

August 9, 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
Bhavani Yerrapotu, 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
Chris Hakes, Acting Chief Operating Officer
Aaron Baker, Chief Operating Officer
Brian Hopper, Sr. Assistant District Counsel
Leslie Orta, Sr. Assistant District Counsel
Joseph Aranda, Assistant District Counsel
Rita Chan, Sr. Assistant District Counsel
Andrew Gschwind, Assistant District Counsel
Alexander Gordon, Assistant Officer
Tony Ndah, Deputy Administrative Officer
Donald Rocha, Deputy Administrative Officer
Emmanuel Aryee, Deputy Operating Officer
Anthony Mendiola, Program Administrator
Manpreet Sra, Management Analyst
George Skiles, Partner, Sjoberg Evashenk Consulting

A Santa Clara Valley Water District regular Board Audit Committee Meeting has been scheduled to occur at 2:00 p.m. on Wednesday, August 16, 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>

REGULAR MEETING & CLOSED SESSION AGENDA

**Wednesday, August 16, 2023
2:00 PM**

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

BOARD AUDIT COMMITTEE

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

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

DARIN TAYLOR
Committee Liaison

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

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

**Santa Clara Valley Water District
Board Audit Committee
REGULAR MEETING &
CLOSED SESSION AGENDA**

Wednesday, August 16, 2023

2:00 PM

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

IMPORTANT NOTICES AND PARTICIPATION INSTRUCTIONS

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

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

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

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

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

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

California, including but not limited to, Government Code Sections 54950 et. seq. and has not been prepared with a view to informing an investment decision in any of Valley Water's bonds, notes or other obligations. Any projections, plans or other forward-looking statements included in the information in this agenda are subject to a variety of uncertainties that could cause any actual plans or results to differ materially from any such statement. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water's bonds, notes or other obligations and investors and potential investors should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures and Valley Water's Investor Relations website, maintained on the World Wide Web at <http://emmas.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 may do so by filling out a Speaker Card and submitting it to the Clerk or using the "Raise Hand" tool located in the Zoom meeting application to identify yourself to speak. Speakers will be acknowledged by the 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 June 21, 2023 Board Audit Committee Minutes. [23-0726](#)
Recommendation: Approve the minutes.
Manager: Candice Kwok-Smith, 408-630-3193
Attachments: [Attachment 1: 062123 BAC Minutes](#)

4. REGULAR AGENDA:

- 4.1. Receive an Update on the Status of the 2023 Risk Assessment. [23-0716](#)
Recommendation: Receive an update on the status of the on-going 2023 Risk Assessment.
Manager: Darin Taylor, 408-630-3068
- 4.2. Receive and Discuss 2023 Capital Improvement Program (CIP) [23-0715](#)
Process Performance Audit Report with Management's Response, and Recommend to the Board that Staff Present to CIP Committee and Full Board at a Future Date.
Recommendation: A. Receive and discuss 2023 CIP Process Performance Audit Report with Management's Response, and
B. Recommend that the Board direct staff to present the Audit to the CIP Committee and to the Board at a future date.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: May 15th PowerPoint](#)
[Attachment 2: 2023 CIP Performance Audit Final Report](#)
- 4.3. Receive a Status Update on the Implementation of Audit [23-0718](#)
Recommendations and Completed Audits Pending Final Review by Chief Audit Executive (CAE); and Discuss Timing of Next Update.
Recommendation: A. Receive a status update on the implementation of audit recommendations and completed audits pending final review from the CAE; and
B. Discuss timing of the next update.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: Audit Recommendation Status Update](#)
- 4.4. Receive and Discuss the Audit Report of the Water Utility Enterprise [23-0717](#)
Funds for the Fiscal Year Ended June 30, 2022.
Recommendation: Receive and discuss the audit report of the Water Utility Enterprise funds for the fiscal year ended June 30, 2022.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: Audit Report, FY Ending 2022 WUE Funds](#)

- 4.5. Receive Information Regarding the Quality and Environmental Management System (QEMS) Internal Audit Program. [23-0720](#)
Recommendation: Receive information regarding the QEMS Internal Audit Program.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: PowerPoint](#)
- 4.6. Receive Information on the Quality and Environmental Management System (QEMS) Improvements Implementation Effort. [23-0719](#)
Recommendation: Receive information on the QEMS Improvements Implementation effort.
Manager: Darin Taylor, 408-630-3068
- 4.7. Review and Discuss the 2023 Board Audit Committee (BAC) Work Plan. [23-0713](#)
Recommendation: Review and discuss topics of interest raised at prior BAC meetings and make any necessary adjustments to the 2023 BAC Work Plan.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: BAC Work Plan](#)
5. **CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.**
This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.
6. **CLOSED SESSION:**
- 6.1. CLOSED SESSION [23-0658](#)
THREAT TO PUBLIC SERVICES OR FACILITIES
Pursuant to Government Code Section 54957(a)
Consultation with Alex Gordon, Assistant Officer
- 6.2. District Counsel Report on Closed Session
7. **ADJOURN:**
- 7.1. Adjourn to Regular Meeting at 2:00 p.m., on September 20, 2023.

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Santa Clara Valley Water District

File No.: 23-0726

Agenda Date: 8/16/2023

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 June 21, 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.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item.

ATTACHMENTS:

Attachment 1: 062123 BAC Minutes

UNCLASSIFIED MANAGER:

Candice Kwok-Smith, 408-630-3193

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BOARD AUDIT COMMITTEE MEETING

DRAFT MINUTES

**REGULAR MEETING
WEDNESDAY, JUNE 21, 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 and District 2 Director Barbara F. Keegan, Chairperson presiding, constituting a quorum of the Committee.

Committee Vice Chairperson Jim Beall (District 4) arrived as noted below.

Staff members in attendance were: Emmanuel Aryee, Salam Baqleh, Sarah Berning, Todd Bridgen, Kevin Brown, Jessica Collins, Enrique De Anda, Andrew Gschwind, Brian Hopper, Candice Kwok-Smith, Patrice McElroy, Anthony Mendiola, Nicole Merritt, Tony Ndah, My Nguyen, Carlos Orellana, Alison Phagan, Mario Rivas, Manpreet Sra, Charlene Sun, Darin Taylor, Sherilyn Tran, and Tina Yoke.

Guests in attendance were: Katja Irvin (Sierra Club-Loma Prieta Chapter), George Skiles (Sjoberg Evashenk Consulting), and Cid Conde, Emer Fabro, Elisa Stilwell (Vasquez & Company LLP).

Public in attendance was: XXX-XXX-1209.

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 May 15, 2023 Board Audit Committee Meeting Minutes.

Recommendation: Approve the minutes.

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

Public Comments:
None.

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

4. REGULAR AGENDA:

Chairperson Keegan confirmed that Item 4.1, the BAC Audit Charter Update and Item 4.2, the 2023 Annual Audit Training from CAE would be considered after Vice Chairperson Beall's arrival.

Chairperson Keegan moved the agenda to Item 4.3.

4.3. Receive the Fiscal Year 2022-2023 Third Quarter Financial Status Update as of March 31, 2023.

Recommendation: Receive the fiscal year 2022-2023 third quarter financial status update as of March 31, 2023.

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

Charlene Sun, Enrique De Anda, and Darin Taylor 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 third quarter financial status update as on track with an expectation of a prelim report out in September 2023 followed by the year-end annual comprehensive financial report in November 2023.

Chairperson Keegan moved the agenda to Item 4.4.

4.4. Receive and Discuss the Fiscal Year 2022-23 Financial Audit, presented by Vasquez and Company LLP.

Recommendation: Receive and discuss information regarding the upcoming Fiscal Year 2022-23 financial audit, presented by Vasquez and Company LLP.

Elisa Stilwell, Cid Conde, and Emer Fabro reviewed the information on this item, per the attached Committee Agenda Memo, and the corresponding presentation materials contained in Attachment 1 were reviewed by staff as follows: Cid Conde reviewed Slides 1 through 11 and Emer Fabro reviewed Slides 12 through 17.

Elisa Stilwell, Cid Conde, Emer Fabro, and Darin Taylor were available to answer questions.

Vice Chairperson Beall arrived.

Public Comments:
None.

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

- The Committee noted the next report out to the BAC is targeted for November 2023 with a report to the full Board in December 2023.
- The Committee noted that Vasquez & Company LLP will be scheduling 1:1 meetings with each Board member.

Chairperson Keegan returned the agenda to Item 4.1.

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

Recommendation: A. Discuss proposed updates to Board Audit Charter; and
B. Provide further direction as needed.

Brian Hopper reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachment 2.

Brian Hopper was available to answer questions.

Public Comments:
None.

The Committee noted the proposed updates, requested no further changes, and by consensus directed for to this Item to be considered by the full Board in August 2023 without official action.

4.2. 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.

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

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

Public Comments:
None.

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

- The Committee requested staff to follow up with adding for discussion, a future Agenda Item regarding Valley Water's contractual responsibility to confirm best practices with Joint Powers Authorities (JPA), non-profit organizations, and public/private partnerships; and whether annual audits are legally required prior to Valley Water's involvement.
- The Committee identified audit training topics: the audit process, risk assessment, audit selection, audit planning, field work, and reporting with an emphasis on risk assessment to occur in August 2023.

Chairperson Keegan moved the agenda to Item 4.5.

4.5. Receive an Update on the Status of the 2023 Risk Assessment..

Recommendation: Receive an update on the status of the on-going 2023 Risk Assessment.

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

George Skiles was available to answer questions.

Public Comments:
None.

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

- The Committee noted a draft risk assessment report is targeted for September 2023 to be presented to the BAC in October 2023.
- The Committee confirmed that this topic been reported to the full Board and noted no changes will be made to the audit schedule without full Board approval.

4.6. 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.

Darin Taylor was available to answer questions.

Public Comments:
None.

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

- The Committee noted the CIP Audit Management Response Review is targeted to be presented to the BAC in August 2023.
- The Committee directed staff to include the audit topic discussion item regarding JPAs from Item 4.2 to the BAC's September 2023 agenda and ensure audit training is confirmed for August 2023.

4.7. 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.

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 noted no changes to the Annual Audit Work Plan until the completion of the current risk assessment is complete upon approval of the full Board.

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 Item 4.1 was approved for Board consideration and direction was given to staff for a future agenda item under Item 4.2.

6. Adjourn:

6.1. Adjourn to Regular Meeting at 2:00 p.m. on August 16, 2023.

Chairperson Keegan adjourned the meeting at 3:20 p.m., to the regular meeting at 2:00 p.m. on August 16, 2023.

Nicole Merritt
Assistant Deputy Clerk II

Date Approved:



Santa Clara Valley Water District

File No.: 23-0716

Agenda Date: 8/16/2023

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 an Update on the Status of the 2023 Risk Assessment.

RECOMMENDATION:

Receive an update on the status of the on-going 2023 Risk Assessment.

SUMMARY:

At its January 20, 2023, meeting, the BAC authorized staff to inform the full Board of plans for the Chief Audit Executive (CAE) to review the 2021 Risk Assessment Report and solicit feedback from Board members prior to identifying potential audit topics for the 2023 calendar year. On February 15, 2023, the BAC requested the CAE to re-evaluate the 2022-2024 Annual Audit Work Plan, which was based on the 2021 Risk Assessment Report, and to identify audit topics for consideration for the 2023 Annual Audit Work Plan.

Interviews with Board members occurred between March 20 and April 3, 2023. Based on this input, it was evident that the 2022-2024 Annual Audit Work Plan did not fully reflect the priorities of the Board. Much had changed in the two years since the risk assessment work was performed, including organizational changes resulting from the pandemic, management initiatives, and changes in Board composition.

Further, Section 7.4 of the BAC Charter says that the BAC shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, tri-annually.

Because of this, the CAE found that an update to the Risk Assessment, which provides the foundation for the Annual Audit Work Plan, was warranted and recommended to the BAC that a Risk Assessment be completed by Fall 2023 and that an updated Annual Audit Work Plan be submitted to the Board prior to establishing the 2024 Annual Audit Plan.

On April 19, 2023, the BAC authorized the CAE to proceed with a new Risk Assessment, which was subsequently reported to the full Board by the BAC Chairperson. On May 17, 2023, Valley Water

management executed Task Order #2 (2023 Risk Assessment), which reflected the proposed cost and schedule provisions shown in Exhibit 1 below.

	Partner	Senior	Associate	Total Hours	Total Personnel Cost
HOURLY RATE:	\$230	\$115	\$90		
Task Description	Budget	Budget	Budget	Budget	Assigned
Project Initiation and Planning	100	25	75	200	\$ 32,625
Fieldwork	150	75	95	320	\$ 51,675
Draft & Final Report	50		50	100	\$ 16,000
Total Project Hours	300	100	220	620	
Total Project Costs					\$ 100,300

	TIMELINE											
MILESTONE	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
Project Planning												
Fieldwork												
Draft Report												
Final Report												

Work performed thus far includes developing profiles reflecting each key program and operational unit within Valley Water, continuing to review and assess key organizational information, and interviewing management throughout the organization. As of August 1, 2023, Sjoberg Evashenk Consulting had charged \$37,250 (or 37 percent) against the total \$100,300 project budget, as shown in Exhibit 2 below.

Exhibit 2. Budget to Actual

	Original Budget	Charged To-Date	Percent
2023 Risk Assessment	\$100,300	\$37,250	37%

The audit team remains on target to complete the 2023 Risk Assessment within the proposed schedule and budget.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. Risk Assessments are a tool used by the BAC to determine which business areas could benefit from a focused analysis. There are no environmental impacts that result from this analysis.

ATTACHMENTS:

None.

File No.: 23-0716

Agenda Date: 8/16/2023
Item No.: 4.1.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

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Santa Clara Valley Water District

File No.: 23-0715

Agenda Date: 8/16/2023

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 and Discuss 2023 Capital Improvement Program (CIP) Process Performance Audit Report with Management's Response, and Recommend to the Board that Staff Present to CIP Committee and Full Board at a Future Date.

RECOMMENDATION:

- A. Receive and discuss 2023 CIP Process Performance Audit Report with Management's Response, and
- B. Recommend that the Board direct staff to present the Audit to the CIP Committee and to the Board at a future date.

SUMMARY:

On January 11, 2022, the proposed 2022-2024 Annual Audit Work Plan 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 Santa Clara Valley Water District's (Valley Water) 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?

At the May 15th, 2023, BAC meeting the CAE presented a summary of the draft CIP audit report (Attachment 1) to facilitate a discussion on the results of the performance audit. On May 31st, 2023, staff received a copy of the draft report for Management's Response, initiating the 15-Business Day response time. On June 21st, 2023, staff provided Management's Response for analysis by the CAE, and inclusion in the "final" report.

The BAC is requested to receive the Final CIP Process Performance Audit Report with Management's Response (Attachment 2) and recommend to the Board that staff present the information to the CIP Committee and full Board at a future date.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. Audits are a tool utilized by the BAC to monitor possible risks to the organization, and inform any guidance provided to staff to achieve the Board's priorities. There are no environmental impacts that result from this audit.

ATTACHMENTS:

Attachment 1: May 15th PowerPoint

Attachment 2: 2023 CIP Performance Audit Final Report

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



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

BY SJOBERG EVASHENK CONSULTING, INC.

CAPITAL IMPROVEMENT PROGRAM COMMITTEE
AUGUST 21, 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

August 2023



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Table of Contents

Report Highlights	2
Introduction and Background	3
CIP Policies & Governance	4
Valley Water Annual CIP 5-Year Plan Update Process	6
CIP Programs	7
Funding Sources	9
Results of 2021 Risk Assessment	11
Scope and Methodology	12
Audit Findings	13
Valley Water Implemented Many Leading CIP Planning Practices and Continuous Improvement Efforts Remain Ongoing	13
Opportunities Exist to Better Ensure Valley Water Delivers Capital Projects as Programmed	18
While Valley Water’s CIP Planning Process Adheres to Many Leading Practices, Additional Opportunities for Improvement Exist	28
Opportunities Exist to Improve Transparency and Consistency of Information Reported	36
Revenue Forecasts Were Reasonably Close to Revenue Actuals	46
Recommendations	51
Appendix A – Valley Water’s Implementation of CSMFO Leading Practices	53
Appendix B – Summary of Recommendations and Corrective Action Plan	55

RESULTS

The Santa Clara Valley Water District (Valley Water) has, since 2019, been focused on enhancing its Capital Improvement Program (CIP). During this time, it has implemented many practices that are in-line with both industry and leading practices, including establishing cross-department training, increasing the consistency with which Change Management Memos document changes in project scope and cost, implementing a new project management system (ProjectMates), and requiring the use of an independent cost estimates on all capital projects. These will have a continued positive impact on the success of future capital project delivery. This audit also found that revenue forecasts were reasonable and reliable, and debt financing and revenue forecasting practices aligned with peer and leading industry practices. However, opportunities for continued improvement exist throughout the CIP planning and delivery process. Doing so will better ensure planned milestones and targets related to total project costs and schedules are realistic and information reported is accurate and transparent.

BACKGROUND AND PURPOSE

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 maintenance of flood control channels, and oversight of rate setting and conservation efforts. Valley Water uses a 5-year rolling CIP plan to plan, manage, and deliver capital improvements in compliance with various statutes, regulations, and Board policies and goals. The result of Valley Water's CIP planning process is the Board's annual adoption of the updated CIP 5-Year Plan.

In May 2022, the Board of Directors requested Sjoberg Evashenk Consulting to conduct an audit of Valley Water's CIP planning process. 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.

KEY FINDINGS

- Valley Water implemented many leading practices in developing its CIP 5-Year Plan, including practices recommended by the California Society of Municipal Finance Officers, Government Finance Officers Association, and California's largest public works agencies.
- Over the past five years, capital projects have not progressed in a manner envisioned by the CIP 5-Year Plan, resulting in cost increases and schedule delays. Actual capital spending was consistently and significantly less than planned despite having adequate financial resources to deliver the projects.
- While Change Management Memos reveal external factors that impacted project schedules (such as multi-government permitting processes), this audit revealed that outdated cost estimates and increased project costs affect Valley Water's ability to hit CIP targets, and that internal and external staffing resources may not be sufficient to meet project demands. Ensuring the CIP 5-Year Plan is achievable is important because an overly-ambitious plan may lead to program expenditures that are substantially lower than planned, and rate increases or bond issuances being implemented sooner than necessary.
- To better align the CIP planning process with industry leading practices, Valley Water should implement additional process improvements. This includes establishing more robust project prioritization processes, performance metrics to evaluate program success, and comprehensive capital planning policies and procedures, among others.
- Opportunities exist to strengthen the reliability of data used in developing the CIP 5-Year Plan. Annual capital budget amounts were not always consistently reported and did not always align with Valley Water's Financial System, and Change Management Memos did not always reflect sufficient information regarding the reasoning for cost increases and schedule delays.

KEY RECOMMENDATIONS

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.
2. Enhance the CIP 5-Year Plan by continuing ongoing efforts to implement leading practices as identified in this report.
3. Improve transparency and consistency of information reported in the CIP by implementing enhanced quality assurance procedures and ensuring compliance with Change Management Procedures.

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 4.3.1 and 4.4.1 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

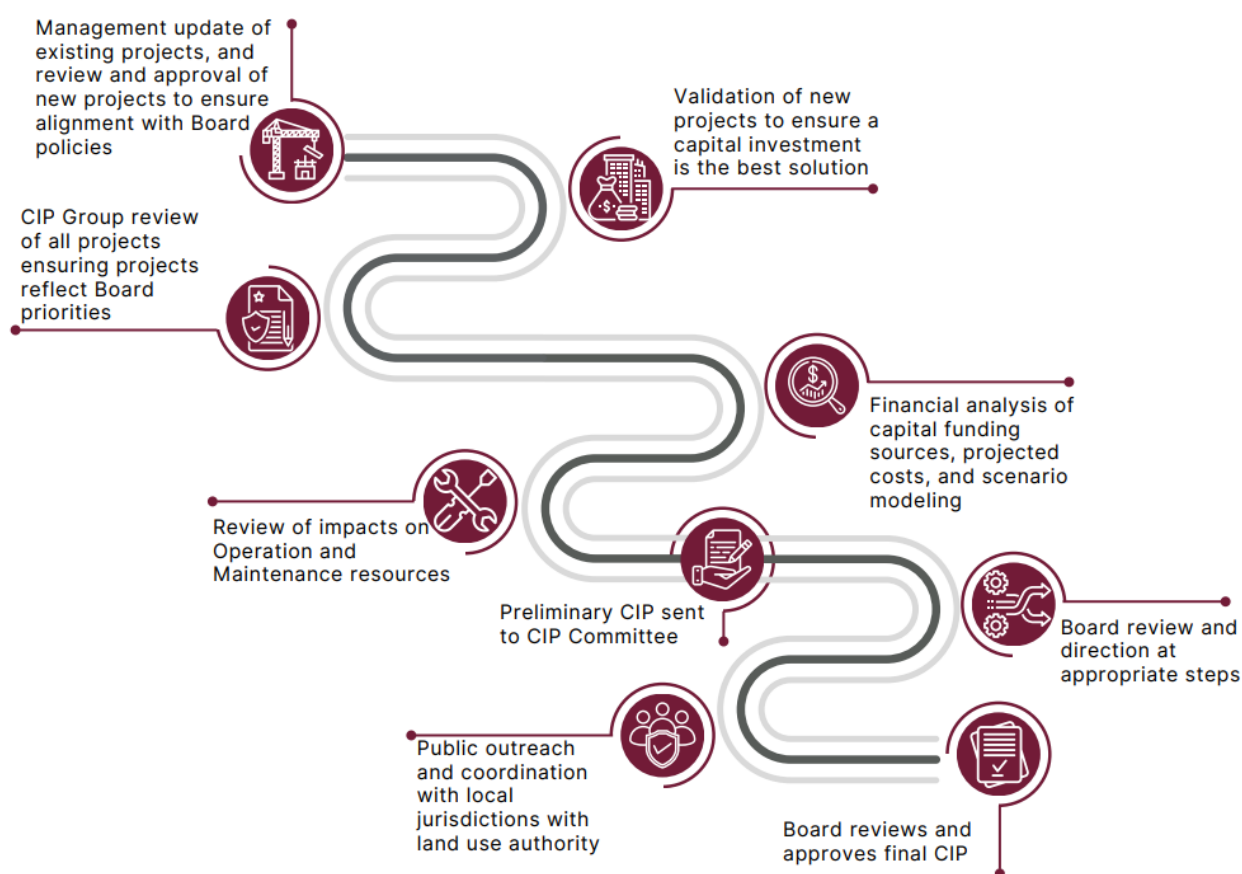
Note: The Ends Policies were updated after the CIP 5-Year Plan was published and therefore do not reflect the updated Ends Policies presented above.

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 Exhibit 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.

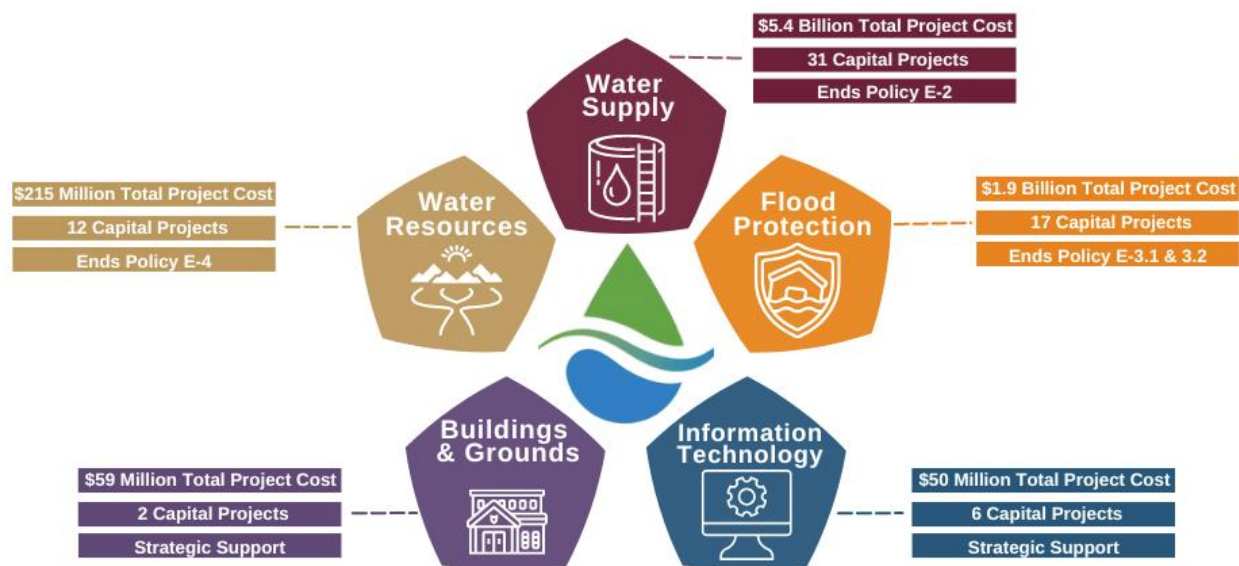
Feedback and direction provided by the CIP Committee and Board is incorporated into a draft CIP 5-Year Plan that is presented to the Board in February and used for public outreach and coordination with other land-use jurisdictions in March. A public hearing is held in April for community feedback and 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 nearly \$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

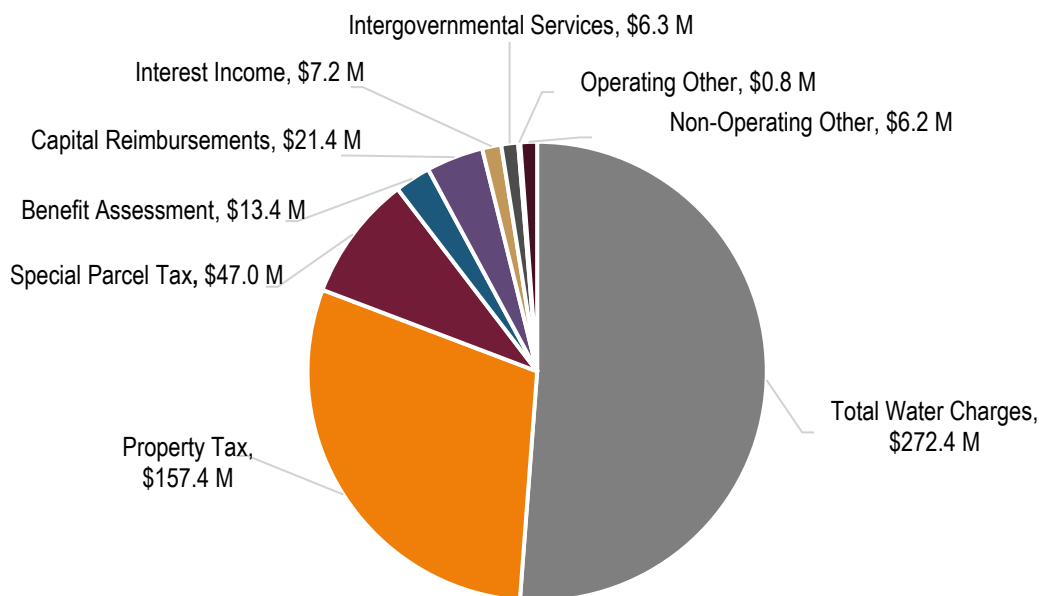
resulted in 71 miles of public access, removing 15,000 lbs. of mercury from the creeks, and the removal of 20 fish passage impediments.

- ✓ **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

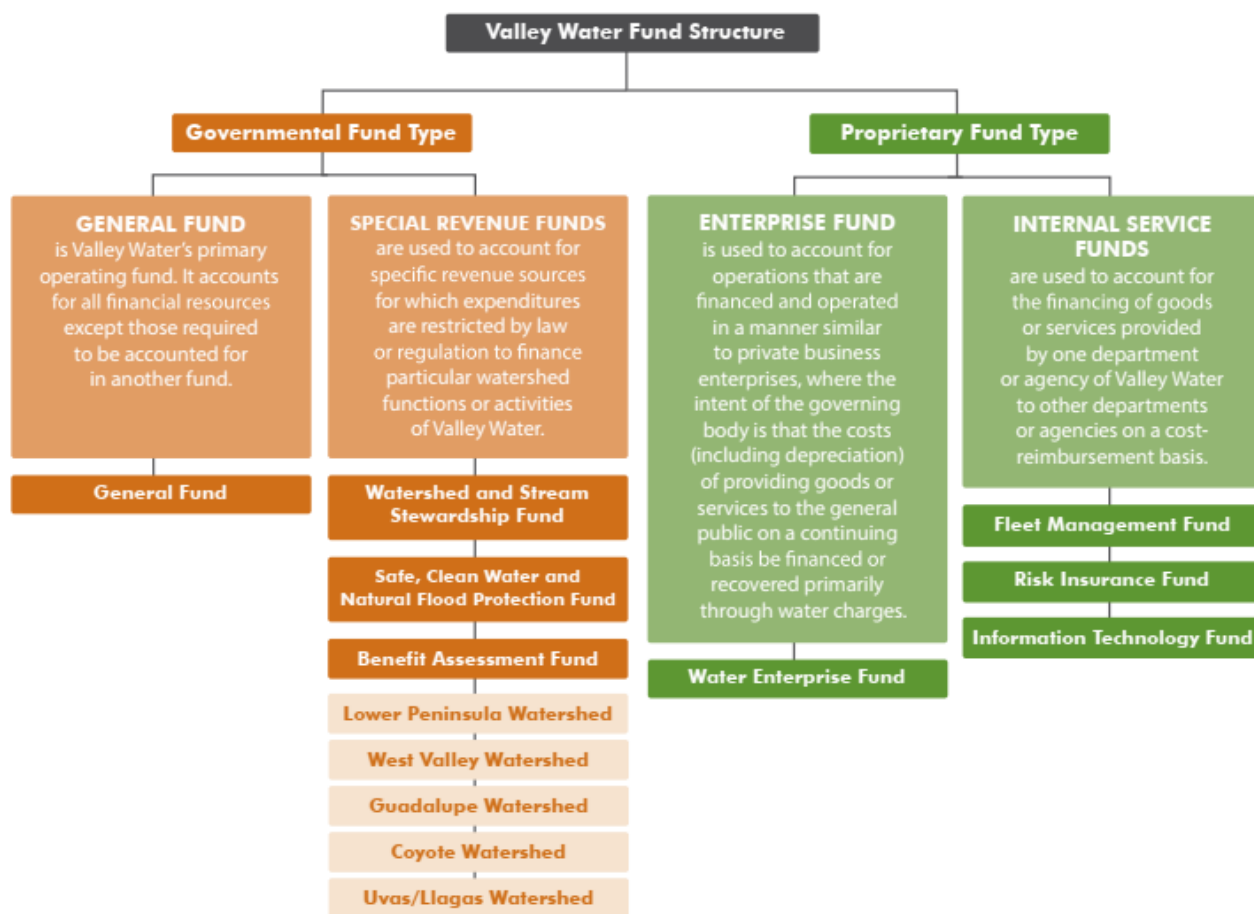


Source: Auditor generated based on data provided by the Chief Financial Officer for revenue actuals from FY 2021-22

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 sample 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. Valley Water management generally agreed with the conclusions presented in this report, and responses and feedback provided by management were considered and incorporated where applicable in the final report. Management's response to the audit recommendations is presented in **Appendix B** of this report.

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 (CSMFO),³ GFOA,⁴

³ CSMFO 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

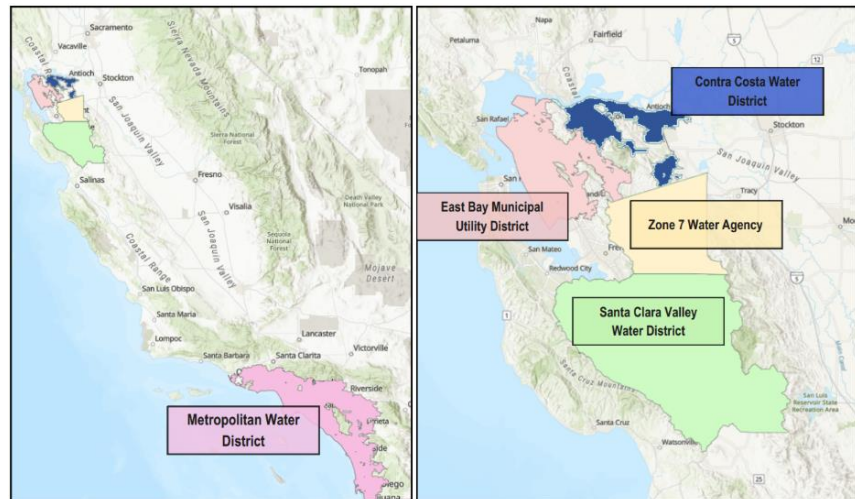
EXHIBIT 7. VALLEY WATER'S IMPLEMENTATION OF GFOA CAPITAL PLANNING LEADING PRACTICES

	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 (EBMUD), 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:

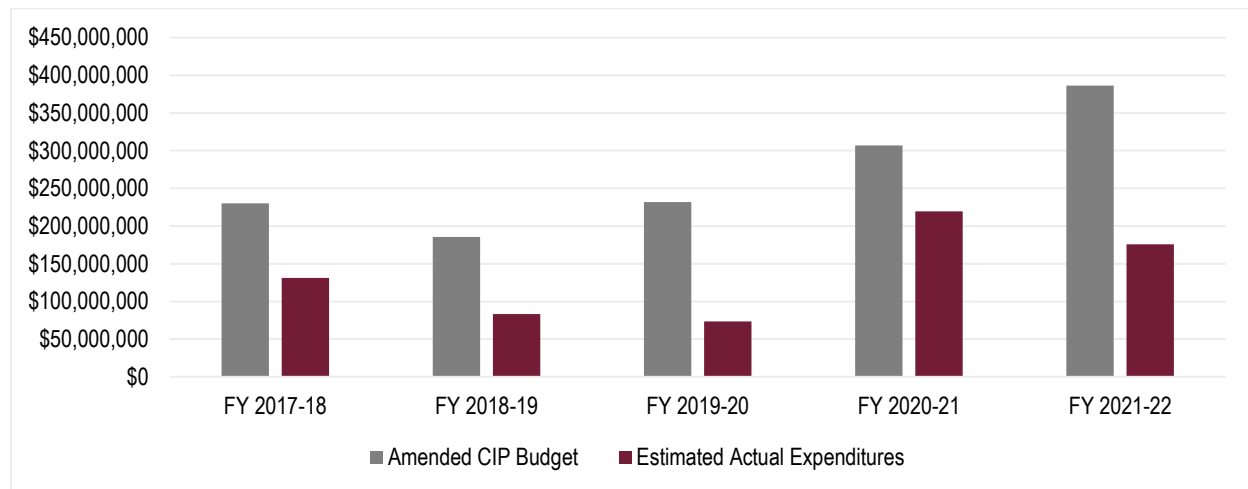
- a) Projects are not progressing as planned for reasons within and outside of Valley Water's control,
- b) Budget data developed and provided for the annual capital budget is imprecise,
- c) Annual capital budget requests are inflated, or
- d) Internal and external staffing resources may be insufficient 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 and encumber 80 percent of budgeted capital dollars each year. To help ensure this target is met, Valley Water included the reporting of this 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 generally in-line with industry leading practices and practices implemented by peers; however, peers did not include encumbrances when measuring progress towards spending goals. Specifically, a leading practice is to establish goals or targets for annual capital expenditures to closely align with planned amounts. For instance, 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.

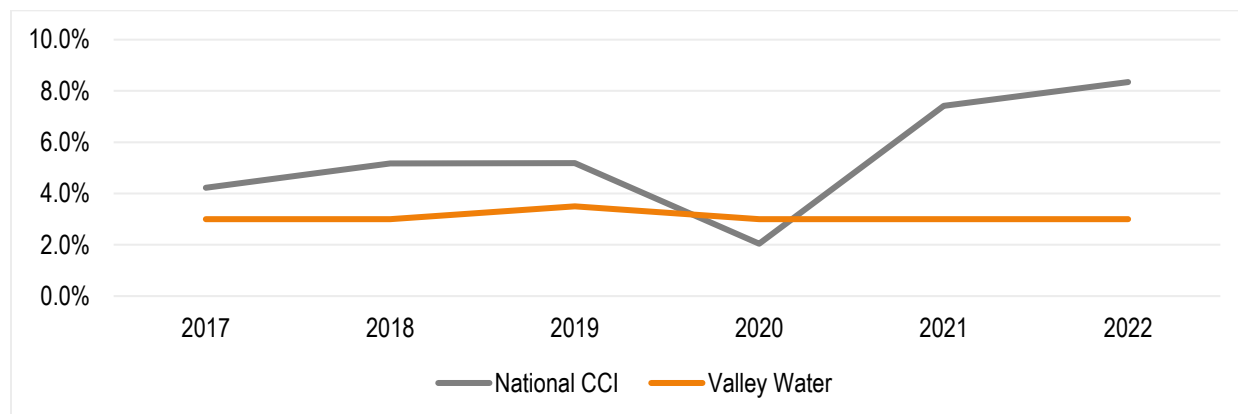
As discussed later in this report, during our review of CMMs for eight projects, we identified schedule delays that were the result of both factors within and outside of Valley Water's control. For instance, some project delays were due to Valley Water contracting and procurement activities taken longer 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.

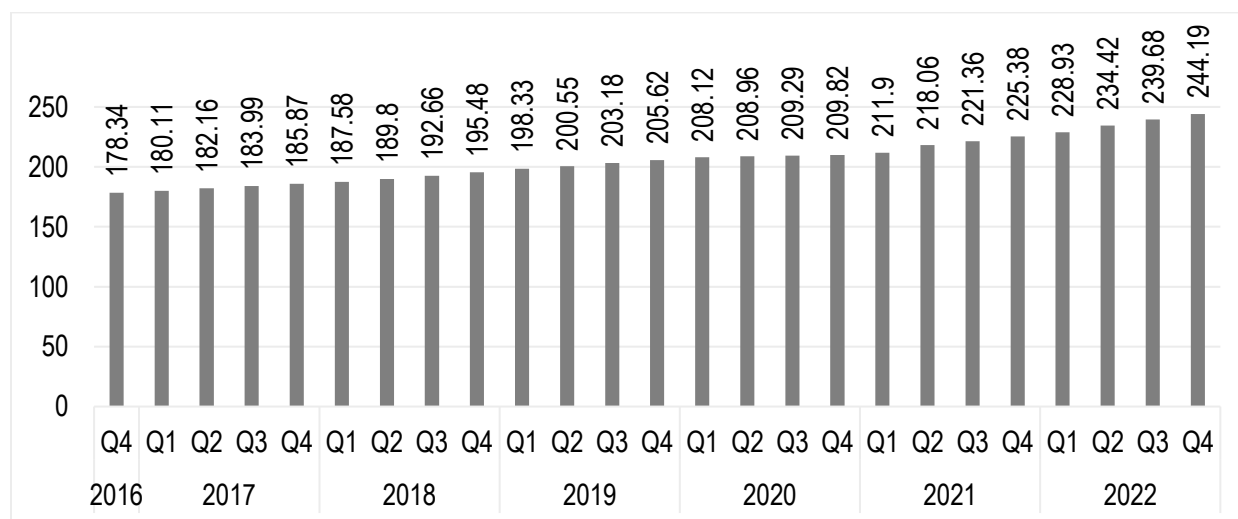
EXHIBIT 11. VALLEY WATER RECOMMENDED COST VS NATIONAL CONSTRUCTION COST ESCALATION RATE



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 and 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 reliability in future TPC 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, 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 ○ 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 CSMFO, 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.

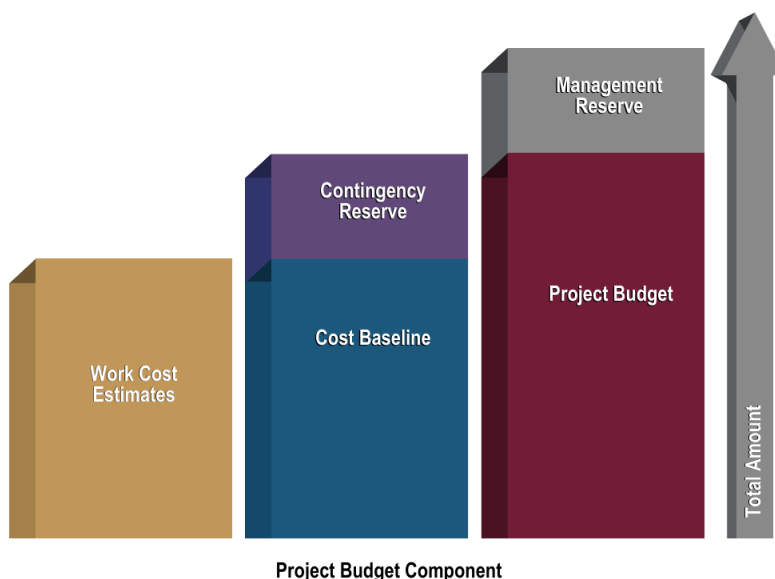
According to the GFOA Capital Planning Policy, government agencies should develop and adopt capital planning policies that take into account their unique organizational characteristics including the services they provide, how they are structured, and their external environment. The GFOA notes that capital 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 establishing 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 are 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 memorialize 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 occurs 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 annual 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 that 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	8,323											
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 million—\$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 explanations provided by Valley Water appear 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 budget 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 Creeks - 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 change 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

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.

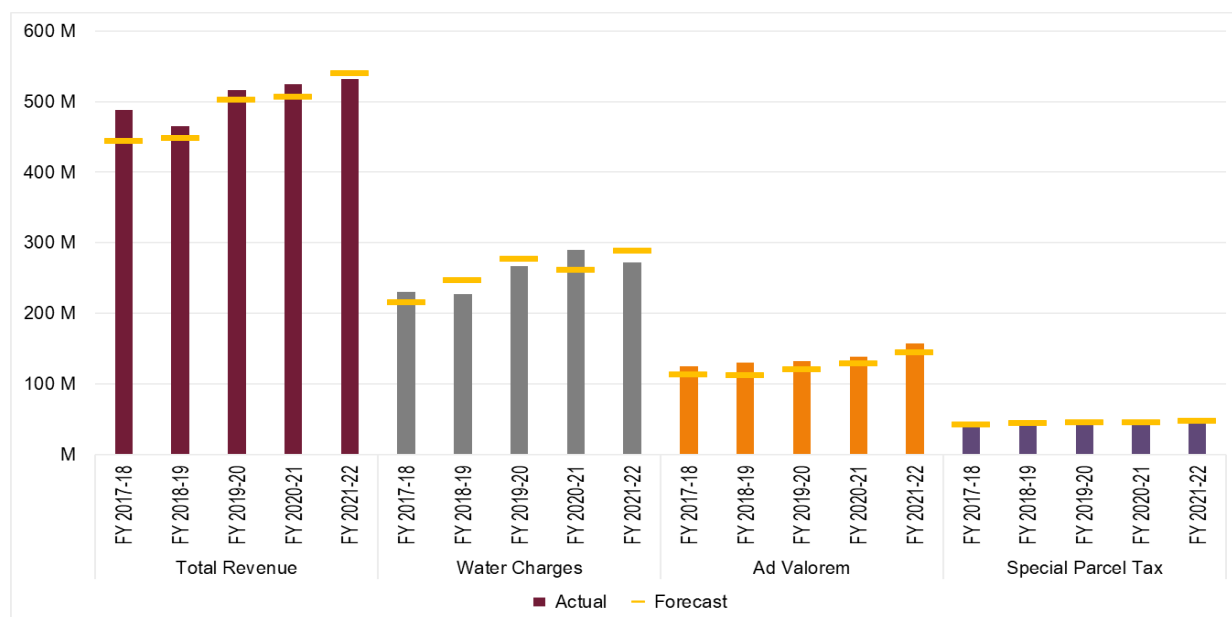
Two key revenue sources, water rate charges and ad valorem property taxes, which account for 80 percent of CIP funding, are impacted by factors outside of Valley Water's direct control and revenues received vary from one year to the next. Revenue from water charges can fluctuate greatly depending on 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 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.

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.

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.

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.

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

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.

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 build upon already ongoing efforts to implement leading practices as identified in this report, we recommend that Valley Water management:

- 1) Improve CIP goal attainment, including the likelihood that expenditure and schedule targets are met, by:
 - 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.
 - c. Conducting and formally memorializing analyses of common cost and schedule delays in the Lessons Learned database in ProjectMates and share results agency-wide.
- 2) Develop 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:
 - a. 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.
 - b. Establishing tangible targets to measure the effectiveness of the CIP in meeting established agency goals.
 - c. Incorporating anticipated timelines within which the results of recent process improvements are expected to be evident and measurable in CIP outcomes.
- 3) Formalize objective project prioritization techniques and criteria, and consider whether a performance-based prioritizing process would be feasible and appropriate.
- 4) Formalize and consolidate CIP planning policies and procedures in a manner that reflects best practices recommended by the GFOA, including establishing a formal, written policy for establishing project contingencies.
- 5) Evaluate whether it would benefit Valley Water to modify CIP planning processes to require biennial CIP updates rather than annual updates.
- 6) Incorporate additional detail within the CIP related to anticipated operations and maintenance costs associated with programmed capital projects. Specifically, when operations and maintenance costs associated with programmed capital projects are unknown, include additional detail within the CIP

5-Year Plan regarding why the costs are unknown, what factors may impact the costs, and when they will be determined.

- 7) Implement 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.
- 8) Improve compliance with Change Management Procedure W-751-125, and ensure cost and schedule data aligning throughout sequential CMMs, by consistently requiring:
 - a. Descriptions of reasons for changes are sufficiently detailed to point to the exact cause.
 - b. All data in CMMs to accurately reflect underlying project 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.
 - d. Update the CMM Procedure 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.

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 CSMFO 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.

Appendix B – Summary of Recommendations and Corrective Action Plan

Recommendation	Responsible Party	Priority	Management's Corrective Action Plan
<p>1 Problem: Schedule and spending targets established in the CIP 5-Year Plan may not be achievable.</p> <p>Recommendation: Improve CIP goal attainment, including the likelihood that expenditure and schedule targets are met, by:</p> <ul style="list-style-type: none"> 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. c. Conducting and formally memorializing analyses of common cost and schedule delays in the Lessons Learned database in ProjectMates and share results agency-wide. 	<p>Business Planning and Analysis Unit</p>	<p>High</p>	<p style="text-align: right;"><input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p>1.a. Management agrees and believes this recommendation has been addressed. Project plans are updated annually to reflect the latest cost information. Placeholder projects and projects listed on the unfunded list will be “re-validated” as indicated in the Capital QEMS Processes and reassessed annually through the CIP Evaluation Team. As of FY23, inflation rates are updated by an Independent Cost Estimator on-call consultant, through development of the Construction Cost Escalation Factors and Market Rate Factors. This is acknowledged on p.23 of the Final Draft Report, “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 TPC estimates.”</p> <p>1.b. Management agrees and believes this recommendation will be addressed through the implementation of our new resource planning/staff forecasting tool VEMO.</p> <p>1.c. Management agrees and will implement this recommendation through ProjectMates.</p> <p>Implementation Date:</p> <p>1.a. – Complete as of Q4, FY23.</p> <p>1.b. – Implementation underway. Estimated to be fully implemented by Q4, FY26.</p> <p>1.c. – Implementation underway. Estimated to be fully implemented by Q4, FY26.</p>

2	Problem: Valley Water’s performance in delivering capital projects is obscured by the lack of a robust performance measurement system.	Business Planning and Analysis Unit	Medium	<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
	Recommendation: Develop 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: a. 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. b. Establishing tangible targets to measure the effectiveness of the CIP in meeting established agency goals. c. Incorporating anticipated timelines within which the results of recent process improvements are expected to be evident and measurable in CIP outcomes.			2.a-b. Management agrees and is in the process of improving current reporting and developing new reporting methods at the project and program level. New PowerBI quarterly reporting tool under development to track project level and program level metrics, with data to be provided via Vena, Infor, ProjectMates, and using CIP historic data. 2.c. Management agrees. Management is proposing a two-year implementation period for ProjectMates, with a follow-up audit to validate success (e.g. follow-up audit to be initiated in FY 26 to allow time for implementation of ProjectMates and Vemo). Implementation Date: 2.a. – Implementation underway. Estimated to be fully implemented by Q4, FY26. 2.b. – Implementation underway. Estimated to be fully implemented by Q4, FY26. 2.c. – Implementation underway. Estimated to be fully implemented by Q4, FY26.
3	Problem: While Valley Water does employ a deliberative project prioritization process in developing its CIP 5-Year Plan, the process lacks consistent and objective criteria.	Business Planning and Analysis Unit	High	<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
	Recommendation: Formalize objective project prioritization techniques and criteria, and consider whether a performance-based prioritizing process would be feasible and appropriate.			3. Management agrees and believes that by implementing a Priority Level system, Valley Water can further enhance the Funding Filters for Prioritization, improving the consistency, objectivity, and transparency of the process. The Priority Level system was cited as an example of a successful prioritization system utilized by the Contra Costa Water District in the Draft Audit Report (see p. 30). After implementation of a Priority Level System, Management will explore whether a performance-based prioritizing process would be feasible and appropriate. The majority of VW projects repair and replace existing infrastructure, which is our obligation and prioritization is then only necessitated by the availability of resources (financial or staff resources). Based on this, a performance-based prioritization process may not make sense, as we are required to maintain our existing infrastructure, requiring the delivery of specific projects. Staff will analyze this approach further and report back. Implementation Date: Implementation underway. Estimated to be fully implemented by Q4, FY24.

4	Problem: Policies and procedures are generally consistent with leading practices, but are disbursed among a variety of authoritative sources and informal guidance.	Business Planning and Analysis Unit	Medium	<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
	Recommendation: Formalize and consolidate CIP planning practices and procedures in a manner that reflects best practices recommended by the GFOA, including establishing a formal, written process for establishing project contingencies.			<p>4. Management agrees and will create an over-arching CIP Development Manual to serve as an umbrella for capital QEMS procedures to document all existing CIP procedures and practices in compliance with GFOA.</p> <p>Management's approach to establishing project contingencies is currently documented in the Cost Engineering Guidelines. These guidelines will be included in the over-arching CIP Development Manual (referenced above). The existing procedure requires a Risk-Analysis-Based Process for Contingency Estimation. Staff believes this process is consistent with the Best Practices identified in the CIP Performance Audit Draft Report. The procedure will be updated to clarify the types of Contingency Reserves utilized, as Valley Water uses both Project Level Contingency, which is included at the Project Budget level, and a Management Contingency, which is at the Fund Reserve level. Additionally, management has identified a staff level process improvement, which will update the Capital Project Delivery Process to include reassessment of risk at time of Board's Acceptance of Work as Complete to determine whether remaining contingency funds could be released to project or fund reserves.</p> <p>Implementation Date: Implementation underway. Estimated to be fully implemented by Q4, FY24.</p>
5	Problem: 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.	Business Planning and Analysis Unit	High	<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
	Recommendation: Evaluate whether it would benefit Valley Water to modify CIP planning processes to require biennial CIP updates rather than annual updates.			<p>5. Management agrees to evaluate whether updating the CIP 5-Year Plan on a biennial basis would be feasible and beneficial to Valley Water.</p> <p>Implementation Date: Evaluation is underway and estimated to be fully implemented by Q4, FY24.</p>

6	Problem: While the CIP 5-Year Plan includes information regarding anticipated operations and maintenance (O&M) costs, additional information regarding the factors contributing to potential O&M costs, particularly when costs have not yet been fully determined, is essential.	Business Planning and Analysis Unit	High	<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
	Recommendation: When operations and maintenance costs associated with programmed capital projects are unknown, include additional detail within the CIP 5-Year Plan regarding why the costs are unknown, what factors may impact the costs, and when they will be determined.			6. Management agrees and will incorporate additional detail for projects with unknown O&M costs, including why they are unknown, what factors may impact them, and when staff anticipates they will be determined. The O&M costs are reflected in the CIP 5-Year Plan when information is available and included both on the project pages and in the Financial Planning and Summary Chapter. The information is then utilized by O&M managers and forecasted in the related operating projects through the Long-Term Forecast.
				Implementation Date: Evaluation is in progress. Estimated to be fully completed by Q4, FY24.
7	Problem: Financial information contained in the CIP was not always consistent or aligned with Valley Water's financial system.	Business Planning and Analysis Unit	Medium	<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
	Recommendation: Implement 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.			7. Management agrees. This recommendation has been addressed with the finalization of the FY 2024-28 Five-Year Plan through inclusion of footnotes indicating planned budget adjustments that differ from the adopted budget. Also, QA/QC protocols have been enhanced to ensure consistency in reporting.
				Implementation Date: Implementation complete as of Q4, FY23.

8	Problem: Change Management Memos did not always include sufficient information describing cost increases and schedule delays.			<input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
	Recommendation: Improve compliance with Change Management Procedure W-751-125, and ensure cost and schedule data aligning throughout sequential CMMs, by consistently requiring: <ul style="list-style-type: none"> a. Descriptions of reasons for changes are sufficiently detailed to point to the exact cause. b. All data in CMMs to accurately reflect underlying project 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. d. Update the CMM Procedure 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. 	Business Planning and Analysis Unit	Medium	<p>8.a. Management agrees and will assign CIP team to work with project managers to include sufficient details regarding the cause of the documented changes.</p> <p>8.b-d. Management agrees and believes this recommendation has been addressed. The CMM work instruction and template were updated on 05/23/23. In addition, staff is seeking to further enhance reporting on schedule and cost impacts (as referenced in Recommendation 1.c. and will be making further updates to align with the process improvements).</p> <p>Implementation Date:</p> <p>8.a. Implementation underway. Estimated to be fully implemented by Q4, FY24.</p> <p>8.b. Implementation complete as of Q4, FY23.</p> <p>8.c. Implementation complete as of Q4, FY23.</p> <p>8.d. Implementation complete as of Q4, FY23.</p>

Urgent: The recommendation pertains to a high priority conclusion or finding. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

High Priority: The recommendation pertains to a high priority conclusion or finding. While the matter is not urgent and does not require immediate corrective action, the seriousness of the matter warrants timely management attention and appropriate corrective action is warranted within six months.

Medium Priority: The recommendation pertains to a moderately significant conclusion or observation. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than one year.

Low Priority: The recommendation pertains to a conclusion or observation of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.



Santa Clara Valley Water District

File No.: 23-0718

Agenda Date: 8/16/2023

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 a Status Update on the Implementation of Audit Recommendations and Completed Audits Pending Final Review by Chief Audit Executive (CAE); and Discuss Timing of Next Update.

RECOMMENDATION:

- A. Receive a status update on the implementation of audit recommendations and completed audits pending final review from the CAE; and
- B. Discuss timing of the next update.

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.

With this report, there are a total of 12 active audit recommendations related to 2 audit reports, for Board-directed audits, that have not been fully resolved, as shown in the table below as "Pending/Underway". Since the previous report back in February 2023, 3 of 15 pending recommendations outstanding at that time have been addressed. The two Board-directed audits that were open as of the February 2023 report remain open as of this report. With regards to the Management-directed audits and Program-required audits, there are no open recommendations yet to be completed.

Board-directed Audit Name	Total Number of Recommendations	# of Recommendations Not Selected for Further Analysis	%	# of Recommendations Either Pending or Underway	%	# of Recommendations Either Completed or Implemented	%
2014 Transparency Compliance Audit	22	2	9%	0	0%	20	100%
2019 Contract Change Order Audit	7	0	0%	0	0%	7	100%
2020 District Counsel Audit	5	1	20%	0	0%	4	100%
2020 Real Estate Services Audit	13	1	8%	0	0%	12	100%
2020 Safe, Clean Water Program Grant Management Audit	11	0	0%	4	36%	7	64%
2021 Permitting Best Practices Audit	14	0	0%	8	57%	6	43%
2023 Capital Improvement Program Performance Audit (in progress)							
Subtotal:	72	4	6%	12	17%	56	78%

As of this report, audit recommendations for four (4) Board-directed audits have been completed and identified for review by the CAE, including the 2014 Transparency Compliance Audit, the 2019 Contract Change Order Audit, the 2020 District Counsel Audit, and the 2020 Real Estate Services Audit. The CAE will perform follow-up work on these Board-directed audits as part of the annual audit planning cycle.

A brief high-level summary, based on the detailed updates provided by recommendation owners, about the efforts made by staff to address pending recommendations for a given audit are provided below.

- **2020 SAFE, CLEAN WATER PROGRAM GRANT MANAGEMENT AUDIT**

On September 2, 2020, TAP International, Inc., along with subconsultants Greta McDonald and Drummond Kahn conducted the Grants Management Performance Audit to assess whether Valley Water could provide assurance that risks are being managed appropriately and whether the department's internal control environment is operating effectively to ensure the safeguarding of public funds, with the focus on improving grant management operations and aligning current processes with best practices. Additionally, it assessed the timeliness of grant/contract approvals, and grant payments. Presentation of the Safe, Clean Water Program Grant Management Audit final report was approved and recommended by the Board Audit Committee on January 13, 2021, and presented to the full Board at the March 23, 2021, Board meeting. The audit identified 11 recommendations to enhance operating effectiveness and identify opportunities to incorporate best practices. The report in February 2023 identified 4 recommendations as "Pending/Underway". Significant progress on all open recommendations have been made and were presented to the BAC at the May 15, 2023, BAC meeting. The remaining open recommendations are anticipated to be completed in FY23-24 with the completion of the grants redesign. Upon the completion of the grants redesign in FY23-24, all recommendations will be achieved.

- **2021 PERMITTING BEST PRACTICES AUDIT**

On October 13, 2020, TAP International Inc. was requested to conduct the Permitting Best Practices Audit that resulted in 14 recommendations to enhance communication and processing speed, introduce best practices where appropriate, and improve the customer experience. Presentation of the Permitting Best Practices Audit final report was approved and recommended by the Board Audit Committee on May 26, 2021, and presented to the full Board at the July 13, 2021, Board meeting. Since July 2021, 6 of the 14 recommendations have been implemented, 3 of which were implemented recently. Key improvements include

establishing dedicated environmental planner support and streamlined California Environmental Quality Act (CEQA) review, identifying IT system requirements and launching a procurement process for permit database upgrades, creating a Billing Process and Policy to address financial controls, updating permit forms, and increasing webpage visibility. To date, 8 out of the 14 audit recommendations are identified as "Pending/Underway". Next steps include: updating the Water Resources Protection Manual; creating an online customer service portal; and, establishing a cost recovery target for permit fees. The remaining open recommendations are anticipated to be completed by June 2024. Staff will continue to provide updates via the annual audit status report to the BAC until all recommendations have been addressed.

The BAC is requested to receive the information and provide guidance to staff as necessary. Staff intends to return to provide the next general update at the February 2024 BAC meeting.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. Audits are conducted to identify areas that may expose Valley Water to risk, or areas that may need to implement new processes in order to meet the Board's priorities.

ATTACHMENTS:

Attachment 1: Audit Recommendation Status Update

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Status	Updates/Notes
308	2020 Safe, Clean Water Program Grant Management Audit	Office of Civic Engagement	1		<p>F1: Valley Water Needs to Right-size Oversight in all Phases of the Grants Management Cycle (Pre-Award, Award, Post-Award, and Close-out)</p> <p>F2: Valley Water Needs to Standardize Internal Policies and Processes</p> <p>F3: Valley Water can Change Staffing Assignments to Enhance the Grant Management Function</p>	<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: a. 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. b. 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.</p> <p>c. 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>	Pending/Underway	<p>Management agrees with the concept of “right-sizing” the application and reporting processes. a. Management agrees that assessing the risk for grant projects would increase the agency’s due diligence to prevent fraud and waste. An initial risk assessment would Iso help staff evaluate if any additional special provisions or tailored invoicing requirements and/or review are recommended in the agreement and during the grant monitoring. Management recommends that the risk assessment be conducted after the grant is warded and before grant agreement is executed, and reviewed with the grantee at the mandatory kick-off/orientation meeting. The development and implementation of a risk assessment review and financial reporting system compliance review could also lengthen the time between award and execution of the agreement. These processes would require collaboration with subject matter experts in Risk Management and Finance. Staff will continue to review each invoice as it is submitted, in addition to conducting he risk assessment. Management also recommends that the grant agreement include a clause that grantees are still responsible and accountable for the proper use and management of public funds throughout the duration of the grant agreement. This agreement language would help assure that grantees understand and are held accountable for being responsible stewards of public funds, especially if they know staff is not reviewing invoices. b. Management agrees with requiring financial statements from applicants. currently, all standard grant applicants are required to submit audited financial statements or Form 990 as part of the standard grant application. This is not required for mini-grants or partnerships. Applicants and grantees have expressed that audited financial statements are costly and not feasible for smaller non-profit organizations. Therefore, Valley Water accepts the Form 990 as an alternative to audited financial statements. The audited financial statements and Form 990 are memorialized in the grantee’s project application, which turns into the project file, in the Fluxx grants management system. Staff will continue to review each invoice as it is submitted, in addition to requiring the audited financial statements. This financial review would be completed during the application process to serve as another due diligence check to ensure public funds are awarded to organizations with financial capacity and sustainability to carry out the requirements of the project. Invoice review levels would be determined during the risk assessment after the funding is approved by the Board. c. Management agrees with simplifying reporting requirements and recommends using the risk assessment to identify the tiered thresholds, instead of setting a dollar amount. While the dollar amount is identified per project, the collective number of projects within that dollar amount could add up to be a high dollar amount granted with minimal oversight.</p> <p>Target Implementation: July 2021</p> <p>1/5/2022: Staff is in the process of hiring a consultant to “right-size” the grants guidelines, develop a due diligence policy and review process, and develop a process to analyze grantee fiscal health. This consultant will also help to create definitions specific to the grants program, such as “high and low risk.”</p> <p>Staff is also working on other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects. For example, 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 process for low-risk grant projects.</p> <p>Staff also developed the new Bottle Filling Station grant funding opportunity to include a shorter agreement, fewer required reviewers and a shorter routing time, a streamlined CEQA review using a checklist, no insurance requirements, and a photo as the reporting requirement.</p> <p>12/9/22: Status is "In Progress" and Target Completion will be in FY23-24</p> <p>Staff is working on hiring a consultant to “right-size” the grants guidelines and address a. and b. of this recommendation.</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>To address 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 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> <p>5/15/23: Status is "In Progress" and Target Completion will be in 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>

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Status	Updates/Notes
312	2020 Safe, Clean Water Program Grant Management Audit	Office of Civic Engagement	5		F1: Valley Water Needs to Right-size Oversight in all Phases of the Grants Management Cycle (Pre-Award, Award, Post-Award, and Close-out) F2: Valley Water Needs to Standardize Internal Policies and Processes F3: Valley Water can Change Staffing Assignments to Enhance the Grant Management Function	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.	Pending/Underway	Management agrees and staff will develop “right sized” reporting guidelines and criteria along with the development of the new grants program under Measure S, which will begin in FY22. Currently, progress reporting is based on the scope and deliverables identified by the grantees and outlined in the executed grant agreement. Staff refers to the original grant agreement and ensures that what is in the grant agreement is being reported in the progress report. Staff does not request additional reporting outside of what is listed in the agreement. Target Implementation: July 2021 1/5/2022: Staff is working with Contracts to hire a consultant to “right-size” the level of progress reporting detail for smaller dollar value standard grants. This consultant will also help to create definitions specific to the grants program, such as “high and low risk.” 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. Staff is developed the new Bottle Filling Station grant funding opportunity to include a shorter agreement, fewer required reviewers and a shorter routing time, a streamlined CEQA review using a checklist, no insurance requirements, and a photo as the reporting requirement. 12/09/22: Status is "In Progress" and Target Completion will be in FY23-24 Staff is working with the Contracts unit to retain a consultant to work on the grants administration redesign to “right-size” the level of progress reporting detail for smaller dollar value standard grants. In the meantime, staff is simultaneously working on other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects. 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. 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. 5/15/23: Status is "In Progress" and Target Completion will be in 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. In the meantime, staff is simultaneously working on other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects. 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. 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.
313	2020 Safe, Clean Water Program Grant Management Audit	Office of Civic Engagement	6		F1: Valley Water Needs to Right-size Oversight in all Phases of the Grants Management Cycle (Pre-Award, Award, Post-Award, and Close-out) F2: Valley Water Needs to Standardize Internal Policies and Processes F3: Valley Water can Change Staffing Assignments to Enhance the Grant Management Function	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. a. 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. b. 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. c. 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.	Pending/Underway	Management agrees that assessing the risk for grant projects would increase the agency’s due diligence to prevent fraud and waste. An initial risk assessment would also help staff evaluate if any additional special provisions or tailored invoicing requirements and/or review are recommended in the agreement and during the grant monitoring. Staff recommend that the risk assessment be conducted after the grant is awarded and before the grant agreement is executed, and reviewed with the grantee at the mandatory kick-off/orientation meeting. The development and implementation of a risk assessment review and financial reporting system compliance review could also lengthen the time between award and execution of the agreement. These processes would require collaboration with subject matter experts in Risk Management and Finance. The risk assessment would supplement staff’s review of each invoice. Management also recommends that the grant agreement include a clause that grantees are still responsible and accountable for the proper use and management of public funds throughout the duration of the grant agreement. This agreement language would help assure that grantees understand and are held accountable for being responsible stewards of public funds, especially if they know staff is not reviewing invoices. Management recommends considering equity and inclusion in the development of the risk assessment guidelines and criteria. Applying varying standards for returning grantees would result in inequitable treatment and would disproportionately provide privilege to grantees who are already familiar with the grants program. The grants program continues to improve and be updated, so meeting the prior requirements may or may not mean that a returning grantee meets and understands the current program requirements. Additionally, varying guidelines and criteria per grantee agency could deter new agencies from applying if they feel that returning grantees have an advantage. a. While management agrees with the concept of streamlining the invoicing process, management feels that this approach may also expose Valley Water to potential complaints of disparate and inequitable treatment. Management recommends the following alternative as a consideration to avoid being vulnerable to such complaints. Management recommends developing and implementing a spot check process to review and/or audit grantees using an outside consultant, if the Board adopts this recommendation. While some grantee agencies are returning applicants and grantees, those agencies may have new staff managing the projects. Therefore, even though the grantee agency is not new, the agency staff changes does not guarantee that the projects are carried forward consistently. Staff agrees with simplifying reporting requirements and recommends using the risk assessment to identify the tiered thresholds, instead of setting a dollar amount. While the dollar amount is identified per project, the collective number of projects within that dollar amount may add up to be a high dollar amount granted with minimal oversight. b. Management agrees with this recommendation and will formalize this process. Staff currently implements this practice informally, depending on the type of outstanding items are included in the

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Status	Updates/Notes
								<p>invoice. Staff will develop “right sized” invoicing guidelines and criteria along with the development of the new grants program under Measure S, which will begin in FY22. c. Management agrees, and staff currently focuses their review on grantee costs that are not reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines, such as items that were not included in the budget; costs that are not related to any identifiable/reportable work in the grant scope; costs that have no supporting documentation; overspending on a specific task without prior approval; and submitting reimbursement requests for activities that have already been paid out. These improper payment requests are sometimes due simply to grantee staff turnover, among other factors. Target Implementation: July 2021</p> <p>1/5/2022: Staff is working on hiring a consultant 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. This consultant will also help to create definitions specific to the grants program, such as “high and low risk.”</p> <p>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> <p>12/09/22: Status is "In Progress" and Target Completion will be in FY23-24</p> <p>Staff is working with the Contracts unit to retain 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> <p>5/15/23: Status is "In Progress" and Target Completion will be in 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>
314	2020 Safe, Clean Water Program Grant Management Audit	Office of Civic Engagement	7		<p>F1: Valley Water Needs to Right-size Oversight in all Phases of the Grants Management Cycle (Pre-Award, Award, Post-Award, and Close-out)</p> <p>F2: Valley Water Needs to Standardize Internal Policies and Processes</p> <p>F3: Valley Water can Change Staffing Assignments to Enhance the Grant Management Function</p>	<p>Should Valley Water decide to continue to require the same information for progress and invoice submission, they should: a. Confirm the integrity of grantee financial management system data used for review before award. b. 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>	Pending/Underway	<p>Management will develop “right sized” invoicing guidelines and criteria along with the development of the new grants program under Measure S, which will begin in FY22. The items recommended below will be analyzed in the development of the new guidelines.</p> <p>a. Management agrees that confirming the integrity of the grantee financial management system data before award is warranted. One caveat is that these additional steps of both developing and implementing a risk assessment and financial reporting system compliance review could lengthen the time on the front end of the process, between the award period and the final execution of the agreement. The development and implementation of these processes would require collaboration with subject matter experts in Risk Management and Finance. Management agrees with this recommendation to clearly state that an accurate financial invoice is required to complete the payment request. Staff also recommends including language in the template grant agreement for grantees to consent to still being responsible and accountable for the proper use and management of public funds throughout the duration of the grant agreement. This agreement language would help assure that grantees follow through with being responsible stewards of public funds, especially if they know staff is not reviewing invoices. These expectations would be reviewed with the grantee during the kick-off/orientation meeting after the agreement is executed. Target Implementation: July 2021</p> <p>1/5/2022: Staff is working on hiring an outside consultant to “right-size” the grant requirements for agreements and invoicing based on the grant’s risk, dollar value and project complexity.</p> <p>The auditor’s suggested language has been incorporated into the agreement templates for standard grants and partnerships. Additionally, the agreements and invoice template currently require the grantee’s authorized signatory to sign the following statement upon submitting an invoice: “I certify, under penalty of perjury under the laws of the State of California, that the Quarterly/Monthly Status Report and all attachments, signed on the date below, on behalf of Grantee, were prepared under my direction or supervision in accordance with a system designed to ensure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is to the best of my knowledge and belief, true, accurate, and complete. I am aware that there are significant penalties for submitting false information, including the loss of the current and future Grant Funding.”</p>

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Status	Updates/Notes
								<p>12/09/22: Status is "In Progress" and Target Completion will be in FY23-24</p> <p>Staff is working with the Contracts unit to retain 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> <p>5/15/23: Status is "In Progress" and Target Completion will be in 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>
294	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	2		<p>F2: CPRU’s Permit Process Could be Better at Meeting Customer and its Own Expectations for Timeliness and Communication</p> <ul style="list-style-type: none">- Permittees Want Faster Permit Processing and Better Communication with Applicants- CPRU Has Mixed Success in Meetings Its Goals for Timely Permit Processing <p>F3: Timeliness Concerns Attributed to Multiple Factors</p> <ul style="list-style-type: none">- Engineers Spend More Time Reviewing Permits- Bottlenecks Occur at the End of the Permit Review Process- Permit Applicants Experience Challenges in Meeting Insurance Requirements- Some Permit Applications Are Not Recorded on a Timely Basis- Permit Review Activities Need Better Standardization and Clarity- Permit Processing is Primarily a Manual Process- CPRU Does Not Consistently Plan for Large Reviews	The CPRU Manager should complete standardization of permit review policies, practices, roles, and responsibilities.	Pending/Underway	<p><u>Management Response:</u> 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><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: 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 update 10/2022: CPRU manager will continue updating permit review processes. A new reporting structure has been implemented for clarity in roles and work areas and changes in reporting managers allow for more direct relationships between new engineers and their supervisor for guidance. Also, monthly unit meetings include a permit review process item for discussion or review. IT has begun providing demos from vendors for our new CRM and DMS system to replace our current Oracle database function, provide customer management and relation support and document storage. Hope to have a chosen vendor by December 2022.</p> <p>Status 05/15/2023: 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>

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Status	Updates/Notes
297	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	5		<p>F2: CPRU's Permit Process Could be Better at Meeting Customer and its Own Expectations for Timeliness and Communication</p> <ul style="list-style-type: none">- Permittees Want Faster Permit Processing and Better Communication with Applicants- CPRU Has Mixed Success in Meetings Its Goals for Timely Permit Processing <p>F3: Timeliness Concerns Attributed to Multiple Factors</p> <ul style="list-style-type: none">- Engineers Spend More Time Reviewing Permits- Bottlenecks Occur at the End of the Permit Review Process- Permit Applicants Experience Challenges in Meeting Insurance Requirements- Some Permit Applications Are Not Recorded on a Timely Basis- Permit Review Activities Need Better Standardization and Clarity- Permit Processing is Primarily a Manual Process- CPRU Does Not Consistently Plan for Large Reviews	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.	Pending/Underway	<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> <p>Status update 10/2022: IT has begun providing CPRU vendor demos for Cityworks and Salesforce for a customer relationship management program (CRM). Hopefully a program will be chosen by December 2022. Implementation timeline TBD.</p> <p>Status update 05/15/2023: Ongoing For IT-based improvements, see Recommendation 6.</p> <p>Revised Target Implementation Date: June 2024 (IT Improvements)</p>
298	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	6		<p>F4: Local Agencies' Strategies Could Benefit Valley Water</p> <ul style="list-style-type: none">- Some Agencies Utilize Online Customer Service Portals to Upload Permit Application and to Check Permit Status- One Agency Uses a Project Coordinator to Facilitate Communication and Timely Processing- Other Agencies Identify Themselves Differently; Renaming CPRU May Avoid Confusion- Other Agencies Outreach Annually to Publicize Agency's Permit Services	<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> <p>a. Electronic submission of permit applications and supporting documents that automatically creates an electronic permit review file.</p> <p>b. Expanded search function for researching past projects and permits.</p> <p>c. Customizable dashboards and/or reports that facilitate management oversight of permit processing timeliness, invoice aging, and other measures of performance.</p> <p>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.</p> <p>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> <p>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>	Pending/Underway	<p><u>Management Response:</u> 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)"</p> <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 Document Management anticipated in Spring 2022, implementation timeline TBD.</p> <p>Status update 10/2022: IT has begun providing CPRU vendor demos for Cityworks and Salesforce for a customer relationship management program (CRM). Hopefully a program will be chosen by December 2022. Implementation timeline TBD.</p> <p>Status update 05-15-2023: 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> <p>Revised Target Implementation Date: June 2024</p>

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Status	Updates/Notes
302	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	10		F5: 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 - Updating Valley Water's Fee Schedule, Based on a Fee Study, Could Help Ensure Appropriate Cost Recovery - Updated Guidance for Billing for Staff Time Spent Reviewing Permits is Needed - Other Local Water Agencies Charge Hourly Rate Instead of Flat Fee for Inspections	Valley Water's CEO, with approval of the Board, should consider setting a goal for cost recovery from fees charged for permit services.	Pending/Underway	<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 <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. 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 concluded that internal experts will conduct the analysis and make recommendations. Status update 10/2022: Finance staff is undertaking this analysis with documentation provided by CPRU on existing permit fee structure. Hoping for December 2022 for initial results of internal analysis and recommendation. Status update 05/15/2023: Ongoing Internal finance experts will resume the analysis and make recommendations upon completion of the water utility rate setting process for FY24. Revised Target Implementation Date: December 2023.
303	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	11		F5: 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 - Updating Valley Water's Fee Schedule, Based on a Fee Study, Could Help Ensure Appropriate Cost Recovery - Updated Guidance for Billing for Staff Time Spent Reviewing Permits is Needed - Other Local Water Agencies Charge Hourly Rate Instead of Flat Fee for Inspections	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.	Pending/Underway	<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 <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. Status 5/2022: On Target See recommendation 10. Status update 10/2022: Finance staff is undertaking this analysis with documentation provided by CPRU on existing permit fee structure. Hoping for December 2022 for initial results of internal analysis and recommendation. Status update 05/15/2023: Ongoing See recommendation 10.
304	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	12		F5: 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 - Updating Valley Water's Fee Schedule, Based on a Fee Study, Could Help Ensure Appropriate Cost Recovery - Updated Guidance for Billing for Staff Time Spent Reviewing Permits is Needed - Other Local Water Agencies Charge Hourly Rate Instead of Flat Fee for Inspections	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.	Pending/Underway	<u>Management Response:</u> Management agrees with this recommendation. 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) 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 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 <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. 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. Status update 10/2022: IT has begun providing CPRU vendor demos for Cityworks and Salesforce for a customer relationship management program (CRM). Hopefully a program will be chosen by December 2022. Implementation timeline TBD. Status update 05/15/2023: Ongoing See recommendation 6. Revised Target Implementation Date: June 2024

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Status	Updates/Notes
305	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	13		F6: Robust Internal Control Framework Needed to Ensure Accurate and Timely Invoicing and Collection of Fee Payments	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.	Pending/Underway	<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> <p>Status 5/2023: 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 update 10/2022: On target. No change in status since 5/2022. CPRU manager will continue updating permit review processes. A new reporting structure has been implemented for clarity in roles and work areas and changes in reporting managers allow for more direct relationships between new engineers and their supervisor for guidance. Also, monthly unit meetings include a permit review process item for discussion or review. IT has begun providing demos from vendors for our new CRM and DMS system to replace our current Oracle database function, provide customer management and relation support and document storage. Hope to have a chosen vendor by December 2022.</p> <p>Status update 05/15/2023: 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>
306	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	14		F6: Robust Internal Control Framework Needed to Ensure Accurate and Timely Invoicing and Collection of Fee Payments	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.	Pending/Underway	<p><u>Management Response:</u> Management agrees and will approach the implementation of this recommendation in phases: 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.</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. 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 update 10/2022: b. Complete. Staff have drafted a new CPRU billing policy based on consultant recommendations to incorporate into QEMS. [Anthony to provide update on QEMS status] c. On Target. Status same as 5/2022. IT has begun providing CPRU vendor demos for Cityworks and Salesforce for a customer relationship management program (CRM). Hopefully a program will be chosen by December 2022. Implementation timeline TBD.</p> <p>Status update 05/15/2023: Ongoing 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. 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>

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Santa Clara Valley Water District

File No.: 23-0717

Agenda Date: 8/16/2023

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:

Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year Ended June 30, 2022.

RECOMMENDATION:

Receive and discuss the audit report of the Water Utility Enterprise funds for the fiscal year ended June 30, 2022.

SUMMARY:

In 2006, Valley Water began conducting an annual Water Utility Fund Audit to assess the reasonableness of the direct and indirect cost allocations between the North County and South County groundwater benefit zones. The audit was initiated to respond to water retailers' and constituents' inquiries on groundwater production charges.

As part of Valley Water's core water supply function, four groundwater benefit zones form the basis for establishing Valley Water's water charges. Water charges are set separately for each zone, reflecting Valley Water activities carried out in each.

In the North County, Zone W-2 encompasses the Santa Clara Valley groundwater basin north of Metcalf Road. It includes those groundwater producing facilities that benefit from recharge with local and imported water. In the South County, Zone W-5 overlays most of the Llagas Subbasin, Zone W-7 encompasses the Coyote Valley, and Zone W-8 encompasses areas in the foothills southeast of Uvas and Chesbro Reservoirs.

The report entitled "Water Utility Enterprise Funds of the Santa Clara Valley Water District - Annual Financial Report for the Fiscal Year Ended June 30, 2022," which encompasses the Water Utility Fund financial statements and independent auditor's opinion, is provided as Attachment 1.

The report is presented in the format prescribed under Generally Accepted Accounting Principles. The report and accompanying audit opinion indicate that there were no findings. In addition,

Attachment 1 includes a Schedule of Revenues and Expenses by Zone, which is also fairly stated in all material respects, in relation to the basic financial statements as a whole according to the report.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item.

ATTACHMENTS:

Attachment 1: Audit Report, FY Ending 2022 WUE Funds

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



**Water Utility Enterprise Funds of the
Santa Clara Valley Water District
Annual Financial Report
*Fiscal Year Ended June 30, 2022***

**Water Utility Enterprise Funds of the
Santa Clara Valley Water District
Annual Financial Report
*Fiscal Year Ended June 30, 2022***

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Statement of Net Position	13
Statement of Revenues, Expenses and Changes In Net Position	15
Statement of Cash Flows	16
Notes to Basic Financial Statements	18
Supplementary Information (Unaudited)	
Schedule of Revenues, Expenses, and Changes in Net Position by Zone - Budgetary Basis Reconciliation to GAAP Basis	54
Schedule of Revenues, Expenses, and Changes in Net Position by Zone - Budgetary Basis Discussion	55
2022 Water Service Rate Schedule by Zone	57



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Independent Auditor's Report

Board of Directors
Santa Clara Valley Water District
San Jose, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Water Utility Enterprise Funds (the Funds) of the Santa Clara Valley Water District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Funds as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the Santa Clara Valley Water District as of June 30, 2022, the changes in its financial position, or, where applicable its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management discussion and analysis in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The supplementary schedules on pages 54 through 57 as listed in the accompanying table contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Glendale, California
July 21, 2023

Our discussion and analysis of the financial performance of Santa Clara Valley Water District's (Valley Water's) Water Utility Enterprise Funds (the "Funds") provide an overview of the Funds' financial activities for the fiscal year ended June 30, 2022. This information is presented in conjunction with the audited financial statements that follow this section.

The Funds account for the management and supply of wholesale treated water, groundwater, recycled water, and surface water for the residents of Santa Clara County. The Funds are comprised of two separate enterprise funds that were established to account for the water utility transactions of Valley Water. The Funds are comprised of two funds – Water Enterprise Fund and State Water Project Fund. The Water Enterprise Fund is used to record ongoing water utility operations, with revenues comprised primarily of charges to Valley Water's groundwater and treated water customers. The State Water Project Fund is used to account for state water project tax revenue and state water project contractual costs.

Because service needs are different in the northern and southern portions of the county, operations and expenditures are tracked separately based on the relative benefits to the North County and South County zones. Likewise, the Funds' water charges between the zones are set independently.

In fiscal year 2021, the Valley Water Board modified the existing groundwater benefit zones W-2 and W-5 and created two new zones: zone W-7, which overlays the Coyote Valley, and zone W-8, which includes areas below Uvas and Chesbro Reservoirs. The modified and new zone boundaries ensure that rate payers are grouped in a way that reflects the most recent and relevant data regarding services and benefits received by well users. The "North County zone" consists of benefit zone W-2, while the "South County zone" is comprised of benefit zones W-5, W-7 and W-8.

Overview of the Financial Statements

The accounting policies of the Funds of Valley Water conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The financial statements of the Funds, as presented here, are for Valley Water's Water Enterprise Funds activities only and do not reflect the financial position of Valley Water as a whole. Because the Funds are business-type activities of Valley Water, the Funds are accounted for as proprietary-type funds, where the cost of providing goods and services to the general public are financed and recovered primarily through user charges. The Funds record the financial transactions in a manner similar to a private business enterprise. Operations are recorded on the accrual basis of accounting. The Funds are intended to be entirely or predominantly self-supported by user charges.

The Funds' financial statements are comprised of the following:

- The Statement of Net Position presents information on the Funds' assets, deferred outflow of resources, deferred inflow of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Funds is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Position provides information about the Funds' revenues and expenses on an accrual basis.
- The Statement of Cash Flows provides relevant information on the Funds' cash receipts and cash payments during the period. This statement presents changes in the Funds' cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities.
- The Notes to Basic Financial Statements provide additional information that is essential to a better understanding of the data provided in the Funds' financial statements.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Management's Discussion and Analysis (Continued)
June 30, 2022

Financial Highlights

Water Utility Enterprise Funds Condensed Statement of Net Position
(Dollars in Millions)

	June 30		Change	
	2022	2021	Dollar	Percent
Current and other assets	\$ 588.6	\$ 567.3	\$ 21.3	3.8%
Capital assets	1,468.1	1,350.3	117.8	8.7%
Total assets	2,056.7	1,917.6	139.1	7.3%
Deferred outflow of resources				
Deferred amount on refunding	0.2	0.5	(0.3)	(60.0%)
Pension activities	37.6	40.4	(2.8)	(6.9%)
OPEB activities	5.7	4.8	0.9	18.8%
Total deferred outflows of resources	43.5	45.7	(2.2)	(4.8%)
Current liabilities	195.9	89.0	106.9	120.1%
Long- term liabilities	756.1	846.4	(90.3)	(10.7%)
Total liabilities	952.0	935.4	16.6	1.8%
Deferred inflow of resources				
Pension activities	32.8	1.3	31.5	2423.1%
OPEB activities	11.4	2.1	9.3	442.9%
Leases	0.2	-	0.2	100.0%
Total deferred inflows of resources	44.4	3.4	41.0	1205.9%
Net position:				
Net investment in capital assets	642.3	624.5	17.8	2.9%
Restricted	104.1	78.5	25.6	32.6%
Unrestricted	357.4	321.5	35.9	11.2%
Total net position	\$ 1,103.8	\$ 1,024.5	\$ 79.3	7.7%

The total net position of the Funds amounted to \$1,103.8 million at June 30, 2022. The largest portion of the Funds' net position (58.2% or \$642.3 million) reflects net investment in capital assets (e.g., land, buildings, infrastructure, machinery, equipment, and contract water rights) less any related debt outstanding used to acquire the capital assets. These capital assets are used to provide services to citizens and consumers. Consequently, these assets are not available for future spending. Although the Funds' investment in its capital assets is reported net of related debts, it should be noted that the resources needed to repay this debt must be provided from other sources since, in general, the capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets, net of related debt, increased by \$17.8 million or 2.9% from the previous fiscal year. Capital assets, net of depreciation and amortization, increased by \$117.8 million, reflecting the increase in work in progress primarily for the following five projects: Anderson Dam Seismic Retrofit (\$61.9 million), Pacheco Reservoir Expansion (\$18.4 million), Rinconada Water Treatment Plant Reliability Improvement (\$10.7 million), and 10-year Pipeline Rehabilitation (\$9.4 million). Long term liabilities, which include related debt outstanding, decreased by \$90.3 million mainly due to principal paid on existing bonds and decrease in net pension liabilities.

The Funds' new construction in progress amounted to \$136.5 million. There were 58 in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- \$61.9 – Anderson Dam Seismic Retrofit
- \$18.4 – Pacheco Reservoir Expansion
- \$14.7 – Rinconada Water Treatment Plant Residuals Remediation
- \$10.7 – Rinconada Water Treatment Plant Reliability Improvement
- \$ 9.4 – 10-year Pipeline Inspection and Rehabilitation
- \$ 7.4 – South County Recycled Water Fund Short-Term 1B
- \$ 6.3 – Indirect Potable Reuse
- \$ 1.5 – South County Recycled Water Fund
- \$ 1.2 – Santa Teresa Water Treatment Plant Filter Media Replacement
- \$ 1.1 – Coyote Pumping Plant Adjustable Speed Drive Replacement

Net position categorized as “unrestricted” may be used to meet ongoing obligations to citizens, customers, and creditors. The Funds' unrestricted net position of \$357.4 million represents an increase of \$35.9 million or 11.2% when compared to the prior fiscal year.

The \$35.9 million increase in unrestricted net position in fiscal year 2022 was mainly from increases in reserve amounts for purchase commitments by \$70.3 million, offset by decreases in designated amounts for current authorized projects, and decreases in designated amounts for operating and capital by \$7.8 million and \$21.5 million, respectively.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Management's Discussion and Analysis (Continued)
June 30, 2022

Water Utility Enterprise Funds Condensed Statement
of Revenues, Expenses, and Changes in Net Position
(Dollars in millions)

	June 30		Change	
	2022	2021	Dollar	Percent
Revenues:				
Ground water charges	\$ 125.0	\$ 132.1	\$ (7.1)	(5.4%)
Treated water charges	145.4	154.9	(9.5)	(6.1%)
Surface and recycled water charges	2.0	2.7	(0.7)	(25.9%)
Operating grants	5.3	4.0	1.3	32.5%
Capital grants and contributions	5.6	6.4	(0.8)	(12.5%)
Property taxes	39.8	30.2	9.6	31.8%
Investment income (loss)	(8.3)	1.6	(9.9)	(618.8%)
Miscellaneous	3.3	2.7	0.6	22.2%
Total operating revenues	<u>318.1</u>	<u>334.6</u>	<u>(16.5)</u>	<u>(4.9%)</u>
Expenses:				
Operating expenses	277.7	213.9	63.8	29.8%
Nonoperating and other expenses	27.0	23.0	4.0	17.4%
Total expenses	<u>304.7</u>	<u>236.9</u>	<u>67.8</u>	<u>28.6%</u>
Change in net position before transfers	13.4	97.7	(84.3)	(86.3%)
Transfers in (out) from (to) District	65.9	(74.1)	140.0	(188.9%)
Change in net position	79.3	23.6	55.7	236.0%
Net position, beginning of year	1,024.5	1,000.9	23.6	2.4%
Net position, end of year	<u>\$ 1,103.8</u>	<u>\$ 1,024.5</u>	<u>\$ 79.3</u>	<u>7.7%</u>

Net position of the Funds of \$1,103.8 million increased by \$79.3 million when compared to the prior fiscal year. Total revenues and expenses of \$318.1 million and \$304.7 million, respectively, plus net transfers in from District of \$65.9 million, added \$79.3 million to net position.

Compared to the prior fiscal year, the Funds' total revenues decreased by \$16.5 million and total expenses increased by \$67.8 million. Key elements of the changes in revenues and expenses from prior year are as follows:

- Total water charges revenues, at 85.6% of total revenue source, were \$17.3 million or 6.0% lower than last fiscal year. Groundwater and treated water revenues were down \$7.1 million and \$9.5 million, respectively. The decreases were consistent with Valley Water's water conservation efforts aimed at mitigating the effects of the drought to the community.
- Operating grants increased by \$1.3 million from the prior fiscal year due to the \$0.8 million increase in the Advance Water Treatment Facility cost sharing reimbursement from the City of San Jose and the \$0.5 million increase in grants for local projects.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Management's Discussion and Analysis (Continued)
June 30, 2022

- Capital grants and contributions decreased \$0.8 million compared to the prior year due to the lower capital costs reimbursements received from the Department of Water Resources for the Pacheco Reservoir Expansion Project under the Water Storage Investment Program.
- Investment earnings for the current fiscal year were \$3.5 million. This was offset by a \$11.8 million unrealized loss in the portfolio's fair market value due to the rise in interest rates experienced towards the end of the current fiscal year, resulting in a net investment loss of \$8.3 million. This unrealized loss is temporary and should not materialize due to Valley Water's investment policy of holding all securities to their maturity under normal operating conditions.
- Total expenses increased by \$67.8 million or 28.6% over the prior fiscal year primarily due to emergency supplemental water purchases as a result of the drought .

Capital Assets

The Funds' capital asset balance, net of accumulated depreciation, amounts to \$1.47 billion at June 30, 2022. Capital asset composition includes land, intangible rights, buildings, structures and improvements, machinery and equipment, leased assets and construction in progress. Capital assets for the current fiscal year went up \$117.8 million or 8.7%.

The Funds' capital assets are comprised of the following as of June 30, 2022 and 2021:

Water Utility Enterprise Funds Capital Assets
(Net of Accumulated Depreciation)
(Dollars in Millions)

	June 30		Change	
	2022	2021	Dollar	Percent
Land	\$ 20.0	\$ 20.0	\$ -	0.0%
Easements	3.8	3.7	0.1	2.7%
Contract Water rights	33.7	36.1	(2.4)	(6.6%)
Buildings	80.9	83.2	(2.3)	(2.8%)
Structures and improvements	623.4	630.9	(7.5)	(1.2%)
Equipment	3.1	3.9	(0.8)	(20.5%)
Leased assets	3.4	-	3.4	100.0%
Construction in progress	699.8	572.5	127.3	22.2%
Total capital assets; net	<u>1,468.1</u>	<u>1,350.3</u>	<u>\$ 117.8</u>	<u>8.7%</u>

Additional information on the Funds' capital assets activity for the current fiscal year is shown in Note 6 of this report.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Management's Discussion and Analysis (Continued)
June 30, 2022

Debt Administration

The Funds' total long-term liabilities at June 30, 2022 amount to \$780.4 million. A comparative breakdown of long-term obligations is shown below:

Water Utility Enterprise Funds Outstanding Debt Obligations
(Dollars in Millions)

	June 30		Change	
	2022	2021	Dollar	Percent
Bonds payable	\$ 624.6	\$ 659.9	\$ (35.3)	\$ (5.3%)
Premium on bond issue	51.6	54.1	(2.5)	(4.6%)
Total long-term debt	\$ 676.2	\$ 714.0	\$ (37.8)	\$ (5.3%)
Compensated absences	8.2	7.8	0.4	5.1%
Net pension liability	68.1	110.3	(42.2)	(38.3%)
Semitropic water banking liability	12.2	12.4	(0.2)	(1.6%)
Other post employment benefits liability	12.1	25.8	(13.7)	(53.1%)
Lease liability	3.6	-	3.6	100.0%
Total long-term liabilities	\$ 780.4	\$ 870.3	\$ (89.9)	\$ (10.3%)

Total long-term liabilities decreased by \$89.9 million during the current fiscal year primarily due to the following:

- Bonds payable, inclusive of premium and discounts, decreased by \$37.8 million due to principal payment of \$35.3 million and amortization of bond premiums of \$2.5 million.
- Pension and other post-employment benefits (OPEB) liabilities decreased by \$42.2 million and \$13.7 million, respectively, mainly due to increases in investment income from pension plan assets and OPEB investment experience gains.

Additional information on the Funds' long-term liabilities can be found in Note 7(b) of this report.

Next Year's Budgets

Valley Water's \$917.2 million net operating and capital budget for the fiscal year 2023¹ demonstrates a fiscally responsible, balanced budget that reflects the community's expectations of Valley Water. This budget was developed based on Valley Water Board of Directors' FY2022-23 Work Plan Goals highlighted below:

- Efficiently manage water resources across business areas
- Provide a reliable, safe, and affordable water supply for current and future generations in all communities served
- Provide Natural Flood Protection to reduce risk and improve health and safety
- Sustain ecosystem health while managing local water resources for flood protection and water supply
- Mitigate Carbon Emissions and Adapt Valley Water Operations to Climate Change Impacts
- Promote effective management of water supply, flood protection, and environmental stewardship through responsive and socially responsible business services

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors of the North and South counties with a general overview of the Funds' finances and to demonstrate accountability for the money that the Funds receive. If you have any questions about this report or need any additional information, contact the General Accounting Unit at 5750 Almaden Expressway, San Jose, CA 95118, or call (408) 265-2600.

¹ Valley Water FY2022-23 Operating and Capital Budget, chapter 3, page 6

BASIC FINANCIAL STATEMENTS

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Net Position
June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 408.4	\$ 11.8	\$ 420.2
Receivables:			
Accounts	39.9	-	39.9
Taxes	0.1	0.2	0.3
Leases	0.2	-	0.2
Inventory - water (Note 2e)	127.3	-	127.3
Deposits and other assets	0.7	-	0.7
Total current assets	<u>576.6</u>	<u>12.0</u>	<u>588.6</u>
Non current assets:			
Capital assets: (Note 6)			
Depreciable, net	731.3	13.2	744.5
Nondepreciable	723.6	-	723.6
Total non current assets	<u>1,454.9</u>	<u>13.2</u>	<u>1,468.1</u>
Total assets	<u>2,031.5</u>	<u>25.2</u>	<u>2,056.7</u>
Deferred outflows of resources			
Deferred amount on refunding	0.2	-	0.2
Deferred outflows of resources - pension activities (Note 10)	37.6	-	37.6
Deferred outflows of resources - OPEB (Note 11)	5.7	-	5.7
Total deferred outflows of resources	<u>43.5</u>	<u>-</u>	<u>43.5</u>
Liabilities			
Current liabilities:			
Accounts payable	14.6	-	14.6
Accrued liabilities	22.1	0.6	22.7
Short-term debt (Note 7)	134.2	-	134.2
Deposits payable	0.1	-	0.1
Bonds payable - current (Note 7)	21.9	-	21.9
Compensated absence (Note 7)	1.7	-	1.7
Lease liability (Note 7)	0.7	-	0.7
Total current liabilities	<u>195.3</u>	<u>0.6</u>	<u>195.9</u>
Non current liabilities:			
Bonds payable - net of discounts and premiums (Note 7)	654.3	-	654.3
Compensated absence (Note 7)	6.5	-	6.5
Net pension liability (Note 10)	68.1	-	68.1
Other post employment benefits liability (Note 11)	12.1	-	12.1
Lease liability (Note 7)	2.9	-	2.9
Other debt (Note 7)	12.2	-	12.2
Total non current liabilities	<u>756.1</u>	<u>-</u>	<u>756.1</u>
Total liabilities	<u>\$ 951.4</u>	<u>\$ 0.6</u>	<u>\$ 952.0</u>

(Continued)

See accompanying notes to basic financial statements

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Net Position (Continued)
June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise
Deferred inflows of resources			
Deferred inflows of resources - pension activities (Note 10) \$	32.8	\$ -	\$ 32.8
Deferred inflows of resources - OPEB (Note 11)	11.4	-	11.4
Deferred inflows of resources - leases (Note 2d)	0.2	-	0.2
Total deferred inflows of resources	<u>44.4</u>	<u>-</u>	<u>44.4</u>
Net position (Note 9)			
Net investment in capital assets	629.1	13.2	642.3
Restricted			
San Felipe operations	3.4	-	3.4
GP5 reserve	16.0	-	16.0
State water project	-	11.4	11.4
Rate stabilization	54.1	-	54.1
Advanced water purification center	1.3	-	1.3
Supplemental water supply	7.9	-	7.9
Drought reserve	10.0	-	10.0
Unrestricted	<u>357.4</u>	<u>-</u>	<u>357.4</u>
Total net position	<u>\$ 1,079.2</u>	<u>\$ 24.6</u>	<u>\$ 1,103.8</u>

See accompanying notes to basic financial statements

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Operating revenues:			
Ground water production charges	\$ 125.0	\$ -	\$ 125.0
Treated water charges	145.4	-	145.4
Surface and recycled water revenue	2.0	-	2.0
Other	0.1	0.1	0.2
Total operating revenues	<u>272.5</u>	<u>0.1</u>	<u>272.6</u>
Operating expenses:			
Sources of supply	112.7	34.0	146.7
Water treatment	53.7	-	53.7
Transmission and distribution:			
Raw water	18.9	-	18.9
Treated water	2.8	-	2.8
Administration and general	22.5	-	22.5
Depreciation and amortization	32.2	0.9	33.1
Total operating expenses	<u>242.8</u>	<u>34.9</u>	<u>277.7</u>
Operating income (loss)	<u>29.7</u>	<u>(34.8)</u>	<u>(5.1)</u>
Nonoperating revenues (expenses) :			
Property taxes (Note 8)	9.7	30.1	39.8
Investment loss (Note 5)	(8.3)	-	(8.3)
Operating grants	5.3	-	5.3
Rental income	0.1	-	0.1
Other	1.5	1.5	3.0
Interest and fiscal agent fees	(27.0)	-	(27.0)
Net nonoperating revenues (expenses)	<u>(18.7)</u>	<u>31.6</u>	<u>12.9</u>
Income before capital contributions and transfers	11.0	(3.2)	7.8
Capital contributions (Note 4)	5.6	-	5.6
Transfers in from District (Note 13)	69.1	-	69.1
Transfers out to District (Note 13)	(3.2)	-	(3.2)
Change in net position	<u>82.5</u>	<u>(3.2)</u>	<u>79.3</u>
Net position, beginning of year	996.7	27.8	1,024.5
Net position, end of year	<u>\$ 1,079.2</u>	<u>\$ 24.6</u>	<u>\$ 1,103.8</u>

See accompanying notes to basic financial statements

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Cash Flows
For the Year Ended June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Cash flows from operating activities:			
Receipts from customers and users	\$ 279.4	\$ 0.1	\$ 279.5
Payments to suppliers	(117.1)	(33.8)	(150.9)
Payment for interfund services provided	(16.3)	-	(16.3)
Payments to employees	(113.4)	-	(113.4)
Well permits, refunds and adjustments	-	-	-
Net cash provided by (used for) operating activities	<u>32.6</u>	<u>(33.7)</u>	<u>(1.1)</u>
Cash flows from noncapital financing activities:			
Property taxes received	9.7	30.0	39.7
Operating grant	5.3	-	5.3
Other receipts	1.5	1.5	3.0
Transfers in from other funds	69.1	-	69.1
Net cash provided by noncapital financing activities	<u>85.6</u>	<u>31.5</u>	<u>117.1</u>
Cash flows from capital and related financing activities:			
COP/ revenue bonds issuance/ (payment)	(37.4)	-	(37.4)
Commercial paper issuance/ (payment)	134.2	-	134.2
Capital grants	5.6	-	5.6
Interest and fiscal agent fees paid	(27.0)	-	(27.0)
Payments for contract water rights	(10.8)	-	(10.8)
Acquisition and construction of capital assets	(140.8)	-	(140.8)
Transfers in from other funds	-	-	-
Transfers out - capital project reimbursements	(3.2)	-	(3.2)
Net cash used by capital and related financing activities	<u>(79.4)</u>	<u>-</u>	<u>(79.4)</u>
Cash flows from investing activities:			
Rental income received	0.1	-	0.1
Interest received on cash and investments	(8.3)	-	(8.3)
Net cash provided by investing activities	<u>(8.2)</u>	<u>-</u>	<u>(8.2)</u>
Net increase/(decrease) in cash and cash equivalents	30.6	(2.2)	28.4
Cash and cash equivalents, beginning of year	377.8	14.0	391.8
Cash and cash equivalents, end of year	<u>\$ 408.4</u>	<u>\$ 11.8</u>	<u>\$ 420.2</u>
Cash and cash equivalents are reported on the Statement of Net Position:			
Cash and investments	\$ 408.4	\$ 11.8	\$ 420.2
Restricted cash and investments	-	-	-
Less cash and investments not meeting the definition of cash equivalents	-	-	-
Cash and cash equivalents, end of year	<u>\$ 408.4</u>	<u>\$ 11.8</u>	<u>\$ 420.2</u>

(Continued)

See accompanying notes to basic financial statements

Santa Clara Valley Water District
Water Utility Enterprise Funds
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2022
(Dollars in Millions)

	Water Enterprise Fund	State Water Project Fund	Total Water Utility Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 29.7	\$ (34.8)	\$ (5.1)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation, amortization and asset deletion	32.1	2.0	34.1
Change in operating assets and liabilities:			-
(Increase)/decrease in deposits and other assets	0.6	-	0.6
(Increase)/decrease in accounts receivable	4.2	-	4.2
(Increase)/decrease in water inventory	2.7	-	2.7
Increase/(decrease) in accounts payable	4.1	(1.1)	3.0
Increase/(decrease) in accrued liabilities	(31.0)	0.2	(30.8)
Increase/(decrease) in lease payable	3.6	-	3.6
Increase/(decrease) in compensated absences	0.4	-	0.4
Increase/(decrease) in deposits payable	(0.7)	-	(0.7)
Increase/(decrease) in other post employment benefits payable	(13.6)	-	(13.6)
Increase/(decrease) in deferred inflows/ outflow of resources	42.9	-	42.9
Increase/(decrease) in pension liabilities	(42.2)	-	(42.2)
Increase/(decrease) in payable to Semitropic	(0.2)	-	(0.2)
Net cash provided (used) by operating activities	\$ <u>32.6</u>	\$ <u>(33.7)</u>	\$ <u>(1.1)</u>

See accompanying notes to basic financial statements

NOTE 1 THE REPORTING ENTITY

The Water Utility Enterprise Funds (the “Funds”) of the Santa Clara Valley Water District (Valley Water or the District) were established to account for the water utility related transactions of Valley Water. The Funds supply wholesale treated water, ground water, recycled water, and surface water for the residents of the Santa Clara County. The Funds are comprised of two separate enterprise funds – the Water Enterprise Fund and the State Water Project Fund. The Water Enterprise Fund accounts for ongoing water utility operations, with revenues comprised primarily of charges to Valley Water’s groundwater and treated water customers. The State Water Project Fund accounts for the state water project tax revenue and state water project contractual costs.

Valley Water is a special district created by an act of the legislature of the State of California (State) in 1951 and as amended. Valley Water encompasses all of Santa Clara County. Valley Water is governed by a seven-member Board of Directors (Board). Each member is elected from equally divided districts drawn through a formal process. The term of office of a director is four years.

On October 12, 2009, Assembly Bill 466 was signed by the Governor of California revising the composition of the Board to an all-elected board that, on or after noon on December 3, 2010, consists of seven directors who are elected pursuant to specified requirements. On May 14, 2010, the Board adopted a resolution that officially set the boundaries of the seven electoral districts. As required by state law, Valley Water redrew its boundaries to reflect 2010 Census results, and on October 11, 2011, the Board adopted Resolution No.11-63 selecting the Redistricting Plan, known as the Current Adjusted Map.

The Funds have two groundwater charge zones as follows:

- North County Zone, which is comprised of benefit zone W-2; and
- South County Zone, which is comprised of benefit zones W-5, W-7, and W-8.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Funds' Financial Statements

The Funds’ financial statements are prepared in conformity with the generally accepted accounting principles (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. The financial statements of the Funds do not purport to represent the financial position and changes in financial position of Valley Water as a whole.

The Funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Accounting

The Funds' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Funds give (or receive) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

The Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Funds' principal ongoing operations. The principal operating revenue of the Funds is the sale of water to outside customers. Operating expenses for the Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Operating revenues, such as charges for services, result from the exchange transactions associated with the principal activity of the Funds. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

(c) Cash and Investments

While maintaining safety and liquidity, Valley Water maximizes its investment return by pooling its available cash from all funds for investment purposes. Interest earnings are apportioned among funds based upon the average monthly cash balance of each fund and are allocated to each fund on a monthly basis.

Valley Water records investments in nonparticipating interest earnings contracts (including guaranteed investment contracts) at cost, and all other investments at fair value. The fair value of investments is based on current market prices.

Investment income, which includes changes in fair value, is allocated to all funds on the basis of average daily cash and investment balances. The Funds' cash and investments pooled with Valley Water are carried at fair value based on the value of each participating dollar.

For purposes of the Statement of Cash Flows, the Funds consider all highly liquid investments with a maturity of three months or less when purchased (including restricted investments), and their equity in the cash and investment pool to be cash equivalents.

(d) Lease Receivable

Lease receivable is measured at the present value of lease payments expected to be received during the lease term.

Valley Water has entered into property leases with telecommunication companies and other parties for antennae and pipeline sites for a term of 5 years and 10 years, respectively. The discount rate used is equivalent to Valley Water's average annual investment earnings rate of 1.06% for fiscal year 2022.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Lease Receivable (Continued)

Deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. Deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

(e) Inventory

Inventory consists of materials and supplies held for consumption and stored water inventory. The cost of all inventory acquired is recorded as an expense at the time of purchase. At the end of the accounting period, the inventory values of materials and supplies on hand are determined using a current cost method which approximates market value. For financial statement purposes, chemical inventories are presented under deposits and other assets.

Water inventory is valued based on the rolling average of imported water purchase cost. The components of water inventory as of June 30, 2022 are shown below.

<u>Type</u>	<u>Acre Feet</u>		<u>Total (in millions)</u>
	<u>Volume</u>	<u>Average Unit Cost</u>	
Semitropic	280,354	402	\$ 112.7
Local Reservoir Storage	36,281	402	14.6
Total			\$ <u>127.3</u>

(f) Right to Use Assets

The Funds have recorded right to use leased assets as a result of implementing GASB 87, Leases, as of and for the year ended June 30, 2022. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use leased assets are amortized on straight-line basis over the term of the related leases or the useful life of the underlying assets, whichever is shorter.

(g) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition value on the date contributed. The Funds define capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets, including assets under capital leases used in operations are depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Capital Assets (Continued)

The estimated useful lives are as follows:

Water treatment facilities	50 Years
Buildings, structures, and trailers	25 - 50 Years
Flood control projects	30 - 100 Years
Dams, structures, and improvements	80 Years
Office furniture, fixtures, and equipment	5 - 20 Years
Automobiles and trucks	6 - 12 Years
Computer equipment	5 Years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

(h) Amortization of Contract Water Rights

Valley Water has contracted with the State of California for water deliveries from the State Water Project through calendar year 2035. A portion of the payments under this contract represents reimbursement of capital costs for transportation facilities (the capital cost component). The Funds capitalize the capital cost component and amortize such component, using the straight-line method, over the remaining entitlement period.

(i) Amortization of Water Banking Rights

Valley Water has contracted with the Semitropic Water Storage District and its Improvement Districts for the water banking and exchange program. The program is in effect through calendar year 2035. Participation in the program provides Valley Water a 35% allocation for storage rights at the Semitropic Water Storage District facility, totaling 350,000 acre-feet. The Funds have capitalized the cost of the program and amortize the cost over the 40-year entitlement period using the straight-line method.

(j) Amortization of Water Delivery Rights

Valley Water has contracted with the United States Department of the Interior Bureau of Reclamation for water deliveries from the California Central Valley through calendar year 2027. A portion of this contract represents reimbursement of capital costs for general construction in the San Felipe Division facilities. The San Felipe Division transports water from San Luis Reservoir to the Santa Clara – San Benito service area through the Pacheco Tunnel and other project features, which include 48.5 miles of closed conduits, two pumping plants and one small reservoir. The Funds capitalize the capital cost component and amortize such component, using the straight-line method, over the remaining entitlement period.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Receivables

Receivables include amounts due from water utility customers, as well as from other miscellaneous revenue sources. All receivables are shown net of an allowance for doubtful accounts. At the end of the fiscal year, a review of outstanding receivables results in an updated estimate of the bad debt allowance at year-end, whereby delinquent balances greater than 3 years are assigned a weight of 75%, up to 3 years a weight of 50%, up to 2 years a weight of 20%, and up to 1 year a weight of 5%. The totals of each of these amounts are then combined to determine the fiscal year's ending bad debt allowance. At June 30, 2022, the bad debt allowance was \$0.9 million.

(l) Compensated Absences - Accrued Vacation and Sick Leave Pay

It is the policy of Valley Water to permit employees to accumulate earned but unused vacation and sick leave benefits. Vested or accumulated vacation and sick leave are reported as noncurrent liabilities on the statement of net position.

Maximum vacation accruals may not exceed three times the employee's annual accrual rate, per employee. All regular full-time employees are eligible for twelve (12) days of sick leave per fiscal year. Unused sick leave may be carried forward to the following fiscal year without limitation. Upon retirement, up to 480 hours of accrued sick leave shall be paid to the eligible employee at the rate of 50% of the equivalent cash value. Upon resignation with ten or more years of service, or upon separation by layoff regardless of service, up to 480 hours of accrued sick leave shall be paid off at the rate of 25% of the cash value.

(m) Bond Premiums, Discounts and Issuance Costs

The Funds' bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond discounts. Refunding differences associated with debt refinancing are reported as deferred outflows or inflows of resources and amortized over the life of the bonds. Issuance costs are recorded as an expense of the current period.

Premiums and discounts related to outstanding debt are deferred and amortized over the life of the debt. Debt payable is reported net of the applicable bond premiums or discounts. Prepaid insurance associated with the issuance of debts is reported as prepaid expenses.

(n) Net Position

The Funds' net position is classified based primarily on the extent to which Valley Water is bound to observe constraints imposed upon the use of the resources. When both restricted and unrestricted resources are available for expenses, Valley Water expends the restricted funds and then the unrestricted funds.

(o) Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Valley Water's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(q) Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Valley Water's plan (OPEB Plan) and additions to/deductions from the OPEB's Plan's fiduciary net position have been determined on the same basis as reported by CalPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(r) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow or resources (revenues) until such time.

(s) New Pronouncements

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Funds' financial reporting process. Current and future new standards which may impact the Funds include the following:

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the Funds' financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Pronouncements (Continued)

GASB Statement No. 100 – In June 2022, GASB issued Statement No. 100, *Accounting changes and Errors Corrections – an amendment of GASB Statement No. 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections, the required disclosure in the notes to the financial statements, and how information that is affected by a change in accounting principle or error correction should be presented in the required supplementary information (RSI) and supplementary information (SI). The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the Funds' financial statements.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines an SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and (4) requires note disclosures regarding an SBITA. The requirements of this statement are effective for fiscal years beginning after June 15, 2022. Valley Water has not yet determined the impact of this pronouncement on the Funds' financial statements.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Valley Water has not yet determined the impact of this pronouncement on the Funds' financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The statement is effective for the reporting periods beginning after June 15, 2021. The Funds implemented GASB 87 as of and for the year ended June 30, 2022. See also Notes 2, 6 and 7.

NOTE 3 CASH AND INVESTMENTS

Valley Water maintains a cash and investments pool, which includes the cash balances of all Valley Water funds, and is invested by the Treasurer to enhance interest earnings. The pooled interest earned net of administrative fees, is allocated to each fund based on their respective average daily balances.

Valley Waters total cash and investments pool balance at June 30, 2022 is as follows (in millions):

Cash and investments	\$ 828.2
Restricted cash and investments	5.5
Total cash and investments pool	<u>\$ 833.7</u>

The Funds' cash and investments at June 30, 2023 are as follows:

Cash and investments pooled with Valley Water	<u>\$ 420.2</u>
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At June 30, 2022, Valley Water's cash and investments pool consists of the following (in millions):

U.S. Government Agencies	\$ 295.4
U.S. Treasury Obligations	136.7
Medium Term Notes	11.8
Local Agency Investment Fund	73.1
Mutual Funds	0.1
Supranational Obligations	14.2
Municipal Bonds	61.4
Negotiable Certificates of Deposit	0.5
Time Certificates of Deposit	188.9
Money Market Funds	49.2
Total Investments	<u>831.3</u>
Carrying amount of cash	2.4
Total Cash and Investments Pool	<u>\$ 833.7</u>

As of June 30, 2022, the fair value of Valley Water's investment in the State of California investment pool (LAIF) was \$73.1 million. The Local Investment Advisory Board (LIA Board) has oversight responsibility for LAIF. The LIA Board consists of five members as designated by State Statute. Valley Water is a voluntary participant in the pool. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of Valley Water's position in LAIF. The pool is not registered with the Securities Exchange Commission.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Valley Water

Valley Water's Investment Policy and the California Government Code allow Valley Water to invest in the following types of investments, provided the credit ratings of the issuers are acceptable to Valley Water. The following items also identify certain provisions of Valley Water and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This list does not address Valley Water's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of Valley Water, rather than the general provisions of the California Government Code or Valley Water's investment policy, when more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality (Exempt from disclosure) (Exempt from disclosure)	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U. S. Treasury Obligations	5 years		None	None
U. S. Government Agency Issues (A)	5 years		None	None
Bankers Acceptances	180 days	AA-	40%	4.8%
Commercial Paper	90 days	AA-	15%	1.8%
Negotiable Certificates of Deposit	5 years	AA-	30%	3.6%
Time Certificates of Deposit (B)	5 years	Satisfactory CRA	5%	\$250,000 & FDIC Membership
Collateralized Repurchase Agreements	30 days	AA-	None	None
Medium Term Notes	5 years	AA-	15%	1.8%
Municipal Obligations	5 years	AA-	15%	1.8%
LAIF (C)	N/A	N/A	(B)	(B)
Mutual Funds	N/A	AAA	10%	- -
Supranational Obligations	5 years	AA	15%	1.8%

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agricultural Mortgage Corporation of America and the Tennessee Valley Authority.

(B) Valley Water Board of Directors approved investments in California based local banks with a threshold of a minimum of 4% invested in banks with up to \$10 billion in assets and 1% in banks with up to \$2 billion in assets for a limit of 5 years in the form of collateralized deposits, FDIC/NCUA insured CDs, CDARS, or any legally allow able deposits.

(C) LAIF will accept no more than \$75 million of an agency's unrestricted funds while placing no constraints on funds relating to unspent bond proceeds.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Restricted Cash and Investments for Bond Interest and Redemption

Under the provisions of Valley Water's revenue bond resolutions and Installment Purchase Agreement for the 2012A, 2016C, 2016D, 2017A, 2019C, 2020C and 2020D Certificates of Participations (COPs) and Water Utility Revenue and Refunding Bonds 2006B, 2016A, 2016B, 2017A, 2019A, 2019B, 2020A and 2020B, a portion of the proceeds from these debt issuances is required to be held in custody accounts by a fiscal agent as trustee. As of June 30, 2022, the Funds' cash and investments held by fiscal agents within Valley Water's cash and investment pool was \$5.5 million and was equal to or in excess of the amount required at that date.

Restricted Cash and Investments for Capital Projects

Valley Water, through the PFFC, has also issued commercial paper to provide for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water. At June 30, 2022, there were no taxable and tax-exempt commercial paper certificate accounts held by the fiscal agent.

Authorized Investments by Debt Agreements

Valley Water must maintain the required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if Valley Water fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in instruments which, at the time of such investment, are legal investments under the laws of the State of California, Valley Water ordinances, policies, and bond indentures. The following table identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U. S. Treasury Obligations(A)	N/A	N/A
U. S. Agency Securities(B)	N/A	N/A
State Obligations(C)	N/A	A
Commercial Paper	270 days	A1
Unsecured CD's, deposit accounts, time deposits, and bankers acceptances	365 days	A-1
FDIC Insured Deposit(D)	N/A	N/A
Money Market Funds	N/A	AAA
Collateralized Repurchase Agreements(E)	N/A	A-1
Investment Agreements (F)	N/A	AA-
Investment Approved in Writing by the Certificate Insurer	N/A	N/A
LAIF	N/A	N/A
Supranational Obligations	N/A	AA

(A) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

(B) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMAs"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMAs"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority Certificates of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit Certificates of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

(C) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P.

(D) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3.0 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(E) Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's and "A-1" or "A-" or better by S&P, provided: (1) a master repurchase agreement or specific written repurchase agreement governs the transaction; and (2) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50.0 million or (iii) a bank approved in writing for such purpose by the Certificate Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. if such securities is created for the benefit of the Trustee; and (4) the repurchase agreement has a term of 180 days or less, and the Trustee or the agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Authorized Investments by Debt Agreements (Continued)

(F) Investment agreements, guaranteed investment contracts, funding agreements, or any other form of corporate note representing the unconditional obligations of entities or agencies with unsecured long-term debt obligations or claims-paying ability rated in one of the top two rating categories by Moody's and S&P.

Interest Rate Risk

Interest Rate Risk is related to changes in market interest rates that adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Valley Water generally manages its own interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair value of Valley Water's pooled investments to market interest rate fluctuations, summarized by the following table, shows the distribution of Valley Water's investments by maturity or earliest call date (in millions).

	Total	12 Months or less	13 to 24 Months	25 to 60 Months
U.S. Government Agencies	\$ 200.6	\$ 65.2	\$ 56.2	\$ 79.2
U.S. Government Agencies - Callable	94.8	-	4.9	89.9
U.S. Treasury Obligations	136.7	45.9	24.3	66.5
Medium Term Notes	3.0	3.0	-	-
Medium Term Notes - Callable	8.8	7.0	-	1.8
LAIF	73.1	73.1	-	-
Mutual Funds	0.1	0.1	-	-
Supranational Obligations	9.6	-	3.0	6.6
Supranational Obligations - Callable	4.6	-	-	4.6
Municipal Bonds	61.4	27.8	9.4	24.2
Negotiable Certificates of Deposit	0.5	0.3	-	0.2
Time Certificates of Deposit	188.9	188.9	-	-
Money Market Funds	49.2	49.2	-	-
Total Investments	<u>\$ 831.3</u>	<u>\$ 460.5</u>	<u>\$ 97.8</u>	<u>\$ 273.0</u>

Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The following table shows the minimum rating required by the California Government Code, Valley Water's investment policy, or debt agreements and the actual rating as of June 30, 2022 for each investment type as provided by Standard and Poor's (in millions):

		Minimum		Rating as of Year-end				
	Total	Legal Rating	Exempt from Disclosure	AAA	AA+	AA	AA-	Not Rated
U. S. Government Agencies	\$ 295.4	AA-	\$ -	\$ -	\$ 244.6	\$ -	\$ -	\$ 50.8
U. S. Treasury Obligations	136.7	AA-	136.7	-	-	-	-	-
Medium Term Notes	11.8	AA-	-	4.0	4.8	-	-	3.0
LAIF	73.1	N/ A	-	-	-	-	-	73.1
Mutual Funds	0.1	AAA	-	0.1	-	-	-	-
Supranational Obligations	14.2	AA	-	14.2	-	-	-	-
Municipal Bonds	61.4	AA-	-	11.3	18.5	27.1	3.0	1.5
Negotiable Certificates of Deposit	0.5	AA-	-	-	-	-	-	0.5
Time Certificates of Deposit	188.9	N/ A	-	-	-	-	-	188.9
Money Market Funds	49.2	N/ A	-	-	-	-	-	49.2
Total Investments	\$ 831.3		\$ 136.7	\$ 29.6	\$ 267.9	\$ 27.1	\$ 3.0	\$ 367.0

Concentration of Credit Risk

Valley Water's investment policy regarding the amount that can be invested in any one issuer is stipulated by the California Government Code and Valley Water's investment policy, whichever is more restrictive. However, Valley Water is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer, held by individual Valley Water Funds in the securities of issuers other than U.S. Treasury securities, mutual funds and external investments pools. At June 30, 2022, such investments are as follows (in millions):

Issuer	Investment Type	Reported Amount
Government- wide		
Federal Farm Credit Bank	U. S. Government Agency	\$ 95.1
Federal Home Loan Bank	U. S. Government Agency	89.5
Federal Home Loan Mortgage Corp.	U. S. Government Agency	50.8
Federal National Mortgage Association	U. S. Government Agency	55.5

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Valley Water will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party

Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of public agencies' cash on deposit. All of Valley Water's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions but not in Valley Water's name.

Fair Value Measurement and Application

Government Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, (GASB 72) provides the framework for measuring fair value and the fair value hierarchy. Valley Water measures and records its investments using fair value measurement guidelines in accordance with GASB 72. These guidelines recognize a three-tiered fair value hierarchy as shown below:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs (other than quoted marked prices) using matrix pricing based on the securities' relationship to benchmark quoted prices; and
- Level 3: Unobservable inputs (not applicable to Valley Water).

Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

The following table summarizes by level, within the fair value hierarchy, Valley Water's investments at fair value at June 30, 2022 (in millions):

	6/30/2022	Level 1	Level 2	Uncategorized
Investments by Fair Value Level				
U. S. Government Agencies	\$ 295.4	\$ 295.4	\$ -	\$ -
U. S. Treasury Obligations	136.7	136.7	-	-
Medium Term Notes	11.8	-	11.8	-
Mutual Funds	0.1	-	0.1	-
Supranational Obligations	14.2	-	14.2	-
Municipal Bonds	61.4	-	61.4	-
Negotiable Certificates of Deposit	0.5	-	0.5	-
Time Certificates of Deposit	188.9	-	188.9	-
Subtotal - Leveled Investments	<u>709.0</u>	<u>432.1</u>	<u>276.9</u>	<u>-</u>
LAIF	73.1	-	-	73.1
Money Market Funds	49.2	-	-	49.2
Subtotal - Uncategorized	<u>122.3</u>	<u>-</u>	<u>-</u>	<u>122.3</u>
Total Investments	<u>\$ 831.3</u>	<u>\$ 432.1</u>	<u>\$ 276.9</u>	<u>\$ 122.3</u>

Deposits and withdrawals in LAIF are made on the basis of \$1 and are recorded on an amortized cost basis. Accordingly, LAIF is uncategorized.

NOTE 4 CAPITAL CONTRIBUTIONS

The Funds derive certain revenues from reimbursements of capital costs by local, state, federal agencies and other outside sources. The following table shows a summary of such capital contributions during fiscal year 2022 (in millions):

	Amount
Local Agencies:	
San Benito County Water District	\$ 0.2
State Agencies:	
Department of Water Resources	4.9
Federal Agencies:	
U.S. Bureau of Reclamation	0.5
Total capital contributions	<u>\$ 5.6</u>

**Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022**

NOTE 5 INVESTMENT INCOME (LOSS)

The following table represents the components of the Funds' investment income (loss) for the year ended June 30, 2022 (in million):

Unrealized loss	\$ (11.8)
Interest Income	<u>3.5</u>
Investment income (loss), net	<u><u>\$ (8.3)</u></u>

NOTE 6 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022 is as follows (in millions):

	Balance as of June 30, 2021	Additions	Transfers	Deletions	Balance as of June 30, 2022
Nondepreciable capital assets:					
Land	\$ 20.0	\$ -	\$ -	\$ -	\$ 20.0
Intangible - Easement	3.7	0.1	-	-	3.8
Construction in progress	572.5	136.5	(9.2)	-	699.8
Total nondepreciable capital assets	<u>596.2</u>	<u>136.6</u>	<u>(9.2)</u>	<u>-</u>	<u>723.6</u>
Depreciable capital assets:					
Contracted water rights	237.0	10.7	-	-	247.7
Buildings	97.8	-	-	-	97.8
Structures and improvements	962.6	-	9.2	-	971.8
Equipment	29.9	0.2	-	-	30.1
Leased assets	-	4.0	-	-	4.0
Total depreciable capital assets	<u>1,327.3</u>	<u>14.9</u>	<u>9.2</u>	<u>-</u>	<u>1,351.4</u>
Less accumulated depreciation and amortization:					
Contracted water rights	(200.9)	(13.1)	-	-	(214.0)
Buildings	(14.6)	(2.3)	-	-	(16.9)
Structures and improvements	(331.7)	(16.3)	-	(0.4)	(348.4)
Equipment	(26.0)	(1.0)	-	-	(27.0)
Leased assets	-	(0.6)	-	-	(0.6)
Total accumulated depreciation and amortization	<u>(573.2)</u>	<u>(33.3)</u>	<u>-</u>	<u>(0.4)</u>	<u>(606.9)</u>
Net depreciable capital assets	<u>754.1</u>	<u>(18.4)</u>	<u>9.2</u>	<u>(0.4)</u>	<u>744.5</u>
Total capital assets, net	<u><u>\$ 1,350.3</u></u>	<u><u>\$ 118.2</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (0.4)</u></u>	<u><u>\$ 1,468.1</u></u>

NOTE 6 CAPITAL ASSETS (CONTINUED)

New construction in progress amounted to \$136.5 million. There were 58 in progress and completed projects during the fiscal year, with the major projects listed below (in millions):

- \$61.9 – Anderson Dam Seismic Retrofit
- \$18.4 – Pacheco Reservoir Expansion
- \$14.7 – Rinconada Water Treatment Plant Residuals Remediation
- \$10.7 – Rinconada Water Treatment Plant Reliability Improvement
- \$9.4 – 10-year Pipeline Inspection and Rehabilitation
- \$7.4 – South County Recycled Water Fund Short-Term 1B
- \$6.3 – Indirect Potable Reuse
- \$1.5 – South County Recycled Water Fund
- * \$1.2 – Santa Teresa Water Treatment Plant Filter Media Replacement
- * \$1.1 – Coyote Pumping Plant Adjustable Speed Drive Replacement

Right to Use Leased Assets

The Funds have recorded right to use assets for leased land and equipment. The related leases are discussed in Note 7. The right to use leased assets are amortized on a straight-line basis over the term of the related leases or the useful life of the underlying assets, whichever is shorter.

Right to use leased asset activity included in capital assets for the year ended June 30, 2022 are as follows (in millions):

	Balance as of June 30, 2021	Additions	Deletions	Balance as of June 30, 2022
Right to use assets				
Leased land	\$ 3.2	\$ -	\$ -	\$ 3.2
Leased equipment	0.8	-	-	0.8
Total right to use assets	4.0	-	-	4.0
Less: accumulated amortization				
Leased land	-	(0.3)	-	(0.3)
Leased equipment	-	(0.3)	-	(0.3)
Total accumulated amortization	-	(0.6)	-	(0.6)
Total right to use assets, net	\$ 4.0	\$ (0.6)	\$ -	\$ 3.4

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES

(a) Short-term debt

On December 17, 2002, the Board authorized a commercial paper program, through the PFFC. The commercial paper program allows Valley Water to finance capital acquisitions while taking advantage of short-term rates, and Valley Water issues tax and revenue anticipation notes on an annual basis to secure the commercial paper program. This program is used in conjunction with issuing long-term liabilities to obtain the least expensive financing for Valley Water.

On January 13, 2015, the Board authorized an increase in commercial paper program to \$150.0 million. The proceeds of the commercial paper may be used for any Valley Water purposes, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water.

On April 28, 2020, the Board authorized a \$170.0 million Revolving Line of Credit program ("Revolver"), through the PFFC, to provide additional short-term financing for Valley Water. The proceeds of the Revolver may be used for any Valley Water purpose, including but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water.

The Funds' short-term debt as of June 30, 2022 consisted of the following (in millions):

	Maturity Date	Interest Rate	June 30, 2022
Commercial paper:			
80169B Taxable-Barc	8/30/2022	1.50%	\$ 19.4
80169B Taxable-Barc	8/30/2022	2.00%	48.3
80169A Tax exempt-JPM	9/8/2022	1.43%	27.1
Total commercial paper			<u>94.8</u>
Revolving line of credit*:			
Series C (Tax exempt) Syndicated	1/19/2023	2.40%	39.4
Total revolving line of credit			<u>39.4</u>
Total short-term debt			<u>\$ 134.2</u>

* The Commitment Expiration Date for the syndicated and non-syndicated revolving line of credit is April 29, 2025.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

The following is the summary of changes in short-term debt for the year ended June 30, 2022 (in millions):

	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	\$ -	\$ 94.8	\$ -	\$ 94.8
Revolving line of credit	-	39.4	-	39.4
Total short-term liabilities	\$ -	\$ 134.2	\$ -	\$ 134.2

(b) Long-term liabilities

The Funds' long-term liabilities as of June 30, 2022 consisted of the following (in millions):

Type of indebtedness	Maturity	Interest Rate*	Authorized and Issued	June 30, 2022	Due Within One Year
2006B Water revenue bond	2035	5.39%	\$ 25.6	\$ -	\$ -
2016A Water revenue bond	2046	3.25%	106.3	106.3	-
2016B Water revenue bond	2046	4.32%	75.2	75.2	-
2017A Water revenue bond	2037	3.13%	54.7	28.2	3.5
2019A Water revenue bond	2049	3.75%	15.2	35.6	4.6
2019B Water revenue bond	2049	3.81%	80.0	45.7	2.1
2019C Water revenue bond	2036	2.76%	38.3	14.6	0.3
2016C Water revenue COP	2029	2.13%	43.4	75.0	1.8
2016D Water revenue COP	2029	3.14%	55.0	33.0	2.2
2020A Water revenue bond	2050	3.33%	24.1	24.1	-
2020B Water revenue bond	2050	2.98%	68.5	68.5	-
2020C Water revenue COP	2041	2.07%	41.8	40.1	1.7
2020D Water revenue COP	2041	2.20%	81.6	78.3	3.3
Subtotal - bonds payable				624.6	19.5
Bond premium				51.6	2.4
Total long-term debt				676.2	21.9
Compensated absences				8.2	1.7
Net pension liability (See Note 10)				68.1	-
Other post employment benefits liability (See Note 11)				12.1	-
Semitropic water banking liability	2035		46.9	12.2	-
Lease liability				3.6	0.7
Total				\$ 780.4	\$ 24.3

*Interest rate represents the total cost of a bond financing, taking into account any accrued interest, original issue premium or discount and costs of issuance.

Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

The following is the summary of changes in long-term liabilities for the year ended June 30, 2022 (in millions):

	Balance 7/1/2021	Additions	Reductions	Balance 6/30/2022	Due Within One Year	Long-term Portion
2006B revenue bonds	\$ 16.5	\$ -	\$ (16.5)	\$ -	\$ -	\$ -
2016A revenue bonds	106.3	-	-	106.3	-	106.3
2016B revenue bonds	75.2	-	-	75.2	-	75.2
2016C COPS	31.6	-	(3.4)	28.2	3.5	24.7
2016D COPS	40.0	-	(4.4)	35.6	4.6	31.0
2017A revenue bonds	47.7	-	(2.0)	45.7	2.1	43.6
2019A revenue bonds	14.8	-	(0.2)	14.6	0.3	14.3
2019B revenue bonds	76.7	-	(1.7)	75.0	1.8	73.2
2019C COPS	35.1	-	(2.1)	33.0	2.2	30.8
2020A revenue bonds	24.1	-	-	24.1	-	24.1
2020B revenue bonds	68.5	-	-	68.5	-	68.5
2020C COPS	41.8	-	(1.7)	40.1	1.7	38.4
2020D COPS	81.6	-	(3.3)	78.3	3.3	75.0
Subtotal - bonds payable	659.9	-	(35.3)	624.6	19.5	605.1
Bond premiums	54.1	-	(2.5)	51.6	2.4	49.2
Total long-term debt	714.0	-	(37.8)	676.2	21.9	654.3
Compensated absences	7.8	5.8	(5.4)	8.2	1.7	6.5
Net pension liability (See Note 10)	110.3	-	(42.2)	68.1	-	68.1
Other post employment benefits liability (See Note 11)	25.8	-	(13.7)	12.1	-	12.1
Semitropic water banking liability	12.4	-	(0.2)	12.2	-	12.2
Lease liability	-	3.6	-	3.6	0.7	2.9
Total	\$ 870.3	\$ 9.4	\$ (99.3)	\$ 780.4	\$ 24.3	\$ 756.1

Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

The aggregate maturities of bonds payable are as follows (in millions):

Year Ending June 30	Principal	Interest and amortization
2023	\$ 19.4	\$ 25.3
2024	20.0	24.6
2025	20.6	23.9
2026	21.3	23.2
2027	22.0	22.4
2028-2032	119.6	102.7
2033-2037	123.3	77.0
2038-2042	112.2	52.1
2043-2047	122.9	27.6
Thereafter	43.3	5.1
Total	\$ 624.6	\$ 383.9

Leases

Valley Water has entered into agreements to lease certain land, building office spaces and equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of July 1, 2021, the implementation date of GASB 87. There are no variable payment components of the leases.

The lease liabilities are measured at the discount rate of 1.6%, Valley Water's average interest rate. As a result of the leases, Valley Water recorded right to use assets with net book value of \$3.4 million at June 30, 2022. The right to use assets are included in Note 6.

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2022 are as follows:

Year Ending June 30	Principal	Interest and amortization
2023	\$ 0.7	\$ -
2024	0.3	-
2025	0.3	-
2026	0.3	-
2027	0.3	-
2028-2032	1.5	0.1
2033-2037	0.2	-
Total	\$ 3.6	\$ 0.1

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

Leases (Continued)

The following provides a brief description of the Funds' long-term debt as of June 30, 2022:

2006B Water Utility System Refunding Revenue Bonds

In December 2006, Valley Water issued \$99.8 million of Water Utility System Refunding Revenue Bonds, Series 2006A and Taxable Series 2006B, pursuant to the Water Utility Senior System Master Resolution (94-58, as amended by 06-80). In March 2016, Valley Water issued Series 2016A Water System Refunding Revenue Bonds to refund all of the 2006A outstanding principal. In June 2022, Valley Water paid off \$0.9 million of principal due and redeemed the \$15.6 million remaining balance of the 2006B revenue bonds.

2016A/B Water Systems Refunding Revenue Bonds

In March 2016, Valley Water issued \$181.5 million of Water Systems Refunding Revenue Bonds comprised of Series 2016A for \$106.3 million and Taxable Series B for \$75.2 million, pursuant to the Water Utility Parity System Master Resolution (16-10) approved by the Board in February 2016. Proceeds of the 2016A Revenue Bonds, along with the original issue premium, were used to refinance all the currently outstanding Water Utility System Refunding Revenue Bonds Series 2006A and repay \$73.0 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2016B Revenue Bonds were used to repay \$75.0 million of the balance of the outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay the principal and interest of the 2016A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System revenues and is payable from the Net Water Utility System revenues.

2017A Water System Refunding Revenue Bonds

In May 2017, Valley Water issued \$54.7 million of Water Systems Refunding Revenue Bonds to refund the \$64.8 million outstanding balance of the Water Utility System Revenue Certificates of Participation Series 2007A and pay costs of issuance of the 2017A Bonds. The obligation of Valley Water to pay principal and interest on the 2017A Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility System Parity Master Resolution (16-10).

2019A/B Water Systems Refunding Revenue Bonds

In April 2019, Valley Water issued \$95.2 million of Water System Refunding Revenue Bonds consisting of Series 2019A for \$15.2 and Series 2019 B for \$80.0 million to repay the outstanding Commercial Paper Certificates to free up capacity in Valley Water's commercial paper program to finance on-going capital costs and costs of issuance. The obligation of Valley Water to pay principal and interest on the 2019A/B Bonds is secured by a pledge of and lien on Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

Leases (Continued)

2019C Water Utility Refunding Revenue Bonds

In November 2019, Valley Water issued \$38.3 million of Water Utility Revenue Certificates of Participation Series 2019C to refinance all the outstanding Water Utility Revenue Certifications of Participation Taxable Series 2007B and fund costs of issuance. The obligation of Valley Water to pay the principal and interest on the 2019C Bonds is secured by a pledge of and lien on Water Utility System Revenues and is payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

2016C/D Water Utility Revenue Certificates of Participation

In March 2016, Valley Water issued \$98.0 million of Water Utility Revenue Certification of Participation, comprised of Series 2016C for \$43.4 million and Taxable Series 2016D for \$55.0 million, which were executed and delivered through the PFFC. Proceeds of the 2016C and 2016D COPs, along with the original issue premium were used to finance capital construction projects in the Water Utility Enterprise and costs of issuance. The 2016C and 2016D COPs are payable from 2016 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues and are payable from the Net Water Utility System revenues pursuant to the Water Utility System Parity Master Resolution (16-10).

2020A/B Water Systems Refunding Revenue Bonds

In September 2020, Valley Water issued \$92.6 million of Water System Refunding Revenue Bonds comprised of Series 2020A for \$24.1 million and Taxable Series 2020B for \$68.5 million. Proceeds of the 2020A Revenue Bonds, along with the original issue premium, were used to repay \$31.0 million of outstanding tax-exempt commercial paper notes and costs of issuance. Proceeds of the 2020B Revenue Bonds were used to repay \$68.3 million of outstanding taxable commercial paper notes and costs of issuance. The obligation of Valley Water to pay principal and interest of the 2020A/B Water Systems Refunding Revenue Bonds is secured by a pledge of and lien on Valley Water's Water Utility System Revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

2020C/D Water Utility Revenue Certificates of Participation

In September 2020, Valley Water issued \$123.4 million of Water Utility Revenue Certificates of Participation, comprised of Series 2020C for \$41.8 million and Taxable Series 2020D for \$81.6 million, executed and delivered through the PFFC. Proceeds of the 2020C and 2020D COPs, along with the original issue premium, are being used to finance capital construction projects in the Water Utility Enterprise and costs of issuance. The 2020C and 2020D COPs are payable from 2020 Installment Payments which are payable by Valley Water from and secured by a pledge and lien on water utility revenues and are payable from the Net Water Utility System Revenues pursuant to the Water Utility Parity System Master Resolution (16-10).

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

Leases (Continued)

Semitropic Water Banking Liability

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is \$46.9 million based on a 35 percent vesting in the program. Valley Water pays the program capital costs when storing and recovering water. As of June 30, 2022, the Funds have an outstanding liability of \$12.2 million related to water storage and banking rights.

(c) Other Debt Related Information

Valley Water has adopted master resolutions with respect to its water utility and watershed utility which contain certain events of default and remedies as described therein. Valley Water has also issued various bonds, notes or other obligations secured by such master resolutions or other revenues of Valley Water and which contain certain events of default and remedies as described therein. Valley Water has also entered into various reimbursement agreements or other financial contracts which contain certain events of default and remedies as described therein.

Certain of these master resolutions, bonds, notes and other obligations and reimbursement agreements and other financial contracts contain provisions concerning the application of applicable Valley Water revenues if certain of the following conditions occur: default on debt service payments; the failure of Valley Water to observe or perform the conditions, covenants, or other agreement with respect thereto; bankruptcy filing by Valley Water; or if any court or competent jurisdiction shall assume custody or control of Valley Water, among other defaults. Certain of such master resolutions, bonds, notes and other obligations and reimbursement agreement and other financial contract contain acceleration provisions that allow a trustee, owners of bonds, notes or other obligations or the parties to such reimbursement agreements or other financial contracts to accelerate payments thereunder to the extent and as provided therein.

Resolutions and other financing agreements associated with Valley Water's and PFFC's bonds and certificates of participation contain a number of covenants, limitations, and restrictions. Valley Water believes it is in compliance with all significant covenants, limitations, and restrictions.

Financial obligations incurred under the commercial paper program, issued through the PFFC, currently include the obligations to reimburse the bank issuing direct pay letter of credit supporting the commercial paper program and to pay letter of credit fees to the bank. Valley Water's failure to comply with certain such obligations could result in an event of default. If an event of default occurs, the bank may exercise one or more rights and remedies. In addition to rights and remedies provided for under the law, the bank can declare all financial obligations with respect to such letter of credit to be immediately due and payable, cause the issuance of commercial paper to be temporarily ceased, or terminate the letter of credit which would cause the issuance of commercial paper to be permanently ceased. Commercial paper certificates are not subject to acceleration.

NOTE 7 SHORT-TERM AND LONG-TERM LIABILITIES (CONTINUED)

(c) Other Debt Related Information (Continued)

Valley Water has also pledged water utility system revenues, net of specified maintenance and operating expenses, to repay \$624.6 million in long-term debt outstanding as of June 30, 2022, that was issued to finance the cost of capital construction projects for the water utility enterprise. The secured debt includes revenue bonds and COPs. The revenue bonds are payable from net water utility system revenues and the revenue COPs are payable from installments that are secured by net water utility system revenues. The long-term debt is payable through fiscal year 2049. The total principal outstanding and interest costs remaining to be paid on the combined debt is \$1,008.5 million.

NOTE 8 PROPERTY TAXES AND BENEFIT ASSESSMENTS

The Funds derive certain revenues from the assessment of property tax parcel levies. The property tax levy is composed of two categories: (1) an allocation of the County of Santa Clara's 1 percent tax; and (2) voter-approved levy to repay capital and operating costs related to imported water from the State Water Project.

Property tax revenues for the year ended June 30, 2022, are as follows (in millions):

	<u>Amount</u>
Property taxes:	
1% tax allocation	\$ 9.7
Voter approved indebtedness:	
State Water Project Fund	<u>30.1</u>
Total property taxes	<u>\$ 39.8</u>

Valley Water has elected to participate in the "Teeter Plan" offered by the County whereby Valley Water receives 100 percent of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes.

NOTE 9 NET POSITION

The Funds' financial statements utilize a net position presentation. Net position is categorized as follows: (1) net investment in capital assets, (2) restricted and (3) unrestricted.

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

NOTE 9 NET POSITION (CONTINUED)

Unrestricted Net Position – This category represents net position of Valley Water, not restricted for any project or other purpose.

The following table shows the detailed schedule of the Funds' net position at June 30, 2022 (in millions):

	Total Water Utility Enterprise Funds
Net investment in capital assets	\$ 642.3
Restricted Net Position	
San Felipe Emergency Reserve	3.4
GP5 reserve	16.0
Rate stabilization	54.1
Advance water purification center	1.3
Supplemental water supply reserve	7.9
Drought reserve	10.0
State water projects	11.4
Total restricted net position	104.1
Unrestricted Net Position - designated for:	
Operating and capital	65.5
Water inventory	127.3
Current authorized projects	77.5
Purchase commitments	195.8
Net pension liability	(76.5)
Net Other Post Employment Benefit Liability	(32.2)
Total unrestricted net position	357.4
Net Position	\$ 1,103.8

NOTE 10 EMPLOYEES' RETIREMENT PLAN

Plan Description

All qualified permanent and probationary employees of Valley Water are eligible to participate in the agent multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Valley Water's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

NOTE 10 EMPLOYEES RETIRMENT PLAN (CONTINUED)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

The cost of living adjustments for each plan is applied as specified by the California Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statutes and may be amended by Valley Water's governing board.

The Plan's provisions and benefits in effect at June 30, 2022, are summarized as follows:

Hire date	Prior to 3/19/2012	3/19/2012 to 12/31/2012	On or after 1/1/2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefiting vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Minimum Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%*	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.0% + 3.0%*	7.0 + 4.0%*	6.75% + 2.0%
Required employer contribution rates	10.52% plus \$3.0 million prepayment for prior unfunded service cost		

* Member's additional contribution towards Valley Water's CalPERS cost per negotiated agreement with the bargaining units.

NOTE 10 EMPLOYEES RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)

Valley Water allocated approximately 43.5% of the District's net pension liability, deferred outflows and inflows of resources and pension expense to the Funds based on the Funds' share of the District's total average salaries for the fiscal year ended June 30, 2022. As a result, the Funds recorded a net pension liability of \$68.1 million, deferred outflows of resources of \$37.6 million and deferred inflows of resources of \$32.8 million as of June 30, 2022. The Funds recorded pension expense of \$7.9 million for the year ended June 30, 2022.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2022 for additional information about the District's pension plan and required note disclosures in accordance with GASB Statement No. 68.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

Valley Water provides post-employment health care benefits, in accordance with negotiated memoranda of understanding with employee groups and adoption by the Board of Directors, for retired employees and/or their surviving spouses, and to certain employees who retire due to disability who meet the eligibility requirements and elect the option. Valley Water must be the employee's last CalPERS employer, and the retiree must be receiving a monthly CalPERS retirement pay.

**Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided

Employee Type	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
<u>Classified</u> Employee Association (AFSCME Local 101) Engineers Society (IFPTE - Local 21) Professional Managers Association (IFPTE - Local 21)	Retired prior to July 1, 1988	_____	Fixed amount of \$165 per month
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree
	Retired from July 1, 1990 or later and hired prior to December 30, 2006	10 years	100% medical premium for retiree
		15 years	100% medical premium for retiree plus one eligible dependent
	Retired from July 1, 1990 or later and hired between December 30, 2006 and March 1, 2007	10 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
		15 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
	Hired on or after March 1, 2007	15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
		20 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

(Continued)

**Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided (Continued)

Employee Type	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
<u>Unclassified</u>	Retired prior to July 1, 1988	_____	Fixed amount of \$165 per month
	Retired from July 1, 1988 through June 30, 1990	10 years	100% medical premium for retiree
	Retired from July 1, 1990 through June 18, 1995	10 years	100% medical premium for retiree
		15 years	100% medical premium for retiree plus one eligible dependent
	Retired from June 19, 1995 through October 21, 1996	10 years 15 years 25 years	100 % medical premium for retirees 100 % medical, dental, and vision coverages for the retiree plus one eligible dependent. 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents
At Will	Retired from October 22, 1996 or later and hired prior to December 30, 2006	10 years 15 years 25 years	100 % medical premium for retirees 100 % medical, dental, and vision coverages for the retiree plus one eligible dependent. 100% medical, dental, and vision coverages for the retiree plus two or more eligible dependents
		10 years 15 years	Medical coverage is provided for retiree. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less. Medical, dental, and vision coverages are provided for retiree and one eligible dependent. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.

(Continued)

**Santa Clara Valley Water District
Water Utility Enterprise Funds
Notes to Basic Financial Statements
For the Year Ended June 30, 2022**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided (Continued)

Employee Type	Hire/Retirement Date	Eligibility Rule (Years of Continuous Service)	Valley Water's Required Contribution
<u>Unclassified</u>	(continued) Hired on or after December 30, 2006 and prior to March 1, 2007	25 years	Medical, dental, and vision coverages are provided for retiree plus two or more eligible dependents. Medical premium cost sharing is required with the same contribution percentage as active employees and based on the medical premium amount applicable to active employees or retirees, whichever is less.
	Hire on or after March 1, 2007	15 years	Retiree is covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.
At Will		20 years	Retiree plus one eligible dependent are covered for medical. Medical premium cost sharing is required with the same contribution percentage as active employees and based on medical premium applicable to active employees or retirees, whichever is less.

As of August 1, 2007, all current retirees not yet 65 years of age and Medicare eligible and all future retirees who are Medicare eligible must enroll themselves in Medicare when they reach the eligibility date for Medicare. Their Medicare-eligible dependents who are enrolled in Valley Water's health plan must also enroll in Medicare upon their eligibility date. Valley Water reimburses the ongoing Medicare Part B cost incurred by the retiree and/or dependent payable quarterly.

After an evaluation of the cost savings realized in implementing the Medicare enrollment plan since August 2007, Valley Water decided to expand the Medicare enrollment requirement to all retirees and their eligible dependents that are enrolled in Valley Water's medical plan. As of July 1, 2009, all Medicare-eligible retirees and their eligible dependents were required to enroll in Medicare. Valley Water reimburses the Medicare Part B penalty charged by the Social Security Administration to the retirees/dependents due to late enrollment.

Valley Water provides the unclassified group of retirees \$50,000 life insurance upon retirement with a five-year phase-out in declining increments of \$10,000 per year after retirement.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided (Continued)

Valley Water allocated approximately 43.5% of the District's net OPEB liability, deferred outflows and inflows of resources and OPEB expense to the Funds based on the Funds' share of the District's total average salaries for the fiscal year ended June 30, 2022. As a result, the Funds recorded a net OPEB liability of \$12.1 million, deferred outflows of resources of \$5.7 million and deferred inflows of resources of \$11.4 million as of June 30, 2022. The Funds recorded OPEB expense of \$5.3 million for the year ended June 30, 2022.

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2022 for more information about the District's OPEB plan and required note disclosures in accordance with GASB Statement No. 75.

NOTE 12 RISK MANAGEMENT

The Funds are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Valley Water reports all of its management activities in its Risk Management Internal Service Fund.

Valley Water is self-insured for various types of coverage. The self-insured retention (SIR) and maximum coverage are as follows (in thousands):

Coverage Descriptions	Commercial Insurance SIR	Coverage
General liability	\$ 3,000	\$ 50,000
Workers' compensation	1,000	Statutory
Property damage (subject to policy sub-limits)	50	500,000
Fidelity (Crime) - Directors	5	1,000
Fidelity (Crime) – Non-Directors	10	2,000
Non-owned aircraft liability	-	5,000
Boiler and machinery	50	100,000
Cyber liability	50	10,000

Claims expenses and liabilities are reported for self-insured deductibles when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported, allocated and unallocated claims adjustment expenses and incremental claim expense. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. This liability is Valley Water's best estimate based on available information. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 RISK MANAGEMENT (CONTINUED)

Refer to the Santa Clara Valley Water District Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2022, for more information about Valley Water's claims payable.

NOTE 13 TRANSFERS IN FROM (OUT TO) DISTRICT

Transfers made during fiscal year 2022 are shown below (in millions):

<u>Description</u>	<u>Amount</u>
Capital projects	\$ 68.1
Water conservation rebates & program	1.0
Transfers in from District	\$ 69.1
HQ operations building project	(1.2)
IT capital projects	(2.0)
Transfers out to District	\$ (3.2)

NOTE 14 COMMITMENTS

(a) Contract and Purchase Commitments

As of June 30, 2022, the Funds have open purchase commitments of approximately \$206.7 million related to new or existing contracts and agreements. These encumbrances represent commitments of the Funds and do not represent actual expenses or liabilities.

(b) San Felipe Project Water Deliveries

In 2007, Valley Water entered into a contract with the United States of America Bureau of Reclamation for water deliveries from the Central Valley Project (CVP). The contract requires the District to operate Reach 1, Reach 2, and Reach 3 of the San Felipe Division facilities.

On May 11, 2020, there was an amendment to this contract. The amended contract provided for compliance with the Water Infrastructure Improvements for the Nation Act (WIIN Act) and converted it from a water service to a repayment contract. This conversion required that Valley Water repay by lump sum its remaining share of capital costs for the CVP except for those capital costs associated with the San Felipe Division facilities. In accordance with the original contract, Valley Water's share of capital costs for the San Felipe Divisions facilities are repaid through semi-annual payments according to a payment schedule. To become fully enforceable, the repayment contract requires that Valley Water secure a final judgment from a court of competent jurisdiction that the contract is valid. This court proceeding has been initiated and is awaiting judgment.

The conversion of Valley Water's contract, as well as the contracts for all CVP contractors that elected to convert their contract pursuant to the WIIN Act, is subject to legal challenge by several environmental groups, which alleged violations of the National Environmental Policy Act and the federal Endangered Species Act.

NOTE 14 COMMITMENTS (CONTINUED)

(b) San Felipe Project Water Deliveries (Continued)

Under the contract, the total commitment for repayment, including applicable interest, was \$432.7 million. The remaining commitment as of June 30, 2022 was \$167.1 million.

(c) Participation Rights in Storage Facilities

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is \$46.9 million based on a 35 percent participation level in the program. Valley Water pays the program capital costs when storing and recovering Tier 1 water. The agreement terminates in December 2035.

Upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs. The 2021 rate to retrieve Tier 1 water is \$73.70 per acre-feet. During the first 10 years, Valley Water had a reservation to participate in 35% of the original Semitropic banking program. At the end of calendar year 2005, Valley Water made the necessary payments to secure the full 35% participation level in the program.

In December 1995, Valley Water entered into a water banking and exchange program with Semitropic Water Storage District and its Improvement Districts that entitles Valley Water to storage, withdrawal, and exchange rights for Valley Water's State Water Project supplies. Valley Water's share of the total program capital costs is \$46.9 million based on a 35 percent participation level in the program. Valley Water pays the program capital costs when storing and recovering Tier 1 water. The participation rights of \$46.9 million are recorded as a component of Capital assets and are amortized using the straight-line method over the life of the agreement. Amortization of \$31.1 million has been recorded through fiscal year 2022. This agreement terminates in December 2035. Under the terms of the program, upon withdrawal by Valley Water of all 135,965 acre-feet or remaining Tier 1 water stored, Valley Water would have paid its share of the total program costs.

The 2022 rate to retrieve Tier 1 water is \$78.85 per acre-feet. During the first 10 years of the program, Valley Water had a reservation to participate in 35% of the original banking program. At the end of calendar year 2005, Valley Water made the necessary payments to secure the full 35% participation level in the program. As a result, Valley Water has a current storage allocation of 350,000 acre-feet. As of June 30, 2022, Valley Water has 280,354 acre-feet of water in storage.

Semitropic Water Storage District has reported elevated concentrations of 1, 2, 3 trichloropropane in some of its groundwater wells. There is currently insufficient information to conclude whether these detections could impact banking operations. Impacts could potentially include higher pumping, recovery, and treatment costs and possibly impaired recovery of banked water supplies. Because the semitropic water bank is located in Kern County, downstream of Valley Water, banked water must be returned by exchange with State Water Project water from the Delta. In critically dry years or in the event of a Delta disruption, there may be insufficient State Water Project supplies to facilitate the withdrawal of supplies from the bank.

NOTE 14 COMMITMENTS (CONTINUED)

(d) Partnership Agreement Between Valley Water, the City of Palo Alto, and the City of Mountain View to Advance Resilient Water Reuse Programs in Santa Clara County

On December 10, 2019, the Board approved an agreement between Valley Water and its local partners, the City of Palo Alto and Mountain View, to further develop water supplies and infrastructure to meet the County's water supply needs. The three main parts of the agreement include: (1) funding a local salt removal facility, owned and operated by Palo Alto, to provide a higher quality of recycled water for irrigation and cooling towers, (2) an effluent transfer option to Valley Water for a regional purification facility (referred to as the "Regional Plant"), owned and operated by Valley Water, to provide advanced purified water for potable reuse, and (3) a water supply option for the cities of Palo Alto and Mountain View to request an additional supply if needed.

Under this partnership agreement, the financial impact to Valley Water includes funding the local salt removal facility in the amount of \$16.0 million, which may be sourced as a component of the Expedited Purified Water Program. Valley Water will also pay \$0.2 million per year, starting in year one to culminate in year thirteen, or at startup of the regional purification facility, whichever occurs first. Finally, Valley Water will pay \$1.0 million per year for the effluent once startup of the regional purification facility has been initiated. All three payments will escalate annually based on the factors outlined in the partnership agreement and would be paid for water charge related revenues. The timing of such payments is still to be determined.

NOTE 15 CONTINGENCIES

(a) Litigation

It is normal for a public entity like Valley Water, with its size and activities, to be a defendant, codefendant, or cross-defendant in court cases in which money damages are sought. A number of claims and suits are pending against Valley Water for alleged damages arising out of matters usually incident to its operations. Although the aggregate amount asserted for such lawsuits and claims is significant, in the opinion of Valley Water management, Valley Water has reasonable defenses against such claims, thus the ultimate loss, if any, relating to these claims and suits not covered by insurance or reflected on the Funds' financial statements, will not materially affect the financial position of the Funds.

For a discussion of all pending litigations that Valley Water is aware of which are significant and may have a potential impact on Valley Water's financial statements, refer to Note 16 of the Santa Clara Valley Water Districts Annual Comprehensive Financial Reports (ACFR) as of and for the year ended June 30, 2022.

NOTE 16 SUBSEQUENT EVENTS

Events have been evaluated subsequent to the balance sheet date through July 21, 2023, the date the financial statements were available to be issued. Based upon this evaluation, no events have occurred that require adjustment to or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Santa Clara Water District
Water Utility Enterprises Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone -
Budgetary Basis Reconciliation to GAAP Basis
Year ended June 30, 2022 (in millions)

	Zones		
	North County	South County	Total
Operating revenues:			
Ground water charges	\$ 111.8	\$ 13.2	\$ 125.0
Treated water charges	145.4	-	145.4
Surface and recycled water charges	1.3	0.6	1.9
Operating grants	5.3	0.1	5.4
Other	0.2	-	0.2
Total operating revenues	<u>264.0</u>	<u>13.9</u>	<u>277.9</u>
Operating expenses			
Sources of supply	129.0	11.4	140.4
Water treatment	45.6	0.5	46.1
Transmission and distribution:			
Raw water	13.6	3.9	17.5
Treated water	2.5	-	2.5
Administration and general	21.9	6.9	28.8
Capital cost recovery	(5.7)	5.7	-
Total operating expenses	<u>206.9</u>	<u>28.4</u>	<u>235.3</u>
Operating income (loss)	<u>57.1</u>	<u>(14.5)</u>	<u>42.6</u>
Nonoperating revenues (expenses):			
Property taxes	35.9	3.9	39.8
Investment loss	(8.3)	-	(8.3)
Rental income	0.1	-	0.1
Other	2.1	0.9	3.0
Interest and fiscal agent fees	(27.0)	-	(27.0)
Open space credit transfer	(6.7)	6.7	-
Interest earned credit	(0.2)	0.2	-
Net operating revenues	<u>(4.1)</u>	<u>11.7</u>	<u>7.6</u>
Change in net position - budgetary basis	\$ <u>53.0</u>	\$ <u>(2.8)</u>	\$ <u>50.2</u>

Busgetary basis reconciliation to GAAP basis:

Change in net position - budgetary basis	\$ 50.2
Depreciation and amortization expenses not budgeted	(33.1)
Capital contributions	5.6
Transfers in from District, net	65.9
Reconcile GAAP to budgetary basis for operating expenses	(9.3)
Change in net position per Statement of Revenues, Expenses, and Changes in Net Position - GAAP basis	<u>\$ 79.3</u>

Santa Clara Water District
Water Utility Enterprises Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone -
Budgetary Basis Discussion
Year ended June 30, 2022 and 2021 (in millions)

	Zones				Total	
	North County		South County		Total	
	2022	2021	2022	2021	2022	2021
Operating revenues:						
Ground water charges	\$ 111.8	\$ 118.0	\$ 13.2	\$ 14.1	\$ 125.0	\$ 132.1
Treated water charges	145.4	154.9	-	-	145.4	154.9
Surfaced and recycled water charges	1.3	2.0	0.7	0.7	2.0	2.7
Total water charges	258.5	274.9	13.9	14.8	272.4	289.7
Other	5.5	0.1	-	-	5.5	0.1
Total operating revenues	264.0	275.0	13.9	14.8	277.9	289.8
Operating expenses:						
Source of supply	129.0	98.4	11.4	10.1	140.4	108.5
Water treatment	45.6	43.6	0.5	0.5	46.1	44.1
Transmission and distribution:					-	
Raw water	13.6	11.9	3.9	3.6	17.5	15.5
Treated water	2.5	2.4	-	-	2.5	2.4
Cost of goods sold	190.7	156.3	15.8	14.2	206.5	170.5
Administration and general	21.9	21.2	6.9	5.9	28.8	27.1
Capital cost recovery	(5.7)	(6.9)	5.7	6.9	-	-
Total operating expenses	206.9	170.6	28.4	27.0	235.3	197.6
Operating income (loss)	57.1	104.4	(14.5)	(12.2)	42.6	92.2
Non- operating revenues (expenses):						
Property taxes	35.9	27.5	3.9	2.7	39.8	30.2
Investment income	(8.3)	1.6	-	-	(8.3)	1.6
Operating grants	-	4.0	-	-	-	4.0
Rental income	0.1	0.1	-	-	0.1	0.1
Other	2.1	1.7	0.9	0.8	3.0	2.5
Interest/ fiscal agent fees	(27.0)	(23.0)	-	-	(27.0)	(23.0)
Open space credit transfer	(6.7)	(6.9)	6.7	6.9	-	-
Interest earned credit	(0.2)	(0.2)	0.2	0.2	-	-
Net non- operating income	(4.1)	4.8	11.7	10.6	7.6	15.4
Net income (loss)	\$ 53.0	\$ 109.2	\$ (2.8)	\$ (1.6)	\$ 50.2	\$ 107.6

Santa Clara Water District
Water Utility Enterprises Funds
Schedule of Revenues, Expenses and Changes in Net Position by Zone -
Budgetary Basis Discussion (Continued)
Year ended June 30, 2022 and 2021 (in millions)

Budgetary basis discussion:

- The Funds' total operating revenues were \$277.9 million for the current fiscal year. 95.0 percent of those revenues, or \$264.0 million were related to the North County, while the remaining 5.0 percent or \$13.9 million were related to the South County.
- Operating expenses for the North County include \$190.7 million in cost of goods sold, or 72.2 percent of its total operating revenues. For the South County, the cost of goods sold is \$15.8 million.
- Administration and general expenses were \$21.9 million or 8.3 percent of total operating revenues for the North County and \$6.9 million or 49.6 percent of total operating revenues for the South County.
- Total operating revenues of \$277.9 million, less total operating expenses of \$235.3 million, netted \$42.6 million of income from operations for the current year. The North County recorded a net operating income of \$57.1 million, while the South County incurred a net operating loss of \$14.5 million.

Total income from operations was supplemented with property tax, operating grants, investment income (loss) and other income totaling \$34.6 million.

- Property taxes collected in the North County amounted to \$35.9 million, while \$3.9 million were collected in South County for a total of \$39.8 million. These are comprised of the voter-approved obligations for State Water Project and the water utility's allocated share of the countywide 1 percent ad valorem taxes.
- Investment earnings for the current fiscal year were \$3.5 million. This was offset by a \$11.8 million unrealized loss in the portfolio's fair market value due to the rise in interest rates experienced towards the end of the current fiscal year, resulting in a net investment loss of \$8.3 million. This unrealized loss is temporary and should not materialize due to Valley Water's investment policy of holding all securities to their maturity under normal operating conditions.

**Santa Clara Water District
Water Utility Enterprises Funds
2022 Water Service Rate Schedule by Zone**

	<u>Rate per acre foot</u>
<u>Groundwater</u>	
Zone W- 2 North County - Agricultural	\$ 34.15
Zone W- 2 North County - Non- Agricultural	1,499.00
Zone W- 5 South County - Agricultural	34.15
Zone W- 5 South County - Non- Agricultural	488.00
Zone W- 7 South County - Agricultural	34.15
Zone W- 7 South County - Non- Agricultural	528.50
Zone W- 8 South County - Agricultural	34.15
Zone W- 8 South County - Non- Agricultural	341.50
<u>Treated Water</u>	
Contract (Scheduled) ⁽²⁾	1,614.00
Non-Contract ⁽³⁾	1,699.00
<u>Surface Water (Basic User Charge)</u>	
Zone W-2 North County -Agricultural	75.05
Zone W-2 North County -Non-Agricultural	1,539.90
Zone W-5 South County -Agricultural	75.05
Zone W-5 South County -Non-Agricultural	528.90
Zone W-7 South County -Agricultural	75.05
Zone W-7 South County -Non-Agricultural	569.40
Zone W-8 South County -Agricultural	75.05
Zone W-8 South County -Non-Agricultural	382.40
Water Master ⁽¹⁾	40.90
<u>Reclaimed Water</u>	
Gilroy Reclamation Facility – Agricultural	61.55
Gilroy Reclamation Facility – Non- Agricultural	468.00

(1) The surface water charge is the sum of the basic user charge (which equals the groundwater production charge) plus the water master charge.

(2) The total treated water contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the contract surcharge.

(3) The total treated water non-contract charge is the sum of the basic user charge (which equals the groundwater production charge) plus the non-contract surcharge.



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Santa Clara Valley Water District

File No.: 23-0720

Agenda Date: 8/16/2023

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:

Receive Information Regarding the Quality and Environmental Management System (QEMS) Internal Audit Program.

RECOMMENDATION:

Receive information regarding the QEMS Internal Audit Program.

SUMMARY:

Valley Water's QEMS is based on an International Organization for Standardization (ISO) framework, specifically, ISO 9001 Quality Management System and ISO 14001 Environmental Management System standards. Valley Water's QEMS is one of the programs that assists the organization to continually improve.

Valley Water's QEMS framework encompasses processes and standard operating procedures Valley Water uses to organize, manage, and improve its work to achieve organizational objectives. Specifically, the QEMS consists of Valley Water's Document Control System, which captures staff's knowledge and organizes the work in a predictable way. Valley Water's Corrective and Preventive Action Request (CPAR) System, including regular CPAR Review Committee meetings, drives improvement to operations. Internal Audits are conducted to monitor and improve the performance of the QEMS. This framework ensures the continuity of daily operations, facilitates succession planning by managing a robust employee knowledge base, and assists the organization's continual improvement efforts.

In recent years, staff has endeavored to improve the QEMS framework by not only improving QEMS processes and documentation, but also improving the QEMS internal audit program. The purpose of this memo is to provide a status update on the efforts to improve the QEMS internal audit program (with some QEMS background provided for context).

QEMS Background

In 2019, The Board Audit Committee (BAC) requested a QEMS Methodology Benchmarking analysis

on Valley Water's Capital Project Delivery Process. The objective was to identify opportunities to improve QEMS processes and remove barriers to productivity.

In 2021, The results of the study were provided to the BAC. One of the key findings of the benchmarking analysis was that QEMS is an effective system that provides quality assurance, quality controls, guidance, and a productive means for continual improvement. However, the study noted that there were opportunities to optimize QEMS to provide greater benefit. A status update on the opportunities for improvement will be provided in a separate agenda memo at today's Board Audit Committee meeting.

Enhancement to the Internal Audit Program:

In May 2019, executive management requested that staff enhance the QEMS Internal Audit Program and authorized staff to establish a Request for Proposals (RFP) for a third-party internal auditor.

Prior to 2020, trained staff conducted QEMS internal audits. In 2020, Valley Water hired two auditing firms to perform the role of 3rd Party Internal Auditor: 1) PMA Consultants (PMA); and 2) Macias, Gini & O'Connell LLP (MGO).

During the Pandemic, the QEMS Internal Audit Program was put on hold. In 2021, staff developed a plan to conduct a comprehensive analysis of the content within QEMS, which would need to be completed prior to restarting the QEMS Internal Audit Program using the 3rd Party Auditors.

Staff undertook the comprehensive analysis in 2022 and completed it in early 2023. Staff reviewed over 120 QEMS processes and completed approximately 100 process-owner updates, and about 30 content updates. Approximately 20 processes were removed from the system because they were no longer in use or were irrelevant in the current environment.

In March 2023, the Chiefs received the results of the Comprehensive Program Review, and in April 2023, the revised QEMS Internal Audit Program was initiated.

The revised QEMS Internal Audit Program is driven by Chief requests to audit QEMS areas where they see a need to improve. Staff is currently working with the Water Utility division to identify a potential QEMS internal audit. Staff will strive to ensure that there is no overlap of the QEMS internal audits with the Board-directed audits or other Management-directed audits. Valley Water's CPAR system remains in place as a complementary method to drive continual improvement.

For this item, the BAC is requested to receive the information and provide any feedback as appropriate.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. The QEMS Internal Audit program is a tool for management to self-monitor and continually improve internal processes where and when appropriate. There are no environmental impacts that result from this effort.

File No.: 23-0720

Agenda Date: 8/16/2023
Item No.: 4.5.

ATTACHMENTS:

Attachment 1: PowerPoint

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

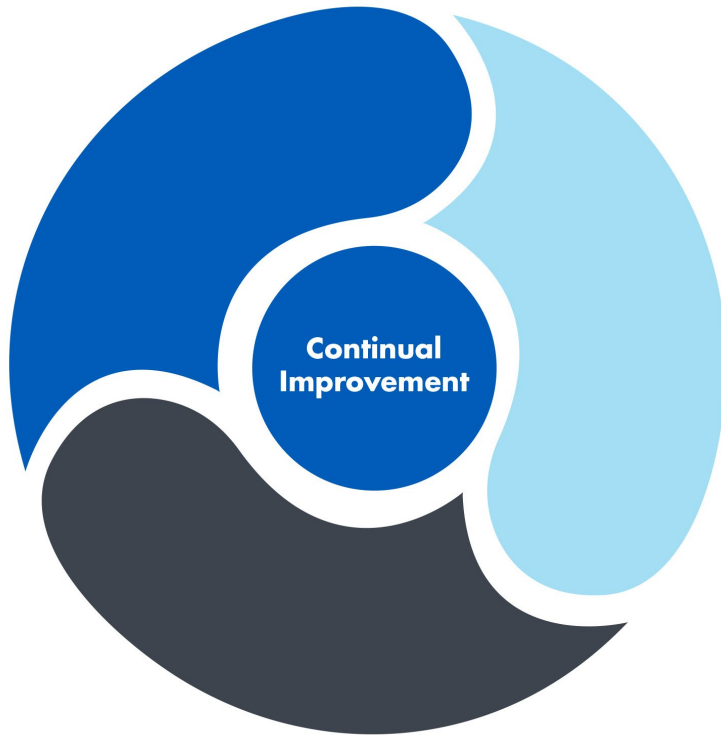
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QEMS Internal Audit Program

Presented by K. Anthony Mendiola
August 16, 2023 - BAC Meeting

AGENDA

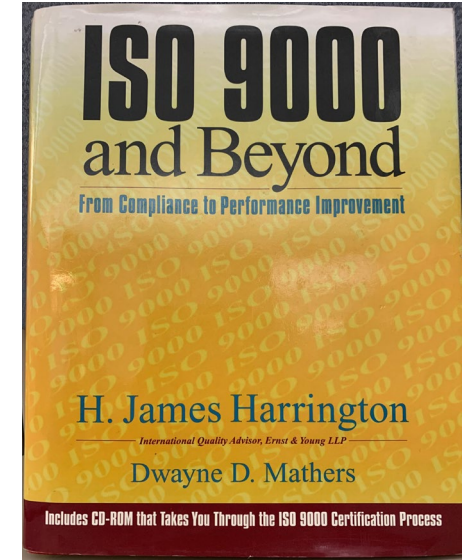


- ❖ QEMS History
- ❖ QEMS Internal Audit History
- ❖ Current status of QEMS Internal Audit Program

QEMS HISTORY

3

- ❖ Pre-2001: Capital Projects Unit identified a need for improved capital project delivery processes
- ❖ Sept 2001: Instituted the Quality Management System Program
- ❖ Oct 2002: ISO 9001:2000 Certification (Quality) Capital Projects
- ❖ Feb 2004: ISO 14001:2004 Certification (Environmental) Watersheds
- ❖ Jan 2008: District-wide ISO 9001:2008 and ISO 14001:2004 Certification Achieved
- ❖ Nov 2017: Achieved ISO Recertifications under 2015 Standards
- ❖ Aug 2018: ISO certifications are allowed to lapse



QEMS HISTORY (cont.)

4

- ❖ May 2019: BAC concurred with Executive Management that:
 - ISO Certification did not correlate to effectiveness.
 - Focus should be on guidelines and processes that are:
 - forward thinking, and outcome oriented.
- ❖ Dec 2019: QEMS Methodology Benchmarking Analysis Initiated:
 - Benchmarking Questionnaire
 - Gap Analysis
- ❖ Aug 2021: BAC receives Benchmarking Analysis results:
 - QEMS is effective for continual improvement
 - Valley Water has opportunities to optimize QEMS to provide greater benefit
- ❖ Jan 2022: Staff began Phase 1 of the QEMS Improvements Implementation effort
 - Status to be discussed in separate agenda item today



QEMS INTERNAL AUDIT HISTORY

5

- ❖ Pre-2020: Trained staff conducted QEMS internal audits (check the box focus)
 - Audits conducted every 6 months
 - “Check the box” mindset
 - Negative connotation associated with internal QEMS audits
- ❖ Jul 2020: Valley Water hired two auditing firms to conduct 3rd party QEMS internal audits
 - COVID-19 pandemic causes transition efforts to stall
- ❖ Apr 2022: Staff kicked off comprehensive analysis of QEMS content
 - To be completed prior to restarting the QEMS internal audit program
- ❖ Mar 2023: Comprehensive analysis of QEMS content completed
- ❖ Apr 2023: Revised QEMS internal audit program initiated
 - “Value added” mindset based on input from Chiefs

COMPREHENSIVE ANALYSIS OF QEMS PROGRAM CONTENT

6

- ❖ Comprehensive Program Review conducted by CI Team and led by QEMS Internal Lead Auditor
 - Completed in March 2023
 - 120 QEMS processes reviewed
 - 100 process owner updates
 - 30 content updates
 - 20 processes removed

REVISED QEMS INTERNAL AUDIT PROGRAM INITIATED APRIL 2023⁷

- ❖ Internal Audits to be conducted by Third-Party Internal Auditors
 - Chiefs to provide direct input to QEMS Internal Audit Program
 - ✓ Which business areas/projects to audit
 - ✓ Frequency of audits
 - ✓ Scope of work for audits
 - Allows for an “Audit-as-you-go” approach to be integrated into the QEMS continual improvement approach of “Plan-Do-Check-Act”.



Step 1: Implement Highest Ranked Priority Opportunities
Step 2: Training & Auditing
Step 3: Continual Improvement

QUESTIONS



178





Santa Clara Valley Water District

File No.: 23-0719

Agenda Date: 8/16/2023

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:

Receive Information on the Quality and Environmental Management System (QEMS) Improvements Implementation Effort.

RECOMMENDATION:

Receive information on the QEMS Improvements Implementation effort.

SUMMARY:

In recent years, staff has endeavored to improve the QEMS framework by not only improving the QEMS internal audit program (discussed in a separate agenda memo in today's Board Audit Committee meeting), but also improving QEMS processes and documentation. The purpose of this memo is to provide a status on the efforts to improve QEMS processes and documentation.

Background

In January 2020 Tanner Pacific, Inc. (TPI) was hired to conduct a QEMS Methodology Benchmarking Analysis on Valley Water's Capital Project Delivery Process. The objective was to identify opportunities to improve QEMS processes and remove barriers to productivity.

TPI, in conjunction with the Continual Improvement Team, identified external agencies/entities like Valley Water and Internal stakeholders to be surveyed as part of this effort. Surveys were developed and customized to each group. Responses were compiled and analyzed to determine areas of risk and/or opportunities for improvement.

At the August 18th, 2021, BAC meeting, TPI provided an overview of the findings and opportunities for improvement (OFI) as well as an action plan intended to address the more critical and/or easiest opportunities for improvement first.

The key findings of the benchmarking analysis were as follows:

1. QEMS is an effective system that provides quality assurance, quality controls, guidance, and a productive means for continual improvement;

2. Valley Water is an industry leader in implementing and utilizing a continual improvement process, and;
3. Valley Water has opportunities to:
 - a. Develop QEMS for emerging needs,
 - b. Update QEMS in a few significant subject areas, and
 - c. Optimize QEMS processes to ensure they are forward-thinking.

The benchmarking analysis recommendations are being managed by the Continual Improvement Team and Third-Party Internal Auditors, PMA Consultants, through the QEMS Improvements Implementation effort. The findings were incorporated as 'Opportunities for Improvement' (OFIs) into Valley Water's Corrective and Preventative Action Request (CPAR) system so that the progress of each opportunity could be managed to completion and reported to the CPAR Review Committee (CRC) during quarterly meetings.

Status Update

At the August 30th, 2022, Board Audit Committee meeting, staff provided an update of the findings and OFIs as well as an action plan intended to address the more critical and/or easiest opportunities for improvement first. Following is a summary of each OFI and its status as of August 16, 2023:

- OFI #713 - Establish a QEMS process for Environmental Justice: The Office of Racial Equity, Diversity, and Inclusion (REDI) is working with Cordoba Consultants to develop performance metrics. This OFI is on hold and will be revisited at a later date, after the performance measurements have been implemented.
- OFI #714 - Update the Construction Management Manual (v2009): The update to the Construction Manual was completed and published on January 20, 2023, with an announcement made on News You Can Use on February 9, 2023. The CRC approved closure of this OFI during the March 8, 2023, CRC Meeting.
- OFI #715 - Update the Risk Management QEMS Process and Risk Register Template and streamline the process to align with peer agency/best practices. The key change to the process is the bifurcation of large and small projects and the development of a project characterization matrix, intended to help the project team determine where their project fits either large/complex, or small/non-complex. The updated process and matrix are being reviewed and a brown bag training will be offered to staff after the documents are published. Closure of this OFI will be requested at the next CRC Meeting scheduled for September 28, 2023.
- OFI #716 - Develop a Best Practice matrix for Alternative Delivery processes. On November 22, 2022, the Board adopted a Resolution approving the Engineer's Report and approved the Coyote Pumping Plant ASD Replacement Project, which will utilize an alternative delivery process, progressive design-build. PMA Consultants have prepared a draft Best Management Practice (BMP) Matrix to assist the Project Team in this effort, which is currently being reviewed. An update to this OFI will be provided at the next CRC Meeting scheduled for September 28, 2023
- OFI #717 - Improve the Asset Management (AM) process by developing an AM list during the

Design phase of a project. The list includes AM deliverables (e.g. submittal forms, inspection forms) in bid docs, along with bid line items to enforce Contractor performance. The QEMS procedure and specification document modifications have been incorporated by the AM Manager and accepted by the process document owners. The updated documents will be submitted to CI Team to process, and closure of this OFI will be requested at the next CRC Meeting scheduled for September 28, 2023.

- OFI #718 - Develop a Project Control Office (PCO) plan that integrates existing performance metrics (project, environment, equity). In fall 2021 the Software-As-A-Service (SAAS) Agreement was awarded to Systemates for implementation of a Project Management Information System (PMIS) Projectmates and the Business Planning and Analysis Unit (Unit 214) developed the Capital Project Management and Project Controls (CPMPC) Program. The primary purpose of the CPMPC Program was to develop and implement the Projectmates system for use by all capital projects. Projectmates went live on February 13, 2023, and Staff will pilot test on the Anderson Dam Seismic Retrofit project. The CRC Committee approved closure of this OFI during the March 8, 2023, CRC Meeting.

For this item, the BAC is requested to receive the information presented by staff and provide any feedback as appropriate.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. The QEMS Improvements Implementation effort is intended to improve internal processes. There are no environmental impacts that result from this effort.

ATTACHMENTS:

None.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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Santa Clara Valley Water District

File No.: 23-0713

Agenda Date: 8/16/2023

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:

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

RECOMMENDATION:

Review and discuss topics of interest raised at prior 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.

At its January 10, 2023, board meeting, the board approved designating July 2023 as a Board and Committee meeting recess period, with the next regularly scheduled BAC meeting occurring after the recess on August 16, 2023.

At its June 21, 2023, meeting, the BAC decided that the Annual Audit Training from Board Independent Auditor could be conducted in the month of August, separate from the August 16, 2023, BAC meeting. The scope of the training will encompass the audit process, risk assessment, audit selection, audit planning, field work, and reporting with an emphasis on risk assessment. Additionally, staff was asked to add a topic to the September 20, 2023 meeting regarding Valley Water's contractual responsibility to confirm best practices with Joint Powers Authorities (JPA), non-profit organizations, and public/private partnerships; and whether annual audits are legally required prior to Valley Water's involvement (new item #38). These changes have been captured in the BAC Work Plan (Attachment 1).

Looking forward, the topics of discussion identified for the September 20, 2023, BAC Meeting can be summarized as follows:

1. 2023 BAC Work Plan
2. Risk Assessment Report from CAE
3. Financial Status Update - Unaudited Close
4. BAC Authority regarding Joint Powers Authority (JPA) Agreements

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

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. The Board Audit Committee Work Plan serves as a tool utilized by the BAC to identify topics to be discussed during the public meeting and when that topic may be presented.

ATTACHMENTS:

Attachment 1: 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	6	7	0	9	4	2	5	3	<u>Note:</u> 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					•	•							<u>Recommendation:</u> 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	•	•	•	•	•	•		•	•	•	•	•	<u>Recommendation:</u> 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						•							<u>Recommendation:</u> Discuss scope of Annual Audit Training from Board Independent Auditor.
5	Receive Annual Audit Training from Board Independent Auditor								•					<u>Recommendation:</u> Receive Annual Audit Training from Board Independent Auditor. <u>Notes:</u> 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	•	•											<u>Jan. Recommendation:</u> A. Discuss Annual Self-Evaluation Process; and B. Authorize Staff to initiate the process and return to BAC with results at a later date <u>Feb. Recommendation:</u> 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. <u>Note:</u> 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
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 Note: Jan = BAC Requests report from CAE; Mar = Receive and discuss report from CAE

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading indicates that the items have been completed.

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	
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													Recommendation: 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. Note: 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	Provide a Progress Update of the current Risk Assessment						•		•					<u>Recommendation:</u> Receive a Progress Update for the 2023 Risk Assessment.
11	Provide Report on 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														
12	External Financial Auditor Meeting with Individual Board members													<u>Note:</u> Schedule as needed.
13	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														
14	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. Note: This is a Nov. agenda item
15	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.
16	Receive QEMS Annual Internal Audit Report								•					<u>Recommendation:</u> Receive information regarding the Quality and Environmental Management System.

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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	
17	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														
18	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													
19	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													
20	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													
21	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													
22	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													
23	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													
24	Receive notification of initiated Audit													<u>Note:</u> Audit Objectives - What is the objective of this audit?
25	Review Audit Progress Report			•										<u>Recommendation:</u> Receive an update on the status of the on-going audit.

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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	
26	Review Audit Draft Report Presentation					•								<u>Recommendation:</u> Receive and discuss the preliminary Draft Audit Report.
27	Review Management's Response to Audit Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Draft Audit Report; and B. Provide feedback to staff as appropriate.
28	Receive Final Report with Management's response and Auditor's comments								•					<u>Recommendation:</u> A. Receive the Final Audit Report; and B. Authorize staff to take the report to the full Board.
Management Audits - PMA, MGO, and 3rd Party Items														
Audit - 2014 Transparency Compliance Audit														
29	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. NOTE: 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														
30	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														
31	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														
32	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														
33	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; November for Q1 review
34	Financial Audit - Periodic Update						•							Schedule as needed <u>Recommendation:</u> Discuss the Financial Audit

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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	
35	Board's Auditor Pool RFP Status Update													Schedule as needed <u>Recommendation:</u> Receive a status update regarding the Request for Proposal (RFP) for Board Auditing Services
36	Process to report on implementation of audit recommendations, and to close Board directed audits				•									Stand-alone Topic <u>Recommendation:</u> Discuss process roles and responsibilities related to reporting on implementation of audit recommendations and closing Board-directed audits.
37	Threat to Public Services or Facilities								•					<u>CLOSED SESSION:</u> Pursuant to Government Code Section 54957(a) Consultation with Alex Gordon, Assistant Officer
38	BAC Authority as it relates to Joint Powers Authority agreements (JPAs)									•				Stand-alone Topic

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading denotes that the items have been completed.

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Santa Clara Valley Water District

File No.: 23-0658

Agenda Date: 8/16/2023
Item No.: 6.1.

NON-EXHIBIT/CLOSED SESSION ITEM

SUBJECT:

CLOSED SESSION

THREAT TO PUBLIC SERVICES OR FACILITIES

Pursuant to Government Code Section 54957(a)

Consultation with Alex Gordon, Assistant Officer

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