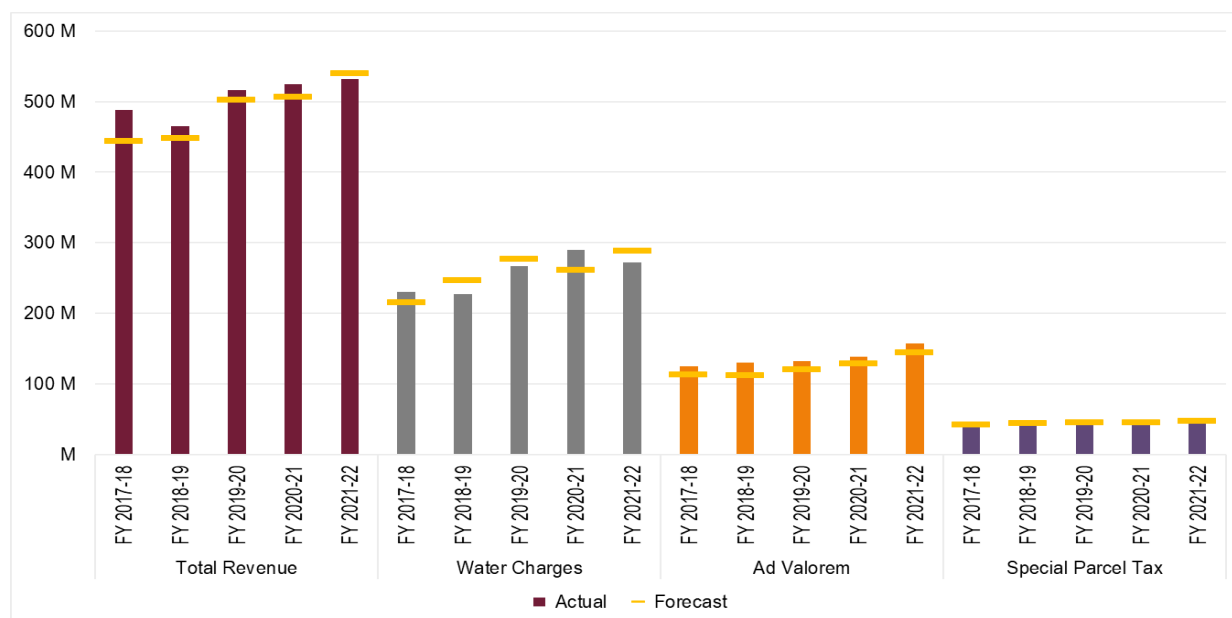
Lastly, the third largest revenue source of CIP funding is the special parcel tax, which over the same period had a variance at 1 percent or less annually. Exhibit 25 shows the comparisons of forecasted revenues to

⁸ Auditors used data from organization-wide budgets to do this revenue forecast analysis because forecasts and actuals for solely the CIP were not readily available. But given that the CIP encompasses so much of the overall organization budget, using the overall budget reasonably represents results for the CIP.

⁹ These fluctuations mirrored water charge revenue results across a 20-year period that showed that from FY 2002-03 to FY 2021-22, there were eight years, or 40 percent of the 20 years, where actual revenue received was higher than expected and twelve years, or 60 percent, where actual revenue received was lower than expected.

actuals for these three key revenue sources as well as total revenue organization-wide each fiscal year from FY 2017-18 through FY 2020-21.

EXHIBIT 25. CIP KEY REVENUE SOURCES, FORECASTED REVENUES VS. ACTUALS, FY 2017-18 TO FY 2021-22



Source: Auditor-generated based on adopted budgets for FY 2017-18 to FY 2021-22

While there is no industry standard of an acceptable variance threshold, any variance from the forecast presents some risk. If Valley Water overestimates its revenue, it will not have enough revenue to fund its planned CIP projects. If Valley Water underestimates how much revenue it will receive, there is a possible opportunity loss of additional capital improvements it could have planned for but otherwise did not.

But Valley Water endeavored to demonstrate its due diligence in trying to forecast using reliable methodologies, as will be described in the subsequent section, and have a plan in place for adverse circumstances. While Valley Water has not established a formal dedicated plan in the event that revenue forecasts significantly vary from actuals, it has reasonable protocols in place for how it would address significant variances between revenue forecasts and actual revenue receipts. If more revenue than anticipated arrives, Valley Water can park funds into its treasury to be invested per its investment policy or moved into reserves.¹⁰ If there is a revenue shortfall or if CIP project expenditures are higher than anticipated, then Valley Water staff work together to transfer funds between projects or use special purpose funds or reserves. Valley Water also is able to borrow debt or make mid-year water charge adjustments when warranted. Finally, Valley Water has recently developed a new Grants Action team in early 2022 that will work to identify additional funds to help supplement regular revenue streams.

¹⁰ Valley Water requires that its reserve balances are maintained at 15 percent of its operating and capital outlays.

Forecasting Methodologies Align with Industry Leading Practices

Uncertainty and factors outside of Valley Water's control will always exist that may impact outcomes of revenue forecasting. Best practices emphasize that while no forecast will be perfect, entities should strive to have robust forecasting methodologies that evolve as new risks emerge.

A high-level review of Valley Water's models and forecasting methodologies showed that many best practices were implemented—similar to what peer entities employed. Exhibit 26 shows a list of several best practices in revenue forecasting identified from the GFOA in 2014 and the University of North Carolina School of Government in 2015.

EXHIBIT 26. REVENUE FORECASTING BEST PRACTICES

	Best Practice	Valley Water
1	Forecast all major revenues and expenditures	✓
2	Extend several years into the future	✓
3	Forecast, assumptions, and methodology be made available to stakeholders	✓
4	Forecast should be monitored and periodically updated	✓
5	Use expertise inside and outside organization	✓
6	Use historical data and current economic conditions	✓
7	Use of range of possible scenarios	✓
8	Have a transparent process	✓
9	Revenue manual with key information on each revenue source	✓

Source: Best Practices: Financial Forecasting in the Budget Preparation Process, Government Finance Officers Association, 2014 and Revenue Forecasting in Local Government, University of North Carolina School of Government, 2015.

Employing these best practices in its revenue forecasting methodologies strengthen Valley Water's efforts in more accurately predicting its revenue streams. The impact of these efforts is evident given that forecasted revenues were reasonably close to actuals as discussed in the previous section.

However, current events and environmental conditions in the world in the last few years exemplify the risk of major unforeseen external events. Valley Water is demonstrating its due diligence by applying these forecasting best practices alongside best available historical data—but it needs to stay cognizant and alert to fast-changing conditions, threats, and be prepared to shift strategies in the event of unanticipated forces including but not limited to population change, market volatility, impacts of climate change, and socio-political events that may impact the agency.

As Valley Water moves forward, it should continue its existing practices to monitor on a regular basis outside factors that may impact its revenue forecasts, and stay current to new industry methodologies and practices to prepare against uncertain risks.

Debt Management Policy and Board-Vetted CIP Financing Approaches Are in Place to Ensure Funds are Available

To help ensure that there is a plan to pay for CIP expenditures when money is needed, Valley Water has established debt management policies that are vetted and approved by the board—including reasonable financing mechanisms to smooth the ebb and flow of outlays. These practices generally align with how peer entities approach CIP financing.

Valley Water's debt management policy sets the objectives, parameters, and provides policy guidelines to staff for how it approaches debt management across the organization. It centers on minimizing debt service and issuance costs, achieving high credit ratings, maintaining access to cost-effective borrowing, and making full and timely repayment of debt. The policy allows for Valley Water to utilize designated debt instruments such as bonds, certificates, and more to finance organizational needs.

To finance the CIP, Valley Water's Board and policy-approved strategy has been to finance annual CIP expenditures on a "just-in-time" basis through the issuance of short-term debt, and subsequent sale of more permanent long-term debt to refund the short-term debt. The short-term debt capacity consists of a total of \$320 million, a combination of commercial paper (\$150 million) and a line of credit (\$170 million).¹¹

The just-in-time refinancing draws down on short-term debt only when expenses are in hand and are processed like reimbursements. In a January 2022 report to the board, Valley Water staff explained that they aim to time long-term debt issuance for when capital expenditures reach at least \$100 million for each issuance, which is considered the optimal amount to market bonds to achieve low financing costs and economies of scale for issuance.¹² By this way, interest expenses are not incurred until actual capital expenditures occur. This appears to align with what some other comparable entities do. For instance, Metropolitan Water stated that they also use pay-as-you-go financing and bond issuance for debt financing needs.

While there is no one way to approach capital debt financing, this strategy appears reasonable to ensure CIP expenditures can be paid for while balancing the costs of debt. This approach is vetted and approved by the Board, adding transparency to the process to ensure that leadership is informed of key debt management information.

¹¹ In October 2020, Valley Water obtained a revolving \$170 million line of credit to finance capital projects. According to the Treasury Debt Officer, this decision was due to the Board wanting to diversify access to more liquid funds with the uncertainty of the Covid-19 pandemic.

¹² This report focused on Water Utility System and Safe, Clean Water, and Natural Flood Protection capital projects, which comprise the majority of where CIP funding is used on.

Recommendations

This audit found that Valley Water has established a CIP planning process that was consistent with many leading practices found in the public sector, and that Valley Water management was and is engaged in a continuous improvement process that has led to the implementation of additional leading practices prior to and during the scope of this audit. Building upon this foundation, this audit identified further opportunities to improve the CIP planning process. Therefore, in order to improve the CIP planning process, and to build upon the planning, development, execution, and monitoring of the CIP plan, we recommend that Valley Water management:

- 1) Improve CIP planning processes by ensuring key goals and milestones in the CIP plan are achievable. This should include:
 - a. Ensuring cost estimates are up-to-date and reflect reasonable rates of inflation;
 - b. Identifying specific staff and contract resources required to complete projects, including the type of resource, quantity of resource, and timing of the need for the resource; and
 - c. Developing a performance measurement system that effectively demonstrates Valley Water's performance in achieving the goals of the CIP and the capital infrastructure goals of its master plans. This includes:
 - i. Monitoring and reporting overall CIP performance and using this information to identify areas where improvements can be made to both capital project delivery and delivery of the capital improvement program.
 - ii. Establishing tangible targets to measure the effectiveness of the CIP in meeting established agency goals.
- 2) Determine a timeline and plan for how Valley Water will evaluate whether recent process improvements intended to improve CIP planning produced intended results.
- 3) Enhance the CIP plan itself by continuing ongoing efforts to implement leading practices as identified in this report. This should include:
 - a. Formalizing objective project prioritization techniques and criteria;
 - b. Considering whether a performance-based prioritizing process would be feasible and appropriate;
 - c. Formalizing and consolidating CIP planning policies and procedures in a manner that reflects best practices recommended by the GFOA;
 - d. Develop a formal, written policy for establishing project contingencies.
 - e. Considering modifying CIP planning processes to require biennial CIP updates rather than annual updates; and
 - f. Incorporating additional detail within the CIP related to anticipated operations and maintenance costs associated with programmed capital projects.

- 4) Improve transparency and consistency of information reported in the CIP by:
- a. Implementing quality control protocols to ensure data reported within the CIP are reported consistently throughout the document, include a note if planned budget adjustments are included in annual capital budgets, and are supported by underlying project and financial systems and other project documentation.
 - b. Conducting and formally memorializing analyses of common cost and schedule delays in the Lessons Learned database in ProjectMates and share results agency-wide.
- 5) Improve compliance with Change Management Procedure W-751-125 by consistently ensuring:
- a. Descriptions of reasons for changes are sufficiently detailed to point to the exact cause
 - b. All data on CMMs accurately reflects underlying data and corresponding documents with clear notations of any variances including but not limited to inflation adjustments, timing issues, or other justification for why numbers may not tie.
 - c. References or notations exist to specific underlying documents, change orders, or other support where rationale is too voluminous to describe in the memo itself.

Appendix A. Valley Water's Implementation of CSMFO Leading Practices

It is important to identify industry best practices for capital improvement projects and for Valley Water to decide whether implementation of certain leading practices identified by CSFMO would be appropriate, practical, and cost-effective at Valley Water and whether they would be in-line with their policies, mission, and goals.

EXHIBIT 27. CSMFO BUDGET AWARDS PROGRAM CRITERIA CHECKLIST

CRITERIA FOR MERITORIOUS AND EXCELLENCE AWARD FOR CAPITAL BUDGETS	INCLUDED IN VALLEY WATER'S FY 2022-26 CIP 5-YEAR PLAN
Is there a table of contents? Are the budget document's pages numbered?	✓
Does the transmittal letter and/or budget message highlight major capital project priorities and their funding sources?	✓
Is the basis for key capital revenue estimates described?	✓
Is the jurisdiction's capital budgeting process explained?	✓
Is there a summary schedule of capital revenue sources, by fund?	✓
Is there a summary schedule of capital expenditures, by fund?	✓
Is there a summary schedule of capital expenditures, by major type of improvement?	✓
Are specific projects identified in the budget document?	✓
Does each project have specific revenue sources identified?	✓
Are prior year appropriations or expenditures shown, where applicable, for each capital project?	✓
Does each capital project reflect appropriations or estimated expenditures for at least the budget year?	✓
Does each capital project reflect appropriations or estimated expenditures in the future through its proposed completion?	✓
For multi-year projects, is total cost for the project identified?	✓
Have overall operating cost impacts been discussed?	PARTIALLY
Does the execution of the document appear consistent with the audience and purpose to which it is directed?	✓
Is the budget clearly enough organized and presented as a document?	✓

CRITERIA FOR MERITORIOUS AND EXCELLENCE AWARD FOR CAPITAL BUDGETS	INCLUDED IN VALLEY WATER'S FY 2022-26 CIP 5-YEAR PLAN
Do the budget numbers and format appear to be accurate and consistent throughout the document?	PARTIALLY
Is there an in-depth description of how capital project scheduling meets jurisdiction's goals and/or financial and budget policies?	✓
Does budget process include a rating or ranking process to prioritize projects?	PARTIALLY
Are individual capital projects appropriately described?	✓
Does each project include a location map, where applicable?	✓
Does each project include a narrative discussing project status and/or timeline for project completion?	✓
Does each project identify the person or department acting as project manager?	✓
Does each project identify, where applicable, operating budget impacts and/or contains estimates of future annual operating & maintenance costs?	PARTIALLY
Are individual project costs/appropriations broken down by major objects or types?	✓
Have alternative funding sources been explored for individual projects?	✓
Are project costs identified based on current year dollars and are future appropriations increased by inflationary index?	✓
Is there a summary of individual projects by funding source?	✓
Is there a summary of individual projects by major type of improvement?	✓
Is debt issuance supporting the capital program clearly identified by project or by summary?	✓
Have additional future years of forecasted revenues and project expenditures been included?	✓
Does the document include a glossary of terms?	✓
Is document generally readable and attractive in format and presentation?	✓
Is there good use of graphics, artwork, maps and charts?	✓
Does the document demonstrate the use of current computer technology in document development and/or production?	✓

Source: Auditor-generated comparing best practices identified by The CSMFO Budget Awards Program Overview & Explanation of Criteria and audit observations of Valley Water's CIP

Key: A check mark means that the Valley Water's 2022-26 CIP 5-Year Plan fully met the criterion. Partially means that the 2022-26 CIP 5-Year Plan partially meet this criterion. No check mark means that the information was not clearly present in the 2022-26 CIP 5-Year Plan. Not Applicable means that it is not a relevant criterion due to the 5-Year Plan being separate from the budget.

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Santa Clara Valley Water District

File No.: 23-0462

Agenda Date: 5/15/2023

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 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 13, 2022, at which the following language was added: (1) additional language regarding "pertinent information" identified during the course of an audit; (2) additional language clarifying that contracts for performance of the Annual Financial Statement Audit shall include express contractual obligations in accordance with the aforementioned "pertinent information"; and (3) clarifying language regarding the frequency and intent of training provided by the independent auditor to the BAC.

A. Recommended Changes

Based upon prior input from the BAC and Chair, the following additional changes are recommended for approval by the BAC:

First, language was added to Article II, Section 3 regarding the role of the BAC Chair and his or her ability to add items to the agenda and, subject to Board Governance Policy restrictions, his or her ability to take all reasonable steps to ensure BAC meetings and priorities progress in a timely

manner.

Second, “Program audit” was added to the list of audit types (Article V, Section 2(c)). The new language makes it clear that these are the responsibility of Valley Water management unless referred to the BAC by the Board.

Finally, new language was added to establish a process to close out Board initiated audits (Article VI, Section 8). For Board initiated audits, the updated process makes it clear that the Auditor who conducted the underlying audit or the Board Independent Auditor will be responsible for reporting out on whether an audit’s recommendations are being addressed by Valley Water management.

BAC input regarding these proposed changes is recommended.

B. BAC Input Regarding Further Charter Changes

Input is requested from the BAC regarding any other modifications to make to 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.

ATTACHMENTS:

Attachment 1: Red-lined Board Audit Committee Charter

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



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

| [May 2023](#)

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 and review agenda items prior to posting to 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 management and staff 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. 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.
- 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 and 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. 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.
- d. Board audits – Under the purview of the Independent Auditor, audit activity may include:
 - e-i. Compliance audits – Compliance audits review adherence to Valley Water policies and procedures, state regulatory requirements, or federal regulatory requirements;
 - d-ii. 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-iii. Desk reviews – Small and quick [audits-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-iv. 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;
 - v. Best practice reviews – Audits which compare current Valley Water operations to best practices.
- ~~g-a. 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 fall within the responsibility of Valley Water management except when referred to the Committee by the Board.~~

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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 (~~Standards~~) (RED Book) or the Generally Accepted Government Auditing Standards established by the U.S. Government Accountability 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.

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4-2. 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.

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2-3. 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.

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3-4. 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.

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4-5. 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.

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~~5.6.~~ Draft Audit Reports - The Committee may request the opportunity to review and comment on any draft audit reports before such reports are finalized by the auditor.

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~~7. 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~~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.

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~~8.~~ Closing of audits – The Committee may request a report regarding Valley
Water's implementation of measures to address recommendations from
individual audits (Close-out Report). As designated by the Committee, the
Close-out 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.

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~~9. -8.~~ 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.

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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.
~~4.~~
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.
~~2.~~
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

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regardless of the magnitude of the apparent risk, as well as any issue deemed pertinent in the auditor's professional judgment.

3.

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.

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ARTICLE IX – 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.

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Santa Clara Valley Water District

File No.: 23-0467

Agenda Date: 5/15/2023

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 Process and Scope of 2023 Annual Audit Training from Chief Audit Executive.

RECOMMENDATION:

Discuss process and scope of 2023 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.

On August 27, 2019, the Board approved the BAC Audit Charter to provide 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.

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.
- The Audit process, including risk assessment, audit selection, audit planning, fieldwork, and reporting.
- Incorporating Diversity, Equity, and Inclusion in performance auditing in the public sector.
- Conducting organization-wide risk assessments.
- 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.

ATTACHMENTS:

None.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



Santa Clara Valley Water District

File No.: 23-0465

Agenda Date: 5/15/2023

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:

Review and Discuss the 2023 Board Audit Committee Work Plan.

RECOMMENDATION:

Review and discuss topics of interest raised at prior Board Audit Committee (BAC) meetings and make any necessary adjustments to the 2023 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. Committee Work Plans also serve as Annual Committee Accomplishments Reports.

Per the BAC's Charter, Article IX, Paragraph 1, "The Committee shall periodically review the Audit Charter and shall make any recommendations regarding changes to the Board for final approval." In order to comply with the charter, staff has scheduled a discussion of the audit charter to occur at the next scheduled BAC Meeting in May.

At its January 10, 2023, board meeting, the board approved designating July 2023 as a Board and Committee meeting recess period. The next regularly scheduled BAC meeting after the recess will be August 16, 2023. A special meeting can be scheduled per the request of the committee.

At its April 19, 2023, meeting, the BAC authorized the Chief Audit Executive to initiate a new risk assessment given that much has changed since the completion of the 2021 Risk Assessment, and because priorities have shifted in the post-pandemic environment. This new task has been captured

in the BAC Work Plan. Additionally, the BAC Work Plan has been updated per the committee direction to postpone the Quarterly Financial update from the May BAC meeting to the June BAC meeting.

Looking forward, the topics of discussion identified for the June 21, 2023, BAC Meeting can be summarized as follows:

1. 2023 BAC Work Plan
2. 2022-2024 Annual Audit Work Plan
3. Discuss the Financial Audit Periodic Update
4. Receive a Quarterly Financial Status Update for Q3 Review

Attachment 1 is the 2023 BAC Work Plan. Upon review, the BAC may make changes to be incorporated into the work plan.

ATTACHMENTS:

Attachment 1: 2023 BAC Work Plan

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

BOARD AUDIT COMMITTEE 2023 WORKPLAN

January 1, 2023 to December 31, 2023

Item #	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		20-Jan	15-Feb	15-Mar	19-Apr	15-May	21-Jun	Recess	16-Aug	20-Sep	18-Oct	15-Nov	20-Dec	
	Board Audit Committee Meeting Dates													
	Number of Agenda Items per Meeting Date	6	6	4	3	7	4	0	7	6	2	5	3	Note: For informational purposes only. This value excludes Item 12 because that items is prepared by the Committee Clerk, not the CI Team, and is for the Full Board, not just the BAC.
	Meeting Dates	•	•	•	•	•	•		•	•	•	•	•	Note: The BAC approved a regular meeting schedule for 2023, to meet monthly, on the third Wednesdays at 2:00 p.m.
	Board Audit Committee Management													
1	Election of 2023 BAC Chair and Vice Chair		•											Recommendation: Nominate and elect the 2023 Board Audit Committee Chair and Vice Chair.
2	Board Audit Committee Audit Charter					•								Recommendation: Propose modifications to the Board Audit Committee Audit Charter to be presented to the full Board. NOTE: This is an "as needed" topic
3	Review and Update 2023 BAC Work Plan	•	•	•	•	•	•		•	•	•	•	•	Recommendation: A. Review and Discuss topics of interest raised at prior Board Audit Committee Meetings and make any necessary adjustments to the Board Audit Committee Work Plan; and B. Approve the updated 2023 Board Audit Committee Work Plan.
4	Discuss Scope of Annual Audit Training from Board Independent Auditor					•								Recommendation: Discuss scope of Annual Audit Training from Board Independent Auditor.
5	Receive Annual Audit Training from Board Independent Auditor								•					Recommendation: Receive Annual Audit Training from Board Independent Auditor. Notes: Actual Training will be scheduled by Board Scheduler and provided to CI Team (will not be conducted during regular mtg.)
6	Conduct Annual Self-Evaluation	•	•											Jan. Recommendation: A. Discuss Annual Self-Evaluation Process; and B. Authorize Staff to initiate the process and return to BAC with results at a later date Feb. Recommendation: A. Receive and Discuss the Results of the Annual Self-Evaluation Discussions; and B. Authorize staff to Prepare Formal Report and Present to the full Board. Note: Jan = Discuss the Eval process and alert BAC to upcoming interviews; Feb = Discuss results of interviews and seek authorization to present to the full Board; Apr = Present interview summary to Full Board

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BOARD AUDIT COMMITTEE 2023 WORKPLAN

January 1, 2023 to December 31, 2023

Item #	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		20-Jan	15-Feb	15-Mar	19-Apr	15-May	21-Jun	Recess	16-Aug	20-Sep	18-Oct	15-Nov	20-Dec	
7	Receive and Discuss CAE Activity Report to Evaluate Auditor Performance	•	•											<u>Jan. Recommendation:</u> Request CAE Activity Report from Sjoberg Evashenk to evaluate CAE Performance. <u>Mar. Recommendation:</u> Receive and discuss the CAE Activity Report <u>Note:</u> Jan = BAC Requests report from CAE; Mar = Receive and discuss report from CAE
8	Discuss Extension or Termination of Board Chief Audit Executive (CAE) Contract for Board Independent Auditing Services Prior to Expiration of the Agreement around December 2024													<u>Recommendation:</u> A. Discuss option to extend Board Independent Auditor Contract with TAP International, Inc. for Board Independent Auditing Services currently scheduled to expire effective June 30, 2022; and B. Approve recommendation to the full Board to: 1. Allow the expiration of the Board Independent Auditor Contract with TAP International; or 2. Exercise option to extend Board Independent Auditor Contract with TAP International, Inc. <u>Note:</u> Agreement effective date was 12/27/21 or 1/1/22.
9	Chief Audit Executive - Request for Proposal: Review Panel (Apr 2024)													<u>Note:</u> Review Panel for the role of the Chief Board Auditor will be the BAC members
10	Tri-annual Risk Assessment (CY 2023)									•				<u>Recommendation:</u> Discuss the scope of work for the 2023 Risk Assessment. <u>Note:</u> Initiate discussions in February 2024; Deliverable due by September 2024; At its 4/19/23 meeting the BAC authorized CAE to conduct risk assessment sooner than planned, in light of changed conditions following the Pandemic (tentative target 9/2023)
Board Audit Committee Special Requests														
11	External Financial Auditor Meeting with Individual Board members													<u>Note:</u> Schedule as needed.
12	Provide BAC Summary Report to full Board	•	•	•	•	•	•		•	•	•	•	•	<u>Note:</u> Report to be provided to Board in non-agenda the month after each BAC meeting, or as part of the Board Committee Reports, prepared by Committee Clerk
Management and Third Party Audits														
13	Review Draft Audited Financial Statements											•		<u>Recommendation:</u> A. Review draft Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2022; and B. Direct staff to have Financial Auditor to contact Board Members and present, if necessary. <u>Note:</u> This is a Nov. agenda item

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BOARD AUDIT COMMITTEE 2023 WORKPLAN

January 1, 2023 to December 31, 2023

Item #	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		20-Jan	15-Feb	15-Mar	19-Apr	15-May	21-Jun	Recess	16-Aug	20-Sep	18-Oct	15-Nov	20-Dec	
14	Audit Report of the Water Utility Enterprise Funds for the Fiscal Year								•					<u>Recommendation:</u> Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year.
15	Receive QEMS Annual Internal Audit Report								•					<u>Recommendation:</u> Receive information regarding the Quality and Environmental Management System.
16	Audit Recommendations Implementation Status		•						•				•	<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations. <u>Note:</u> This is a December/June item; February 2023 item was delayed from Dec 2022; Return to the BAC every 6 months
Board Independent Auditor - Sjoberg Evashenk Items														
17	Review and Update Annual Audit Work Plan	•	•	•	•	•	•		•	•	•	•	•	<u>Recommendation:</u> Discuss the Annual Audit Work Plan and update, if necessary.
Audit - 2019 Contract Change Order Audit														
18	Recommendation Implementation Status (Annual Rpt. in August; Target Completion = TBD)									•				<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations.
Audit - 2020 District Counsel Audit														
19	Recommendation Implementation Status (Annual Rpt. in January; Target Completion = TBD)													<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations. <u>Note:</u> This is a January item; February 2022 item was delayed from January; This effort was completed in 2022 and is closed.
Audit - 2020 Real Estate Audit														
20	Recommendation Implementation Status (Annual Rpt. in November; Target Completion = TBD)													<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations. <u>Note:</u> Per the February BAC Update, this effort was completed in 2022 and is closed.
Audit - 2020 SCW Program Grants Management														
21	Recommendation Implementation Status (Semi-Annual Rpt. in March and September; Target Completion = June 30, 2023)					•						•		<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations. <u>Note:</u> Updates in 2022 slipped by 2 mos.
Audit - 2021 Permitting Best Practices														

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BOARD AUDIT COMMITTEE 2023 WORKPLAN

January 1, 2023 to December 31, 2023

Item #	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		20-Jan	15-Feb	15-Mar	19-Apr	15-May	21-Jun	Recess	16-Aug	20-Sep	18-Oct	15-Nov	20-Dec	
22	Recommendation Implementation Status (Annual Rpt. in May; Target Completion = TBD)					•								<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations.
Audit - 2023 CIP Performance Audit														
23	Receive notification of initiated Audit													<u>Note:</u> Audit Objectives - What is the objective of this audit?
24	Review Audit Progress Report			•										<u>Recommendation:</u> Receive an update on the status of the on-going audit.
25	Review Audit Draft Report Presentation					•								<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
26	Review Management's Response to Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Authorize staff work with the CAE to finalize the Audit Report and present it to the Board of Directors.
Management Audits - PMA, MGO, and 3rd Party Items														
Audit - 2014 Transparency Compliance Audit														
27	Recommendation Implementation Status (Annual Rpt. in November; Target Completion = TBD)	•												<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations. <u>NOTE:</u> January item was delayed from Nov/Dec 2022; Chief of Staff is waiting for the last set of metrics before taking to the Chiefs for a final approval of the Performance Measures
Audit - 2015 Consultant Contracts Audit														
28	Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. and the Consultant Contracts Improvement Process.	•												<u>Note:</u> Staff update every 6 months; January item was delayed from Nov/Dec 2022 by new Deputy (Tony Ndah) to allow him to get familiar with the issues, and to allow staff to complete the last of open recommendations <u>Recommendation:</u> Receive and discuss a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and on the Consultant Contracts Improvement Process. This audit is complete; final report was provided in January 2023
Audit - 2019 Lower Silver Creek Audit														
29	Recommendation Implementation Status (Semi Annual Rpt. in February; Delayed to September)									•				<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations.
2022 QEMS Improvements Implementation														
30	Recommendation Implementation Status (Annual Rpt. in August)								•					<u>Recommendation:</u> Receive and discuss a status update on the opportunities for improvement.
Miscellaneous BAC Work Plan Items														

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BOARD AUDIT COMMITTEE 2023 WORKPLAN
January 1, 2023 to December 31, 2023

Item #	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		20-Jan	15-Feb	15-Mar	19-Apr	15-May	21-Jun	Recess	16-Aug	20-Sep	18-Oct	15-Nov	20-Dec	
31	Financial Status - Quarterly Update			•			•			•		•		<u>Note:</u> suggested frequency is as follows: February for mid-year review; May for Q3 review; September for unaudited close (slipped to October); November for Q1 review
32	Financial Audit - Periodic Update						•							Schedule as needed
33	Board's Auditor Pool RFP Status Update													<u>Recommendation:</u> Discuss the Financial Audit Schedule as needed
34	Process to report on implementation of audit recommendations, and to close Board-directed audits				•									<u>Recommendation:</u> Receive a status update regarding the Request for Proposal (RFP) for Board Auditing Services Stand-alone Topic <u>Recommendation:</u> Discuss process roles and responsibilities related to reporting on implementation of audit recommendations and closing Board-directed audits.

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Santa Clara Valley Water District

File No.: 23-0466

Agenda Date: 5/15/2023

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:

Discuss the 2022-2024 Annual Audit Work Plan.

RECOMMENDATION:

- A. Discuss the 2022-2024 Annual Audit Work Plan; and
- B. Provide further guidance as needed.

SUMMARY:

On January 11, 2022, the proposed 2022-2024 Annual Audit Work Plan was approved by the Board. At its January 19th meeting, the Board Audit Committee (BAC) identified the top 3 areas of interest to be audited in 2022: 1) ID #1, CIP Process; 2) ID #3, Emergency Response; and 3) ID #6, Data Management.

At its April 20th meeting, the BAC authorized staff to seek approval from the full Board to initiate the CIP Process Audit as the first audit for 2022 and to authorize Sjoberg Evashenk Consulting, Inc. to conduct the audit.

At its May 24th, 2022, meeting, Valley Water's Board of Directors authorized staff to proceed with the CIP Process Audit, and authorized Sjoberg Evashenk Consulting, Inc. to conduct the audit.

On October 19th, 2022, the BAC authorized staff to seek agreement from the full Board regarding the recommendation to modify the 2022-2024 Annual Audit Work Plan (Attachment 1) by removing the audit objective related to the organizational alignment of Risk Management from the work plan. At the November 22nd, 2022, Board Meeting, the Board agreed with the recommendation, and authorized staff to modify the 2022-2024 Annual Audit Work Plan accordingly.

At its January 20th, 2023, meeting, the BAC authorized staff to inform the full Board of plans for the Chief Audit Executive (CAE) to review the most recent Risk Assessment, and to solicit feedback from Board members and executive management regarding risk-related themes as it relates to the Annual

Audit Work Plan.

At its April 19, 2023, meeting, the BAC received a summary of interviews conducted by the CAE. Based on the input received, the key audit topics presented in the 2021 Risk Assessment Report represented high-risk areas earlier in the pandemic, however management efforts have improved operations in some cases. At the same time, new issues have emerged as high-interest audit topics. These include:

- Human Resources, with a focus on recruitment, retention, employee engagement, workplace culture, employee and labor relations, equity, succession planning, and workforce development
- Pacheco Dam Project, including Valley Water's approach to establishing project management, reporting, risk management, and cost control protocols
- Board Governance, including board policies and governance structures
- District Revenues and Demands, including forecasting models; revenue streams for water, flood control, and environmental stewardship; and revenue planning.
- Capital Project Management and Project Delivery Protocols

Additionally, Board members expressed interest in following up on management's implementation of prior audit recommendations and key audit findings. Going forward, potential follow-up audits will be incorporated into the Annual Audit Work Plan as appropriate.

Based on the input received, the BAC determined that the 2022-2024 Annual Audit Work Plan no longer fully reflects the priorities of the Board. The CAE received authorization to conduct an update to the 2021 Risk Assessment, which will provide the foundation for a revised 2022-2024 Annual Audit Work Plan. Furthermore, the CAE will meet with executive management to obtain management's perspective on risk, priorities, and initiatives undertaken since the 2021 Risk Assessment Report was completed. The feedback obtained will help provide a holistic perspective of the current environment.

For this item, the BAC is asked to discuss the annual audit work plan and provide any further guidance as necessary.

ATTACHMENTS:

Attachment 1: 2022-2024 Annual Audit Work Plan

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



TAPInternational

FY 2022-2024 Annual Audit Work Plan

Updated as of November 22, 2022

ANNUAL AUDIT WORK PLAN

The Audit Work Plan serves as a tool for communicating audit priorities as determined by the Santa Clara Valley Water District's Board Audit Committee (BAC) and Board of Directors. The selection of audits for formal review and approval by the Board of Directors is an important responsibility of the Audit Committee.

Audits are an important oversight tool because they provide independent and fact-based information to management and elected officials. Those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making.

Audits can:

- Verify that programs, services, and operations are working based on your understanding.
- Assess efficiency and effectiveness.
- Identify the root cause or problems.
- Assess the progress of prior audit recommendations.
- Identify the impact of changes
- Identify leading practices.
- Assess regulatory compliance.
- Develop policy options.
- Assess the accuracy of financial information reported.

The types of audits that can be conducted include:

- Internal audits: Internal audits review the environment, information, and activities that are designed to provide proper accountability over District operations.
- Compliance audits: Compliance audits review adherence to policies and procedures, state regulatory requirements, and/or federal regulatory requirements.
- Performance audits (impact or prospective audits): Performance audits review the economy, efficiency, and effectiveness of Valley Water programs, services, and operations.
- Desk reviews: Small and quick audits.
- Follow up audits: Follow up audits assess the implementation status of recommendations included in prior audit reports.
- Best practices reviews: Compares current operations to best practices.

This proposed audit work plan is divided into sections. Section A describes anticipated ongoing support services to be provided by the independent auditor as well as other quality assurance activities planned by Valley Water's executive management. Section B describes the audits planned for implementation by the Independent Auditor.

SECTION A

ONGOING SUPPORT SERVICES AND SPECIAL PROJECTS

The following table lists non-audit services and special projects for the FY 2022 to 2024 audit work plan:

Project/Responsible Party	Scope	FY 2022 Planned Hours	FY 2023 Planned Hours	FY 2024 Planned Hours
Board of Director & Board Audit Committee Requests for Information/ Independent Auditor	Ongoing. Should the Board of Directors request information on activities implemented by other public agencies or on other matters of interests applicable to enhancing the efficiency and effectiveness of operations, the independent auditor will collect and summarize information.	80	80	80
Audit Training/ Independent Auditor	Annual. The Board Audit Committee Charter describes a requirement to provide audit training to Board Audit Committee members at least annually.	2	2	2
Support Services/ Independent Auditor	Ongoing. Provide support services to Board Directors and Valley Water staff applicable to specific initiatives or planning projects to prevent potential service delivery risks.	40	40	40
QEMS/Valley Water Continual Quality Improvement Unit	Ongoing. Provide services to ensure proper oversight and accountability.	As needed	As needed	As needed

Management Reviews/Valley Water Management	Ongoing. Valley Water's Chief Executive Officer ,as needed, will initiate internal quality assurance reviews of business practices and operations. These reviews are to be shared with the audit committee.	As needed	As needed	As needed
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SECTION B

AUDIT SERVICES — INDEPENDENT AND ON-CALL AUDITORS

Labor Summary

Project/Responsible Party	Scope	FY 2022 Planned Hours	FY 2023 Planned Hours	FY 2024 Planned Hours
Independent and On-Call Auditors	Audits and Follow-up Audits Based on the Audit Work Plan	TBD	TBD	TBD

Recommended Audits

The Board Audit Committee will select and recommend audits described below for approval by the Board of Directors.

ID	Risk Area(s)	Risk Factor	Audit Topic	Type of Audit	Suggested Audit Objectives
1	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	CIP Planning Process	Cross-Functional Performance Audit	<ol style="list-style-type: none"> Are there opportunities to improve the capital improvement project planning process (project initiation to CIP plan approval)? To what extent can early participation of Valley Water support units (environmental planning, permitting, purchasing, warehousing) on large capital projects prevent project delays and reduce cost overruns? Can the Capital Improvement Plan be better right sized that considers the Agency's funding and staffing levels?
2	Inventory Control	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Inventory Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> Does Valley Water effectively manage, account for and record inventory across the agency? What resources (e.g., staffing, systems, facilities) and business processes (communication and coordination) are necessary to meet current and future needs including centralizing inventory management?
3	Emergency Response Emergency Detection Emergency Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Monitoring	Cross-Functional Performance Audit	<ol style="list-style-type: none"> To what extent do the emergency management plans variously established by Valley Water contain gaps and activities to ensure proper prevention, detection, response, and recovery activities? Do gaps exist in surveillance and detection of potential problems across Valley Water's infrastructure?

					<ol style="list-style-type: none"> 3. To what extent is the virtual Emergency Operations Center aligned with FEMA best practices? 4. Are there lessons learned from past emergencies to prevent disruptions to regular operations while providing additional manpower and resources to respond to emergencies?
4	Emergency Cost Recovery Data Management & Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent has Valley Water been able to claim the full reimbursement of costs for eligible expenses from FEMA? 2. Are business practices aligned with federal and state aid requirements for emergency cost reimbursement? To what extent are information systems and other business processes configured to capture information needed for cost reporting and recovery?
5	Financial Oversight Purchasing and Contracting Processes	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Financial Management	Performance Audit	<ol style="list-style-type: none"> 1. To what extent do Valley Water procurement programs for low dollar purchases (i.e., P-Cards, & Standing Orders) comply with established policies and procurement limits? 2. Are added policies and procedures needed to control spending and prevent work arounds to formal competitive bids?
6	Data Management Data Integrity Data Accuracy	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Business Process	Cross Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent does Valley Water use multiple data stores for the same information?
7	Plan Implementation Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Organizational Culture	Culture Audit	<ol style="list-style-type: none"> 1. How has Valley Water's organizational culture impacted implementation of plan established across the agency? 2. To what extent does Valley Water demonstrate and practice common cultural characteristics including:

- a) Defining organization's values and proactively emphasize and model those values.
- b) Ensuring strategies are consistent with the values and holding management accountable.
- c) Executing their duties within the organization's risk appetite.
- d) Management reinforces the values and culture through clear communication of expectations across the organization.
- e) Management actively gathers and listens to feedback.
- f) All levels are open to constructive criticism and problem solving through methods including information obtained from second- and third-line functions via inputs such as well-received and acknowledged employee suggestion/question program, ethics hotlines, open door policies, employees' events, and meetings, and more.
- g) All employees (to the extent possible) are engaged in objective setting and strategy discussions.

8	Grant Management Financial Management Coord. & Comm.	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Grant Reimbursement	Performance Audit	1. Can Valley Water's process for tracking labor and expense activities on state grants awarded to Valley Water benefit from updating? 2. How timely are claims for reimbursement submitted to awarding state agencies? 3. What circumstances have contributed to lost opportunities
	Financial Oversight				
	Data Accuracy				

					for reimbursement by awarding state agencies?
9	Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Human Resources Management	Cross-Functional Performance Audit	1. What progress has been made in implementing existing workforce development and succession planning plans? 2. What evidenced-based factors have been significant in facilitating the hiring of technical and operational staff? 3. To what extent have position descriptions and classification evolved to ensure that Valley Water has the technical capability to meet future demands to solve complex problems in an agile and creative manner?
10	Aging Infrastructure Detection Aging Infrastructure Monitoring	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Asset Management	Cross-Functional Performance Audit	1. To what extent do Valley Water divisions and units ensure compliance to specification standards to prevent substandard replacements of parts, equipment, and capital assets? 2. Is Valley Water adequately meeting the needs of equipment maintenance?
11	Data Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Unmetered Groundwater Measurement	Desk Review	1. Is the methodology supporting unmetered groundwater usage measurement valid and include all applicable methodological assumptions?
12	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Capital Project Budgeting	Performance Audit	1. Are there areas of Valley Water's capital project budgeting practices that can benefit from adopting best practices?
13	IT Security Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	SCADA	Performance Audit	1. What is the status of implementation of prior audit recommendations? 2. Will the recommendations as implemented by Valley Water accomplish intended goals and objectives?

					3. Are changes needed in the frequency of communications to the Board on the progress and status of cybersecurity and other IT needs?
14	Plan Monitoring Management Plan Implementation	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Strategy Development and Implementation	Cross-Functional Performance Audit	1. To what extent are management plans underway or completed across Valley Water? 2. To what extent do the plans need a completion date or require updating? 3. Are strategy and management plans developed across the Agency right sized to the divisions and/or units' staffing levels and workloads? 4. What progress has Valley Water made in implementing management plans to manage risks?
15	Program Monitoring Governance Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Homelessness Programs	Performance Audit	1. To what extent has Valley Water implemented its homelessness plan? 2. Can other cost-effective strategies implemented in other jurisdictions to prevent the creation and establishment of homeless encampments on Valley Water property? 3. How can Valley Water enhance its homelessness encampment clean-up activities to ensure the protection of health and safety of employees?
16	Grant Management	<input checked="" type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Financial Management	Follow-Up Audit	1. Have improvements occurred in the timeliness of grant reimbursements? 2. To what extent has the grant management and administration implemented prior audit recommendations? 3. What improvements in program outcomes have occurred in the timeliness of grant application review, reimbursement, and accomplishment of deliverables?

17	Program Monitoring Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Encroachment Program	Performance Audit	1. Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?
18	Data Management Data Accuracy	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Business Process	Cross Functional Performance Audit	1. To what extent have Valley Water units established business processes to ensure accurate data collection and input? 2. What gaps remain in automating data collection and input?
19	Operations	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Risk Management	Performance Audit	1. Can risk management business processes benefit from updating? (i.e., overall operations, data management, contract claims, workers compensation, small claims, claims administration and management, workers compensation administration, and all risk management activities, including insurance & self-insurance.
20	Emergency Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Peer Review	Best Practices Review	1. Can regulatory permitting practices administered by other utilities districts help reduce barriers and other challenges experienced by Valley Water?
21	IT Project Management & Communication Data Accuracy	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	System Implementation	Post IT Implementation Audit	1. Has the current large ERP project implementation produced the desired functionality? 2. To what extent have all contract deliverables been met? 3. To what extent have data quality issues surfaced post-implementation? 4. What lessons learned can apply to future information system implementations?

22	Emergency Response Emergency Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Procurement	Performance Audit	<ol style="list-style-type: none"> 1. Have Valley Water's procurement policies been flexible and agile to effectively and timely respond to and recover from past emergencies? 2. Are other procurement and operational activities needed to ensure prompt and reliable emergency services?
23	Environmental Sustainability Framework Development Program Monitoring Governance	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Measurement & Evaluation	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. What level of success has Valley Water's environmental stewardship activities had on preventing environmental damage and promoting environmental sustainability? 2. To what extent has Valley Water adopted sustainability indicators on specific projects to measure progress? 3. To what extent has Valley Water adopted sustainability indicators in its decision-making?
24	Program Monitoring Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Program Outcomes Business Process	Performance Audit	<ol style="list-style-type: none"> 1. To what extent has Valley Water mitigated the environmental hazards caused by non-use of the percolator ponds? 2. In a non-drought year, are barriers present that prevent Valley Water from filling percolator ponds? 3. What processes need development to prevent expiration of groundwater charge permits?
25	Financial Management Coord. & Comm. Financial Oversight	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Capital projects	Desk Review	<ol style="list-style-type: none"> 1. What potential financial risks could occur on the California WaterFix project?
26	CIP Monitoring	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Capital Project Evaluation and Monitoring	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. Have completed capital projects met their intended goals? 2. To what extent does Valley Water include performance measures to measure success and monitor financial management?

					Are there lessons learned that can be adopted in future capital project plans to ensure goal accomplishments as well as implementation of alternative strategies to facilitate early communication to the Board of Directors of potential and actual problems, and to predict success such as performing cost vs. benefit analysis?
27	IT Security Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	IT Risk Management	Desk review	1. To what extent is IT risk management activities aligned with best practices, such as National Institute of Standards and Technology (NIST) guidance, including whether acceptable risk appetites and risk tolerances have been formally documented and approved by the Board of Directors?
28	Purchasing and Contracting Processes	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Financial Oversight	Desk Review	1. Can Valley Water benefit from updating its qualifications and experience criteria to include in future competitive bids for external financial audit services?
29	IT Strategic Planning Emergency Management	<input type="checkbox"/> Financial <input checked="" type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Disaster Planning	Performance Audit	1. Does Valley Water's prioritization for systems and data recovery meet the agency's needs for sustained business continuity? 2. To what extent does Valley Water's process for determining the prioritization of systems and data recovery adhere to best practices (ex. NIST)?
30	Plan Development Plan Implementation Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Decision-Making	Cross-Functional Performance Audit	1. What lessons has Valley Water learned from its ad hoc cross-functional efforts to proactively address current or emerging risks?
31	Financial Oversight	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Outsourcing of Legal Services	Desk Review	1. How have changes occurred in District Counsel Office spending

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- for contracting external legal services?
- 2. To what extent are the nature of services provided by contracted legal firms presently outside of the District Counsel Office’s expertise?
 - 3. Can expanding outsourced legal services prevent project delivery delays?
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SECTION C

AUDIT SERVICES — VALLEY WATER RESPONSIBILITY

QEMS ACTIVITIES

Under development

COMPLIANCE AND FINANCIAL AUDITS

FINANCIAL AUDITS
Financial Audits
Treasurer's Report
Appropriation's Limit
Compensation and Benefit Compliance (odd years)
Travel Expenses Reimbursement (even years)
Single Audit (if applicable)
WUE Fund Audit