



Santa Clara Valley Water District Board Audit Committee Meeting

Headquarters Building Conference Room A-124
5700 Almaden Expressway
San Jose, CA 95118

11:30 AM REGULAR MEETING AGENDA

**Monday, November 18, 2019
11:30 AM**

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

BOARD AUDIT COMMITTEE

Barbara Keegan, Chair, District 2
Nai Hsueh, Vice Chair, District 5
Gary Kremen, District 7

All public records relating to an 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 for public inspection at the Office of the Clerk of the Board at the Santa Clara Valley Water District Headquarters Building, 5700 Almaden Expressway, San Jose, CA 95118, 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 attend Board of Directors' meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 265-2600.

DARIN TAYLOR
Committee Liaison

MAX OVERLAND
Assistant Deputy Clerk II
Office/Clerk of the Board
(408) 630-2749
moverland@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.

THIS PAGE INTENTIONALLY LEFT BLANK

**Santa Clara Valley Water District
Board Audit Committee
11:30 AM REGULAR MEETING
AGENDA**

Monday, November 18, 2019

11:30 AM

Headquarters Building Conference Room A-124

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: This item is reserved for persons desiring to address the Committee on any matter not on this agenda. Members of the public who wish to address the Committee on any item not listed on the agenda should complete a Speaker Form and present it to the Committee Clerk. The Committee Chair will call individuals in turn. 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 Minutes.

[19-1053](#)

Recommendation: Approve the minutes.

Manager: Michele King, 408-630-2711

Attachments: [Attachment 1: 102319 BAC Minutes](#)

Est. Staff Time: 5 Minutes

4. ACTION ITEMS:

4.1. Develop the 2020 Board Audit Committee Work Plan.

[19-1056](#)

Recommendation: Provide feedback and approve the 2020 Board Audit Committee Work Plan.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: Proposed 2020 BAC Work Plan](#)

Est. Staff Time: 5 Minutes

5. INFORMATION ITEMS:

5.1. Board Independent Auditor Report Update - TAP International, Inc. [19-1054](#)

- Recommendation: A. Discuss the Annual Audit Work Plan and update, if necessary;
 B. Discuss the status of on-going audits; and
 C. Discuss the Contract Change Order Audit Management Response to Draft Report.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: Annual Audit Work Plan](#)
 [Attachment 2: Contract Change Order Draft Report](#)

Est. Staff Time: 20 Minutes

5.2. Review and Update 2019 Board Audit Committee Work Plan [19-1055](#)

- Recommendation: A. Review the 2019 Board Audit Committee Work Plan; and
 B. Discuss topics of interest and make any necessary adjustments to the Board Audit Committee Work Plan.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: 2019 BAC Work Plan](#)

Est. Staff Time: 5 Minutes

5.3. CalPERS Office of Audit Services review of Valley Water's Temporary Upgrade Pay Reported as Special Compensation. [19-1011](#)

- Recommendation: Receive information pertaining to the August 2019 CalPERS initial audit findings temporary upgrade pay reported as special compensation.

Manager: Anna Noriega, 408-630-3089

Est. Staff Time: 5 Minutes

6. 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.

7. ADJOURN:

- 7.1. Adjourn to Regular Meeting at 12:00 p.m., on December 18, 2019, in the Santa Clara Valley Water District (HQ Boardroom/Board Conference Room A-124), 5700 Almaden Expressway, San Jose, California.



Santa Clara Valley Water District

File No.: 19-1053

Agenda Date: 11/18/2019

Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Approval of Minutes.

RECOMMENDATION:

Approve the minutes.

SUMMARY:

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

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

ATTACHMENTS:

Attachment 1: 102319 BAC Minutes

UNCLASSIFIED MANAGER:

Michele King, 408-630-2711

THIS PAGE INTENTIONALLY LEFT BLANK



BOARD AUDIT COMMITTEE MEETING

MINUTES

**Wednesday, October 23, 2019
10:00 AM**

(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 District Headquarters Conference Room A-124, 5700 Almaden Expressway, San Jose, California, at 10:00 a.m.

1.1 Roll Call.

Committee members in attendance were District 5 Director N. Hsueh, District 7 Director G. Kremen, and District 2 Director B. Keegan, Chairperson presiding, constituting a quorum of the Committee.

Staff members in attendance were N. Camacho, Chief Executive Officer (CEO), M. King, Clerk, Board of Directors, A. Blackmon, T. Bramer, G. Del Rosario, T. Esch, B. Hopper, F. Hernandez, N. Nguyen, A. Noriega, L. Orta, M. Overland, L. Rossiter, D. Taylor, and T. Yoke.

Also in attendance were D. Callahan, and G. Matayoshi, TAP International, Inc. (TAP)

2. TIME OPEN FOR PUBLIC COMMENT:

2.1 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 present who wished to speak.

3. APPROVAL OF MINUTES

3.1 Approval of Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the August 28, 2019, meeting. It was moved by Director Hsueh, seconded by Chairperson Keegan, and unanimously carried that the minutes be approved as presented.

4. ACTION ITEMS

4.1 Board Independent Auditor Report Update – TAP International, Inc. (TAP).

Recommendation: A. Discuss the Annual Audit Work Plan and update, if necessary;
 B. Discuss the status of on-going audits; and
 C. Discuss the Change Order Audit Progress.

Ms. Denise Callahan, TAP, reviewed the information on this item, per the attached Committee Agenda Memo, and corresponding presentation materials contained in Attachment 1.

During the presentation, the Committee made the following requests:

- A. Audit Review:
 - TAP to follow up in 6 to 8 months regarding the implementation of the Encroachment Remediation Program which was approved by the full Board on October 22, 2019, Agenda Item 2.9.
- B. Desk Review:
 - TAP to perform a Desk Review of key controls and financial management regarding the extension of grants approved by the full Board on October 22, 2019, Agenda Items 7.3, 7.4, and 7.5;
 - TAP to perform a Risk Management review of Valley Water hiring practices; and
 - TAP to perform a desk review of the Board Agenda preparation process.

4.2 Review and Update 2019 Board Audit Committee Work Plan.

Recommendation: A. Review the 2019 Board Audit Committee Work Plan; and
 B. Discuss topics of interest raised at prior Board Audit Committee meetings and make any necessary adjustments to the Board Audit Committee Work Plan.

Mr. Darin Taylor, Chief Financial Officer, reviewed the information on this item, per the attached Committee Agenda Memo, and corresponding presentation materials contained in Attachment 1.

During the presentation, the Committee made the following requests of staff:

- Add QEMS Process Improvement Overview to the BAC Work Plan; and
- District Counsel to provide the Committee with memorandum on closed session special topics.

4.3 Review Proposed Board Performance Framework.

Recommendation: Review and provide input on the Proposed Board Performance Framework.

Ms. Michele King, Clerk, Board of Directors, reviewed the information on this item, per the attached Committee Agenda Memo, and corresponding presentation materials contained in Attachment 1.

The Committee noted the information without formal action.

5. INFORMATION ITEMS

5.1 Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. (Navigant) and the Consultant Contracts Improvement Process.

Recommendation: Receive and discuss a verbal 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.

Ms. Tina Yoke, Chief Operating Officer, reviewed the information on this item, per the attached Committee Agenda Memo.

The Committee noted the information without formal action.

6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

6.1 Clerk Review and Clarification of Committee Requests.

Mr. Max Overland, Assistant Deputy Clerk II, confirmed that there were no new Committee Recommendations or Requests.

7. ADJOURN

- 7.1 Chairperson Keegan adjourned the meeting at 12:35 p.m. to the next meeting, which will be scheduled and posted in accordance with the Brown Act.

Max Overland
Assistant Deputy Clerk II



Santa Clara Valley Water District

File No.: 19-1056

Agenda Date: 11/18/2019

Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Develop the 2020 Board Audit Committee Work Plan.

RECOMMENDATION:

Provide feedback and approve the 2020 Board Audit Committee Work Plan.

SUMMARY:

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 based upon a majority vote of the Committee. Committee Work Plans also serve as Annual Committee Accomplishments Reports.

The proposed 2020 Board Audit Committee Work Plan is included in Attachment 1.

ATTACHMENTS:

Attachment 1: Proposed 2020 Board Audit Committee Work Plan

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

THIS PAGE INTENTIONALLY LEFT BLANK

BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Board Audit Committee Meeting Dates														
1	Meeting Dates	•	•	•	•	•	•	•	•	•	•	•	•	On-going.
Board Audit Committee Management														
2	Review and update BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	On-going. Schedule open discussion as needed for topics of interest raised at prior BAC meetings.
3	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	Full Board approved Annual Audit Work Plan on 6/25/19.
4	Prepare risk assessment tri-annually													Next Risk Assessment scheduled to be completed in October 2021.
5	Evaluate Board Auditor performance												•	
6	Provide status report to full Board quarterly													Report to be provided to Board in non-agenda the month after each BAC meeting.
7	Receive training from independent auditor annually	•												Scheduled for first meeting in 2020.
8	Conduct self evaluation annually	•												Scheduled for first meeting in 2020.
9	External Financial Auditor meeting with individual Board members													Schedule as needed.
Board Audit Committee Special Requests														
10	Review staff CAS update every 6 months				•									On-going. Combined with Procurement/CAS Mgmt. Audit Review.
11	Review staff presentation on QEMS & ISO Certification	•												Provide overview of QEMS Process Improvement post ISO de-certification.
12	Review information on ISO Certification at other agencies													
Management and 3rd Party Audits														
13	Review QEMS Annual Report		•											Scheduled for early 2020.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed. Attachment 1

BOARD AUDIT COMMITTEE 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
14	Participate in financial statement audit procurement process													Next procurement scheduled for January 2022.
15	Review draft audited financial statements											•		Financial auditor to present and contact Board members.
16	Review Procurement/CAS Management Audit Report				•									
17	Water Utility Fund Audit													Revenue/Cost Allocation audit between North/South zones.
18	FEMA Audits													FEMA National Flood Insurance Program Community Rating System 5-year Verification Audit to begin 8/6/19. Completion TBD.
19	Grant Audits													No upcoming audits.
20	CalPERS Employment of Retired Annuitants Audit													Audit Results: Valley Water did not fully complete the process of enrolling/reporting the hours of 3 out of 30 retired annuitants. Staff reported having made the required adjustments since the audit was conducted.
21	CalPERS Special Compensation Audit													In the process of reclassifying the plant operators' shift premium payments retroactively to 2013 as the last step to complete this audit. Staff will bring the audit report to the BAC meeting immediately following the availability of results.
22	CalPERS Temporary Upgrade Pay Audit													Audit to determine whether temporary upgrade pay reported by employers was in compliance with the Public Employees' Retirement Law. Auditors scheduled to perform audit onsite on 8/12/19 - 8/13/19. Staff will bring the audit report to the BAC meeting immediately following the availability of results.

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed. Attachment 1

BOARD AUDIT COMMITTEE 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Audit - District Counsel														
23	Receive notification of initiated District Counsel Audit													Complete.
24	Review District Counsel Audit Progress Report	•												On-going until audit complete.
25	Review District Counsel Audit Draft Report Presentation													
26	Review Response to District Counsel Audit Final Draft Report													
Audit - Real Estate														
27	Receive notification of initiated Real Estate Audit													Complete.
28	Review Real Estate Audit Progress Report	•												On-going until audit complete.
29	Review Real Estate Audit Draft Report Presentation													
30	Review Response to Real Estate Audit Final Draft Report													
Audit - Construction Project Management (Tentative)														
31	Receive notification of initiated Construction Project Management Audit													
32	Review Construction Project Management Audit Progress Report													On-going until audit complete.
33	Review Construction Project Management Audit Draft Report Presentation													
34	Review Response to Construction Project Management Audit Final Draft Report													
Audit - Supervisory Control and Data Acquisition (Tentative)														
35	Receive notification of initiated Supervisory Control and Data Acquisition Audit													
36	Review Supervisory Control and Data Acquisition Audit Progress Report													On-going until audit complete.
37	Review Supervisory Control and Data Acquisition Audit Draft Report Presentation													

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed. Attachment 1

BOARD AUDIT COMMITTEE 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
38	Review Response to Supervisory Control and Data Acquisition Audit Final Draft Report													
Audit - Permitting Best Practices (Tentative)														
39	Receive notification of initiated Permitting Best Practices Audit													
40	Review Permitting Best Practices Audit Progress Report												On-going until audit complete.	
41	Review Permitting Best Practices Audit Draft Report Presentation													
42	Review Response to Permitting Best Practices Audit Final Draft Report													
Audit - Risk Management (Tentative)														
43	Receive notification of initiated Risk Management Audit													
44	Review Risk Management Audit Progress Report												On-going until audit complete.	
45	Review Risk Management Audit Draft Report Presentation													
46	Review Response to Risk Management Audit Final Draft Report													
Audit - Billing and Collections (Tentative)														
47	Receive notification of initiated Billing and Collections Audit													
48	Review Billing and Collections Audit Progress Report												On-going until audit complete.	
49	Review Billing and Collections Audit Draft Report Presentation													
50	Review Response to Billing and Collections Audit Final Draft Report													
Audit - Accountability (Tentative)														
51	Receive notification of initiated Accountability Audit													
52	Review Accountability Audit Progress Report												On-going until audit complete.	

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed. Attachment 1

BOARD AUDIT COMMITTEE 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
53	Review Accountability Audit Draft Report Presentation													
54	Review Response to Accountability Audit Final Draft Report													
Audit - Community Engagement (Tentative)														
55	Receive notification of initiated Community Engagement Audit													Audit Objectives: Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities?
56	Review Community Engagement Audit Progress Report													On-going until audit complete.
57	Review Community Engagement Audit Draft Report Presentation													
58	Review Response to Community Engagement Audit Final Draft Report													
Audit - Homelessness Analysis (Tentative)														
59	Receive notification of initiated Homelessness Analysis Audit													
60	Review Homelessness Analysis Audit Progress Report													On-going until audit complete.
61	Review Homelessness Analysis Audit Draft Report Presentation													
62	Review Response to Homelessness Analysis Audit Final Draft Report													
Audit - Classified Information (Tentative)														
63	Receive notification of initiated Classified Information Audit													
64	Review Classified Information Audit Progress Report													On-going until audit complete.
65	Review Classified Information Audit Draft Report Presentation													
66	Review Response to Classified Information Audit Final Draft Report													

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed. Attachment 1

BOARD AUDIT COMMITTEE 2020 WORKPLAN
January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Audit - Local Workforce Hiring (Tentative)														
67	Receive notification of initiated Local Workforce Hiring Audit													
68	Review Local Workforce Hiring Audit Progress Report													On-going until audit complete.
69	Review Local Workforce Hiring Audit Draft Report Presentation													
70	Review Response to Local Workforce Hiring Audit Final Draft Report													
Audit - Equipment Maintenance (Tentative)														
71	Receive notification of initiated Equipment Maintenance Audit													
72	Review Equipment Maintenance Audit Progress Report													On-going until audit complete.
73	Review Equipment Maintenance Audit Draft Report Presentation													
74	Review Response to Equipment Maintenance Audit Final Draft Report													
Audit - Community Engagement (Tentative)														
75	Receive notification of initiated Community Engagement Audit													Audit Objectives: What are the best practices in planning and facilitating community engagement?
76	Review Community Engagement Audit Progress Report													On-going until audit complete.
77	Review Community Engagement Audit Draft Report Presentation													
78	Review Response to Community Engagement Audit Final Draft Report													
Audit - Water Fix (Tentative)														
79	Receive notification of initiated Water Fix Audit													
80	Review Water Fix Audit Progress Report													On-going until audit complete.
81	Review Water Fix Audit Draft Report Presentation													

Note: The • denotes that an item is on the BAC meeting agenda for the corresponding month in which the • is listed. The shading represents that the items have been completed. Attachment 1

BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
82	Review Response to Water Fix Audit Final Draft Report													

THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 19-1054

Agenda Date: 11/18/2019

Item No.: 5.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Board Independent Auditor Report Update - TAP International, Inc.

RECOMMENDATION:

- A. Discuss the Annual Audit Work Plan and update, if necessary;
- B. Discuss the status of on-going audits; and
- C. Discuss the Contract Change Order Audit Management Response to Draft Report.

SUMMARY:

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

On May 23, 2017, the Board, approved an on-call consultant agreement with TAP International, Inc. (TAP) for Board independent auditing services.

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

On February 26, 2019, the Board approved the Board Audit Committee's recommendation for TAP to conduct three performance audits recommended by the Board Audit Committee. The three audits include performance audits of the District Counsel's office, contract change order management processes, and real estate services.

An amendment to the Board independent auditing services agreement was initiated to increase the not-to-exceed amount from \$405,000 to \$1,005,000 to complete all three proposed audits and approximately three additional future audits. On June 7, 2019, the amendment was completed, therefore, TAP will initiate the performance audits of the District Counsel's office and real estate services. Following initiation of the audits, the Committee shall discuss the status of on-going audits until the audits are completed.

On June 25, 2019, the Board approved the Annual Audit Work Plan for FY 2018-2019 through FY 2020-2021 (Attachment 1). In addition to carrying out audits in the Board approved Annual Audit Work Plan, the Committee shall discuss and update the Annual Audit Work Plan, if necessary.

On August 27, 2019, the Board approved the BAC Audit Charter to provide detailed guidance regarding how the BAC should carry out its functions and to guide the work of TAP International, Inc.

Following Board approval of the three performance audits, TAP initiated the audit of contract change order management processes and discussed the audit scope with the BAC Chair. On October 23, 2019, Management Response to the contract change order audit draft report was submitted to TAP, for later discussion by the Committee at the following Board Audit Committee meeting in November 2019.

ATTACHMENTS:

Attachment 1: Annual Audit Work Plan

Attachment 2: Contract Change Order Draft Report

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

Santa Clara Valley Water District Annual Audit Work Plan, FY 18/19 to FY 20/21.

DRAFT AUDIT WORK PLAN

SANTA CLARA VALLEY WATER DISTRICT BOARD OF DIRECTORS DRAFT
ANNUAL WORK PLAN, FY 18/19 TO FY 20/21

OVERVIEW

The selection of audits is an important responsibility of the Audit Committee. The formulation of this audit work began in 2018 when the Valley Water's Board of Director provided input and approved the enterprise risk assessment that was administered across agency operations. The audit work plan is a culmination of a comprehensive effort to consider input on auditable areas from Valley Water employees, mid-level management, executive management, and Board Directors.

The proposed audit work plan considers factors that, if addressed, will provide opportunities to mitigate those risks and improve operations. These factors include:

- **Operational** – Are Valley Water programs/activities performed and services delivered in the most efficient, effective, and economical manner possible, and do they represent sound business decisions, including appropriate responses to changes in the business environment?
- **Financial** – Is there an opportunity to improve how Valley Water manages, invests, spends, and accounts for its financial resources?
- **Regulatory** – Do Valley Water programs and activities comply with applicable laws and regulations?
- **Health and Safety** – Are Valley Water services delivered in a manner that protects our residents and employees from unnecessary exposure to environmental factors?
- **Information Security** – Are Valley Water's information systems and networks protected against unauthorized access, use, disclosure, disruption, modification, inspection, recording, or destruction?

In addition, the proposed audit work plan considers several other factors in the selection of audits.

- **Relevance** – Does the audit have the potential to affect Board decision-making or impact Valley Water customers and residents?
- **Best Practices** – Does the audit provide the opportunity to compare current performance to best practices?
- **Return on Investment** – Does the audit have the potential for cost savings, cost avoidance, or revenue generation?
- **Improvement** – Does the audit have the potential to result in meaningful improvement in how Valley Water does its business?
- **Risk** - The audit work plan also considers risks related to major functions, as identified through a 2017 enterprise risk assessment conducted by TAP International.
- **Audit Frequency** – Individual Divisions at the District should not be subject to more than two audits per year.

AUDIT WORK PLAN, FY 18/19 TO FY 20/21

This proposed audit work plan is divided into section. Section A describes ongoing non-audit (e.g. advisory) responsibilities of the Independent auditor and well as other quality assurance activities planned by District's executive management. Section B describes the audits planned for implementation by the Independent Auditor and other audits planned by District's executive management.

SECTION A

NON-AUDIT SERVICES AND SPECIAL PROJECTS

The following table lists non-audit services and special projects for the FY 2019-20 audit work plan:

Project	Scope	Planned Hours
Board of Director/Audit Committee Requests for Information	Ongoing. Should the Board of Directors request information on activities implemented by other public agencies or on other matters of interests applicable to enhancing the efficiency and effectiveness of operations, the independent auditor will collect and summarize information.	80
Audit Training	Annual. The Board Audit Committee Charter describes a requirement to provide audit training to BAC committee members at least annually.	2
Support services	Ongoing. Provide support services to Board Directors and Valley Water staff applicable to specific initiatives or planning projects to prevent potential service delivery risks, such as the planning of a new ERP system.	40
QEMS – Independent Auditor	Ongoing. Provide services to ensure proper oversight and accountability.	As needed
Management reviews	Ongoing. The District's CEO as needed will initiate internal quality assurance reviews of business practices and operations. These reviews are to be shared with the audit committee.	As needed

SECTION B: AUDIT SERVICES**AUDIT WORK PLAN – INDEPENDENT AUDITOR****FY 2018-19**

The following audits have been approved in FY 2018-19 by the Board of Directors and will continue into the FY 2019-20 audit work plan.

ID	Audit	Audit Objectives	Planned Hours
1	District Counsel Office Review	Are there structural, organizational, and process improvement opportunities for the District Counsel's Office?	664
5	Contract Change Order Processing	What types of business process improvements are necessary for contract change order processing?	429
6	Real Estate Review	How can the Real Estate improve its financial and service delivery performance?	574
Total	3 audits		1,667

FY 2019-20

The following audits have been selected for approval for the FY 2019-20 audit work plan.

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Sub Total		620-800	
13	Construction project management	What areas of Valley Water's capital project budgeting practices can benefit from adopting best practices?	314-371	Financial Improvement Risk Best practices
2	SCADA audit	Does the District's Supervisory Control and Data Acquisition (SCADA) systems meet established SCADA security frameworks?	714-857	Information Security Relevance Improvement Risk
7	Permitting best practices	How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?	171-229	Operational Best practices Improvement

4	Risk Management	Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims).	143-260	Relevance Financial Operational Best practices
3	Billing and Collections audit	Are there opportunities to enhance Valley Water's billing and collection processes?	343-429	Relevance Financial Regulatory Improvement Risk Return on Investment
11	Accountability audit	Are there opportunities to enhance safe clean water audits?	115-171	Health and Safety Relevance Improvement
Sub Total	6		1,800-2,317	

FY 2020-21

The following audits have been selected for approval for the FY 2020-21 audit work plan.

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Subtotal		620-800	
21	Community engagement	Can the District benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities?	371-457	Financial Improvement Operational Best practices
20	Homelessness analysis	How can the District enhance its homelessness encampment clean-up activities that protect the health and safety of District employees?	290-371	Health and Safety Relevance Financial Operational
8	Classified information	To what extent does the District's Counsel's office appropriately classify confidential information?	143-200	Relevance Operational
26	Local workforce hiring	What are the financial and service delivery disadvantages and advantages	200-229	Operational

		of RFPs that require preferences for local workforce hiring?		
27	Equipment maintenance	Is Valley Water adequately meeting the needs of equipment maintenance?	143-229	Health and safety Operational Financial
30	Community engagement	What are the best practices in planning and facilitating community engagement?	46-86	Best practices Operational
33	Water Fix	What potential financial risks could occur on the California Water Fix project?	160-286	Financial Relevance
Sub Total	7		1,353 -1,858	

AUDIT WORK PLAN – DISTRICT RESPONSIBILITY

FY 18/19 THRU FY 19-20

QUALITY AND ENVIRONMENTAL MANAGEMENT SYSTEM PROCESS AUDITS

AUDIT DESCRIPTION	Proposed Audit Schedule 2019											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
QUALITY ENVIRONMENTAL MANGEMENT SYSTEM INTERNAL AUDITS												
Treated Water O&M DOO: Customer Service Survey								X				
Laboratory Services Unit												X
North Treatment Operations Unit												X
South Water Treatment Operations Unit												X
Treatment Plant Maintenance Unit												X
Water Quality Unit											X	
Water Utility Capital Division												
Capital Program Planning and Analysis Unit (reorganized to out of scope division in Sept. 2019)												
Construction Services Unit											X	
Pipelines Project Delivery Unit (previously known as East Side Project Delivery Unit)				X								
Treatment Plant Project Delivery Unit (previously known as West Side Project Delivery Unit)											X	
Dam Safety & Capital Delivery Division												
CADD Services Unit					X							
Dam Safety Program & Project Delivery Unit									X			
Design and Construction Unit 3											X	
Pacheco Project Delivery Unit											X	
Water Supply Division DOO: Customer Service Survey												
Wells & Water Measurement Unit				X				X				
Watershed Design and Construction Division												
Design and Construction Unit 1									X			
Design and Construction Unit 2											X	
Design and Construction Unit 4											X	
Design and Construction Unit 5											X	
Land Survey and Mapping Unit											X	
Real Estate Services Unit						X						
Associated Business Support Areas												
Facilities Management						X						
Infrastructure Services/IT					X							
Equipment Management								X				
Purchasing, Consultant Contract, and Warehouse				X								
Security and Emergency Services							X					
Environmental Health and Safety					X							
Workforce Development (Training)							X					
Core ISO Procedures: Continual Improvement Unit						X						
Office of External Affairs (Communications)						X						
Office of the Clerk of the Board (Communications)				X								

COMPLIANCE AND FINANCIAL AUDITS

FINANCIAL AUDITS												
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Financial Audits												X
Treasurer's Report												X
Appropriation's Limit												X
Compensation and Benefit Compliance (odd years)												X
Travel Expenses Reimbursement (even years)												X
Single Audit (if applicable)		X										
WUE Fund Audit						X						

Contract Change Order Audit
Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
<p>Recommendation R1</p> <p>Update capital construction change order policies and procedures applicable to large-scale projects to: a) require an Independent Cost Estimate (ICE) for capital construction change orders, (b) use a separate advisory body to review and recommend the approval of change orders, and c) prohibit commencement of work until after change order approval.</p> <p>Final Draft Report Page 5.</p>	<p>Tim Bramer, Ngoc Nguyen, Chris Hakes</p>	<p><u>Management Response:</u></p> <ol style="list-style-type: none"> a. Management concurs with this recommendation. b. Management concurs with this recommendation. c. To responsibly and efficiently deal with changes, the responsibility and authority for change approvals must be delegated to personnel at the level most knowledgeable and most closely aligned with the responsibility. Field work that must be performed immediately to mitigate an emergency or to avoid critical, immediate delays to the project may necessitate force-account work to address the immediate need. Force account work constitutes an approved change order of variable cost and duration while the scope of the change is finalized. Most changes must be collaborated with the project and/or construction management team and with Contracts to assure approval of any and all contract change orders occur either prior to, or concurrent with, the issuance of a change order directive to the Contractor. Therefore, management concurs with this recommendation yet certain field changes may necessitate an immediate field directive. <p><u>Valley Water Action:</u></p>	

¹ See audit report for audit background, approach, conclusions, and findings.

Contract Change Order Audit
Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
		<ul style="list-style-type: none"> a. We will require an Independent Cost Estimate (ICE) for all change orders to be prepared by the Project Manager. In certain situations, the use of an on-call cost estimating service may be utilized to support the Project Manager’s estimate. b. A Change Control Board will be established with defined authority thresholds to approve changes to the contract. Members of the Change Control Board have program oversight responsibilities including cost and schedule controls, scope control, and contract compliance, to be led by a Deputy Operating Office, during scheduled weekly meetings. The entire change control process will be documented in a construction contract administration manual. c. Develop a documented Change Management process with defined authority levels. 	
<p>Recommendation R2</p> <p>Enhance constructability reviews as part of the construction project design phase with the addition of independent subject matter experts to the review team to help mitigate the occurrence of change orders on large-scale capital projects.</p>	<p>Tim Bramer, Ngoc Nguyen, Chris Hakes</p>	<p><u>Management Response:</u></p> <p>Management concurs with the recommendation.</p> <p><u>Valley Water Action:</u></p> <p>Current practice by Valley Water includes internal constructability reviews and independent consultants on select projects. A review of the internal constructability review methodology, including the use of checklists and</p>	

¹ See audit report for audit background, approach, conclusions, and findings.

Contract Change Order Audit
Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
Final Draft Report Page 5.		guidelines, to further enhance internal reviews. We will require enhanced constructability review by independent subject matter experts on projects with a construction cost estimate of a certain magnitude (to be determined). Upon approval of this action, we will commence solicitation for a professional services agreement for constructability review services.	
<p>Recommendation R3</p> <p>Enhance the review and approval process for change orders (including potential change orders, contract change orders, and directed change orders) on capital construction projects that are new to Valley Water and/or whose project costs exceed a specific level established by the CEO (i.e. \$100M) to add and enhance support structures to aid project and construction managers in capital project delivery. Options include: a) create a Capital Project Steering Committee for each new project to review project progress and provide authority to review and approve</p>	<p>Tim Bramer, Ngoc Nguyen, Chris Hakes</p>	<p><u>Management Response:</u></p> <p>Management concurs with the recommendation that a Project Steering Committee be established for projects of a certain magnitude (to be determined), however has concerns with the makeup of the committee as proposed in the audit.</p> <p>Management’s primary concerns regarding implementing a committee as proposed in the audit recommendation are that the discussions would not be confidential if the committee is subject to the Brown Act; documents and communications prepared for such discussions will be public records; and the committee members who are not members of the project teams or managers overseeing the projects will lack the critical in-depth background and knowledge of the project and its challenges in order to make well-reasoned deliberative decisions.</p>	

¹ See audit report for audit background, approach, conclusions, and findings.

Contract Change Order Audit
Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
<p>change orders. The Committee should include Valley Water management, project, and construction manager, external subject matter experts, outsourced legal construction contract counsel, and a representative from the Purchasing and Consulting Contracts Services Unit.</p> <p>Final Draft Report Page 5.</p>		<p>Internal deliberations affecting decision making (such as by designated staff members with change order approval authority) are protected conversations pursuant to the public records act, which protection would be waived should these discussions take place in public and the written materials shared with persons other than internal staff analyzing change orders. It is important to have the ability to keep discussion of change orders or significant disputed items internal and maintain our deliberative privilege on these matters.</p> <p>With regard to assigning legal counsel to advise the committee, Valley Water’s District Counsel has complete discretion whether to assign in-house counsel or retain outside counsel. There should be no limitation on this discretion. District Counsel considers factors such as the level of expertise needed; availability and knowledge of internal staff; and relevant time-sensitivity and time commitment for matters to be analyzed and advice provided. These are the same considerations given to all outside counsel engagements.</p> <p>Evaluating change order entitlement; pricing; time extensions; and dispute resolution requires an in-depth knowledge of the project dynamics; technical details; permit conditions; stakeholder interests; external requirements; and a myriad of other aspects of a project. This is knowledge the project team and management acquire on a daily basis by being engaged through the planning, design and construction phases of a project. We</p>	

¹ See audit report for audit background, approach, conclusions, and findings.

Contract Change Order Audit
Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
		<p>view oversight of projects as part of staff’s responsibilities and therefore recommend that the highest-ranking executive on the Steering Committee be the Chief Officer of the respective business area.</p> <p><u>Valley Water Action:</u></p> <p>We will require a Steering Committee be used for projects with an original construction contract of a certain magnitude (to be determined). The members of the Steering Committee will include the Construction Manager, Project Manager, Construction Services Unit Manager, Design Unit Manager, Deputy Operating Officer and Chief Operating Officer overseeing the project delivery, as well as the Deputy Operating Officer from the area under which the project draws its source funding.</p>	
<p>Recommendation R4</p> <p>Create a Resources Services Office (RSO) or restructure the current Capital Program Planning and Analysis Unit and develop RSO roles and responsibilities, including the business processes and information systems needed to support large-scale capital construction projects and to serve as a resource for project and construction managers on smaller</p>	<p>Nina Hawk Tina Yoke Melanie Richardson</p>	<p><u>Management Response:</u></p> <p>Management concurs with the recommendation that a Project Controls Office (referred to as RSO in the recommendation) be established. The addition of the Project Controls Office will enhance Valley Water’s ability to manage capital projects in a consistent manner, track and analyze historic change order trends, administer a robust lessons-learned program, and help develop a project management training program for capital project staff. Additionally, a Project Controls Office will provide project delivery staff the ability to focus on the details of the project.</p>	

¹ See audit report for audit background, approach, conclusions, and findings.

Contract Change Order Audit

Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
<p>projects. Examples of expected RSO roles and responsibilities for large-scale capital construction projects include: integrate project design and construction management activities; develop large-scale construction management policies and procedures; ensure consistent and uniform implementation of capital project management and construction management standards; manage and administer the contract management and change order process; consolidate, analyze, and disseminate lessons learned activities and historical project information for future project planning; coordinate project and construction project activities; establish and manage project and construction management standardization; implement a centralized project management information system; enhance QEMS activities, including the preparation and updating of guidelines and checklists to be used by project and construction managers; prepare information about the reality of</p>		<p><u>Valley Water Action:</u></p> <p>In order to optimize effectiveness and ensure the depth of knowledge and experience required to be successful, the Project Controls Office will be established. This will promote a unified and seamless working relationship with all units responsible for the delivery of capital projects.</p>	

¹ See audit report for audit background, approach, conclusions, and findings.

Contract Change Order Audit

Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
<p>existing projects and corrective action plan development; promote continuous process improvement; and establish a performance-based management system to track effective change order management, project completion, and project financial performance. Examples of RSO roles and responsibilities for smaller capital construction projects would be to share historical project information to support design activities and to assist project and construction managers on change order negotiation.</p> <p>Final Draft Report Page 5.</p>			
<p>Recommendation R5</p> <p>Transfer the responsibility to administer procurement activities on capital projects (i.e. request for bid preparation and bid processing) from the Capital Program Planning and Analysis Unit to Valley Water's Purchasing and Consultant</p>	<p>Tina Yoke</p> <p>Nina Hawk</p> <p>Melanie Richardson</p>	<p><u>Management Response:</u></p> <p>Management concurs that procurement activities for capital construction contracts be transferred to the Purchasing and Contracts Unit.</p> <p>Management concurs that construction administration activities be managed by the Project Controls Office (referred to as RSO in the recommendation). Purchasing and Contracts Unit will be participating in the change</p>	

¹ See audit report for audit background, approach, conclusions, and findings.

Contract Change Order Audit
Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
<p>Contracts Services Unit to centralize procurement activities.</p> <p>The RSO should assume responsibility for contract administration and change order management on all capital projects upon execution of the contract by the Purchasing and Consultant Contracts Services Unit. The Purchasing and Consultant Contracts Services Unit, as an option, can also embed an employee into the RSO to oversee change order management or administer an oversight role in coordinating updated change order policies and procedures, and conduct spot audits to ensure change orders comply with contractual terms and conditions.</p> <p>Final Draft Report Page 6.</p>		<p>management process as a member of the Change Control Board (as referenced in the response to R1).</p> <p><u>Valley Water Action:</u></p> <p>We will transfer procurement activities to the Purchasing and Contracts Unit.</p> <p>We will establish a Project Controls Office for purposes of contract administration and change order management with defined roles and responsibilities separate from the role of the project manager and construction manager.</p>	

¹ See audit report for audit background, approach, conclusions, and findings.

Contract Change Order Audit
Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
<p>Recommendation R6</p> <p>Promote uniform implementation of change order management and administration for all capital projects by: a) developing and establishing specific criteria for establishing contingency budgets for change orders that consider project complexity and size (Example: \$0 contingency for capital projects less than \$100,000 ranging to an amount over \$1M for projects over \$500M) eliminating the need for the Board of Directors to separately approve contingency budgets for each capital construction contract; b) updating the Quality and Environmental Management System (QEMS) forms to: develop templates within the Capital Improvement Program Planning document to provide clarification on how the Quality Records should be completed.; add a step in the Close-Out Checklist for the review of open change orders and potential change orders; and enhance the Risk Management Process document to include a review of similar projects</p>	<p>Tim Bramer, Ngoc Nguyen, Chris Hakes, Roslyn Fuller</p>	<p><u>Management Response:</u></p> <ul style="list-style-type: none"> a. Management concurs with the recommendation to develop specific criteria for establishing contingency budgets for capital construction contracts. b. Management concurs with this recommendation. c. Management concurs with this recommendation. <p><u>Valley Water Action:</u></p> <ul style="list-style-type: none"> a. We will establish specific thresholds for contingency amounts for construction contracts. A contingency threshold (to be determined) will be established for all projects. . b. We will review and update our work instructions and related forms c. We will create an enhanced Project Management training program to address the areas identified. 	

¹ See audit report for audit background, approach, conclusions, and findings.

Contract Change Order Audit
Valley Water Management Response

Audit Recommendations¹	Owner	Management Response	Auditor Response to Management Response
<p>in the Capital Improvement Program Historical Information Retrieval (CIPHIR) tool to identify additional project risks and corrective actions that may not have been previously identified; and c) enhance project management training to address change order management and administration, including negotiation, pricing analysis, and contract closeout activities.</p> <p>Final Draft Report Page 6.</p>			
<p>Recommendation R7</p> <p>Develop, track, and report on performance metrics that monitor the timeliness, costs, and cost savings on large scale capital projects. Metrics established for monitoring final capital project close out costs against the original base contract amount should exclude contingency budget amounts.</p> <p>Final Draft Report Page 7.</p>	<p>Melanie Richardson</p> <p>Nina Hawk</p> <p>Tina Yoke</p>	<p><u>Management Response:</u></p> <p>Management concurs with the recommendation to develop, track and report on performance metrics for all projects that have been addressed within our CIP.</p> <p><u>Valley Water Action:</u></p> <p>Performance metrics will be created for monitoring, reporting requirements, and reporting methodology.</p>	

¹ See audit report for audit background, approach, conclusions, and findings.



Santa Clara Valley Water District

File No.: 19-1055

Agenda Date: 11/18/2019

Item No.: 5.2.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Review and Update 2019 Board Audit Committee Work Plan.

RECOMMENDATION:

- A. Review the 2019 Board Audit Committee Work Plan; and
- B. Discuss topics of interest and make any necessary adjustments to the Board Audit Committee Work Plan.

SUMMARY:

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

The 2019 Board Audit Committee Work Plan is included in Attachment 1.

ATTACHMENTS:

Attachment 1: 2019 Committee Work Plan

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

THIS PAGE INTENTIONALLY LEFT BLANK

BOARD AUDIT COMMITTEE 2019 WORKPLAN

January 1, 2019 to December 31, 2019

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Board Audit Committee Meeting Dates														
1	Meeting Dates	•				•	•		•		•	•	•	On-going.
Board Audit Committee Management														
2	Draft Audit Charter	•												Complete.
3	Finalize Audit Charter						•							Complete. The Board approved the Audit Charter on August 27, 2019.
4	Review and update BAC Work Plan	•				•	•		•		•	•	•	On-going. Schedule open discussion as needed for topics of interest raised at prior BAC meetings.
5	Review and Update Annual Audit Work Plan						•		•		•	•	•	Full Board approved Annual Audit Work Plan on 6/25/19.
6	Prepare risk assessment tri-annually													Next Risk Assessment scheduled to be completed in October 2021.
7	Evaluate Board Auditor performance												•	
8	Provide status report to full Board quarterly													Report to be provided to Board in non-agenda the month after each BAC meeting.
9	Receive training from independent auditor annually													Scheduled for first meeting in 2020.
10	Conduct self evaluation annually													Scheduled for first meeting in 2020.
11	External Financial Auditor meeting with individual Board members													Schedule as needed.
Board Audit Committee Special Requests														
12	Review staff CAS update every 6 months											•		On-going. Combined with Procurement/CAS Mgmt Audit Review.
13	Review staff Form 700 procedure presentation					•								Complete.
14	Review staff presentation on QEMS & ISO Certification					•								Provide overview of QEMS Process Improvement post ISO de-certification.

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

BOARD AUDIT COMMITTEE 2019 WORKPLAN

January 1, 2019 to December 31, 2019

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
15	Review information on ISO Certification at other agencies					•								Complete.
Management and 3rd Party Audits														
16	Review QEMS Annual Report													Scheduled for early 2020.
17	Participate in financial statement audit procurement process													Next procurement scheduled for January 2022.
18	Review draft audited financial statements											•		Financial auditor to present and contact Board members.
19	Review Procurement/CAS Management Audit Report										•			
20	Water Utility Fund Audit								•					Complete. Revenue/Cost Allocation audit between North/South zones. Results available at August BAC Meeting.
21	FEMA Audits													FEMA National Flood Insurance Program Community Rating System 5-year Verification Audit to begin 8/6/19. Completion TBD.
22	Grant Audits													No upcoming audits.
23	CalPERS Employment of Retired Annuitants Audit													Audit Results: Valley Water did not fully complete the process of enrolling/reporting the hours of 3 out of 30 retired annuitants. Staff reported having made the required adjustments since the audit was conducted.
24	CalPERS Special Compensation Audit													In the process of reclassifying the plant operators' shift premium payments retroactively to 2013 as the last step to complete this audit. Staff will bring the audit report to the BAC meeting immediately following the availability of results.

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

BOARD AUDIT COMMITTEE 2019 WORKPLAN

January 1, 2019 to December 31, 2019

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
25	CalPERS Temporary Upgrade Pay Audit											•		Audit to determine whether temporary upgrade pay reported by employers was in compliance with the Public Employees' Retirement Law. Auditors scheduled to perform audit onsite on 8/12/19 - 8/13/19. Staff will bring the audit report to the BAC meeting immediately following the availability of results.
Audit - Lower Silver Creek														
26	Review Lower Silver Creek Final Draft Audit Report	•												Complete. Final Audit Report presented to full Board on 2/26/19.
27	Review Lower Silver Creek Final Draft Mgmt Response	•												Complete.
Audit - Change Order														
28	Initiate Change Order Audit			•										Complete.
29	Review Change Order Audit Progress Report						•	•			•			On-going until audit complete.
30	Review Change Order Audit Draft Report Presentation										•			
31	Review Response to Change Order Audit Final Draft Report											•		
Audit - District Counsel														
32	Initiate District Counsel Audit					•								Complete.
33	Review District Counsel Audit Progress Report						•	•			•	•	•	On-going until audit complete.
34	Review District Counsel Audit Draft Report Presentation												•	
35	Review Response to District Counsel Audit Final Draft Report												•	
Audit - Real Estate														
36	Initiate Real Estate Audit					•								Complete.

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

BOARD AUDIT COMMITTEE 2019 WORKPLAN
 January 1, 2019 to December 31, 2019

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
37	Review Real Estate Audit Progress Report						•		•		•	•	•	On-going until audit complete.
38	Review Real Estate Audit Draft Report Presentation													
39	Review Response to Real Estate Audit Final Draft Report													

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



Santa Clara Valley Water District

File No.: 19-1011

Agenda Date: 11/18/2019

Item No.: 5.3.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

CalPERS Office of Audit Services review of Valley Water's Temporary Upgrade Pay Reported as Special Compensation.

RECOMMENDATION:

Receive information pertaining to the August 2019 CalPERS initial audit findings temporary upgrade pay reported as special compensation.

SUMMARY:

This item pertains to information on a recently completed CalPERS Office of Audit Services on Valley Water's practices of reporting temporary upgrade pay as special compensation. Government Code (GC) section 20636 and California Code of Regulations (CCR) 571 and 571.1 provide that in order for compensation to be reportable to CalPERS, the compensation must meet the definition of "Compensation Earnable."

CalPERS has conducted employer compliance reviews since 1991 to provide assurance to both CalPERS and contracting agencies of compliance with the Public Employees' Retirement Law and agencies' retirement contracts with CalPERS.

In August 2019, CalPERS conducted an audit of our practices pertaining to the reporting of temporary upgrade pay as special compensation. Valley Water was one of 60 other agencies selected to participate in the audit. The objective of their review was to determine if these public agencies had policies and/or procedures specific to special compensation that was duly approved and adopted by the governing body; and to determine that the special compensation was allowable and accurate and reported to CalPERS during the period it was "earned" versus when it was "paid" to the employee by the agency.

Valley Water's audit was limited to a review of a sample of employee records for the period January 1, 2017, through March 28, 2019. CalPERS requested the records of 6 individuals that were employed by Valley Water during this period of time.

The initial audit observations found that Valley Water does not meet the requirement of having a policy for unrepresented employees (Unclassified) with language specific to special compensation that has been duly approved and adopted by the governing body. The audit also pointed to inaccuracies specific to the reporting to CalPERS of temporary upgrade pay as special compensation. All six (6) sampled employees had retroactive adjustments for temporary upgrade pay

that were reported to CalPERS incorrectly. Three (3) employees had retroactive temporary upgrade pay reported entirely as special compensation versus reporting both retroactive regular pay *and* retroactive temporary upgrade pay. Three (3) employees had temporary upgrade pay reported as special compensation for the period it was “paid” versus when the temporary upgrade pay was “earned.” Valley Water will have an opportunity to respond to these observations once the Draft Audit Report of the initial findings is provided by CalPERS.

Since this audit was conducted, staff is working with the District Counsel’s office to amend the current At-Will Policy to include language specific to temporary upgrade pay. Staff has also made adjustments in the reporting practices of temporary upgrade pay as special compensation, focusing on retroactive adjustments and reporting the special compensation as “earned” versus “paid.” In addition, staff has updated the previous “Temporary Promotion” and “Out of Class” policies and replaced them with a new “Temporary Assignment” policy. The focus of the new policy is to streamline the process of assigning higher-level work to employees and to ensure the policy meets the guidelines and requirements of the Public Employees’ Retirement Law (PERL). The initial results of this audit have been used to improve our processes to ensure that all temporary upgrade pay reported as special compensation is reported to CalPERS timely and accurately and within the requirements of the law.

ATTACHMENTS:

No attachment

UNCLASSIFIED MANAGER:

Anna Noriega, 408-630-3089