

# PERFORMANCE AUDIT OF VALLEY WATER – GRANTS MANAGEMENT AND ADMINISTRATION

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Safe, Clean Water and Natural Flood Protection  
Program (Safe, Clean Water)

FINAL REPORT

JANUARY 3, 2021

**Submittal Letter**

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January 3, 2021

Director Keegan, Board Audit Committee Chair  
Director LeZotte, Board Audit Committee  
Director Kremen, Board Audit Committee  
Santa Clara Valley Water District  
5750 Almaden Expressway  
San Jose, CA 95118

We are pleased to present the results of our performance audit of grants management and administration in the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water). The objectives of our engagement were to:

- (1) Determine the extent to which Valley Water's grants management and administration program is operating effectively, and
- (2) Determine if opportunities exist to better align Valley Water's grant management and administration program and processes with best practices for grants management internal controls.

This draft report presents our findings and recommendations related to these objectives.

We appreciated Valley Water's cooperation throughout the audit process, and their review and response to our recommendations. Their response letter is included as Attachment A in this report.

Sincerely,

Drummond Kahn  
Greta MacDonald

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## Executive Summary

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### WHY WE CONDUCTED THIS AUDIT

The Santa Clara Valley Water District (Valley Water) Board Audit Committee (BAC) requested this performance audit to assess current grants management and administration practices. Valley Water's Independent Monitoring Committee (IMC) provides oversight of the Safe Clean Water and Natural Flood Protection Program, which funds the grant program. In their February 2020 Letter to the Board, IMC reported that grantees raised concerns such as long negotiation times to sign grant agreements, long delays in payments after projects have finished, and excessive reporting requirements. A desk review performed by Valley Water's independent auditor resulted in recommending a performance audit of grants management and administration.

Our audit objectives were to:

- (1) Determine the extent to which Valley Water's grants management and administration program is operating effectively, and
- (2) Determine if opportunities exist to better align Valley Water's grant management and administration program and processes with best practices for grants management internal controls.

### WHAT WE FOUND

Overall, Valley Water's grants management and administration program has many opportunities to better match its level of oversight to the level of risks the program faces, while strengthening some internal control activities related to monitoring. These opportunities can better align Valley Water's efforts with best practices in grants management. We report current performance and potential improvements throughout the four phases of Valley Water's grants management process -- pre-award, award, post-award, and closeout.

Grantee concerns included in the IMC's letter to the Board in February 2020 regarding lengthy grant agreement execution timelines, delays in receiving reimbursements, and extensive reviews were supported by our grant file testing. We found:

- The Safe, Clean Water program's grant funding led to positive community outcomes, including improved water quality, education centers, habitat restoration and trash removal from coordinated volunteer clean-up activities.
- Valley Water has a lengthy grant agreement execution process that grantees reported can negatively impact projects. Grant awards are taking, on average, just under six months, two to three months longer than intended. Once awarded, grant agreement execution in our sample took 152 days, compared to Valley Water's goal of 60-90 days.
- We found that Valley Water took longer to pay invoices than its 60-day goal. Within the three years we reviewed, invoice payments took an average of 119 days. This occurred because there was no mechanism in place to monitor invoice receipt for review and response to grantees, or the timeliness of payments per the grant agreement. While Valley Water carefully reviews grantee invoices for compliance and accuracy, and requires reports and supporting documentation prior to authorizing payments for reimbursement, its current practice is to treat all standard grants and partnerships equally in the review process, which involves heavy scrutiny of grantee documentation and reports. These lengthy review processes, compounded with turnover and staffing challenges and a lack of monitoring activities, resulted in a backlog of invoices to process. As an increasing number of active grants were awarded each year, Valley Water took longer to perform these basic functions.

Staff positions filled by mid-FY2020 addressed the retrospective staffing need. However, in order to continue managing the program's growth with current staffing levels, additional changes to roles and responsibilities, dedication levels and organizational structure may be necessary.

## WHAT WE RECOMMEND

Our report includes eleven recommendations for Valley Water to consider once the backlog of invoices is addressed; nine rooted in best practices, each related to right-sizing components and strengthening internal controls within the grant pre-award, award, post-award and closeout cycles. Another recommendation is related to strengthening the control environment to align with best practices through the development of a standardized operating manual to cover the grants process from end-to-end. Our final recommendation is to consider options to augment staffing assignments to better align roles and responsibilities with grant management functions according to best practices and provide better accountability.

1. 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:
  - Valley Water should develop a formal due diligence policy and perform a due diligence review for high-risk grant projects. A due diligence review of applicants determines the reasonableness of the grant and grantee's ability to perform and assess the extent of the grantee's reliance on grant funds. This would include analysis of managerial and fiscal capacity and past performance. For example, verify grantees have the requisite financial management systems that will produce invoice detail required by the grant agreement, or gain an understanding of the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement.
  - For high-risk grants where financial statements are required, analyze fiscal health indicators of the entity and formalize the analysis within the grant file. For areas where Valley Water already implements a number of best practices such as checking GuideStar to verify the non-profits current status and to view the grantee's IRS Form 990, staff should also memorialize its analysis in the grant file.
  - For smaller non-profits or community groups, based on risk, Valley Water should consider simplifying reporting requirements or developing alternative requirements for projects under a dollar threshold, like \$25,000, or establish a tiered structure and treat smaller projects similar to mini-grants.
2. As new grants are awarded, an orientation for new grantees should be mandatory, and Civic Engagement should provide an electronically accessible grantee guide, outlining all requirements for programmatic and financial reporting compliance. This can be as simple as compiling existing documents, developing reporting templates and developing a process map and including instructions on who to call based on the nature of the question.
3. Best practices suggest utilizing a grant management information system to run regular reports to track timeliness and to conduct other monitoring activities. While many monitoring functionalities for FLUXX remain in progress, we recommend, at a minimum, adding another column to the Grant Tracker spreadsheet to track the 45-calendar day payment window once initial contact has been made with the grantee. These payment cycle time metrics should be tracked and reported internally monthly, and to the Board Audit Committee quarterly.
4. Monitoring should be conducted, either manually or through automated reminder emails in FLUXX, to ensure that a progress report, or another form of communication from a

grantee, is submitted quarterly ensure that Valley Water is kept apprised of project status and to ensure that work is aligned with the grant agreement.

5. In addition to right-sizing invoicing requirements based on the grant's risk level, Valley Water should right-size the level of progress reporting detail required for smaller dollar value standard grants, for example, under \$25,000.
6. 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.
7. 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".
8. Valley Water should solicit grantee and partnership feedback regularly, conducted by an independent third party, as best practices suggest. In addition to assessing satisfaction with the program, inquiries should be made to determine the extent to which partial funding has impacted the grantee and the project.
9. Valley Water should determine a reasonable goal and timeline for final closeout and final payment, including the release of retention. The established dates and timelines should be monitored in the Grant Tracker and when possible, included in any automated flags and alerts that FLUXX can provide.
10. Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.
11. To ensure that staff understand and carry out their internal control responsibilities, and to promote accountability, Valley Water should consider reconfiguring job assignments to enhance the grants management function once the backlog has been addressed and policies and procedures are developed:

- Option 1: Assign Staff by Priority Area and Specific Grants. This would allow staff to become familiar with the priority area, programs and grantees, as well as create a balanced number of programs a grant manager is expected to manage. This would benefit the grantee with the assignment of a single point of contact for questions at any phase of the project. This would allow for important information concerning a grantee, and project details learned in the application stage to transfer to active project management and throughout the life of the project. The downside to this option is that grant managers would still be required to perform duties that they might not have the technical capacity, knowledge or authorization to properly perform, such as a subject expert having responsibility for invoice processing, or a finance and accounting expert having responsibility for program oversight.
- Option 2: Split Application and Active Grant Management Duties. Civic Engagement may consider dividing the work performed during the application cycle and work performed during the active project management cycle into two separate positions or teams. From an efficiency perspective, this delineation could improve overall workflow by decreasing bottlenecks that occur during certain times of the year (e.g., the allocation/application cycle) and ensure that a sufficient number of staff remains focused on active grant management, such as invoice review processing and monitoring. Additionally, with such a delineation of duties, one individual could be assigned to or specialize in contracts and billings for all grants.
- Once job assignments are determined, the Supervising Program Administrator and Unit Manager should develop a training manual and schedule that clearly identifies the type of training needed to effectively perform specified job duties to address any gaps in staff knowledge, skills and abilities.
- As the Safe, Clean Water grants program grows, and the grants management function within Civic Engagement expands, develop grants management position descriptions.

Civic Engagement and Office of External Affairs management reviewed a draft of this report and generally agreed with our findings and recommendations. Their response is included in Attachment A to this report.

## Objectives, Scope and Methodology

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### Objectives

The objectives of our audit were to:

- Determine the extent to which Valley Water's grants management and administration program is operating effectively.
- Determine if opportunities exist to better align Valley Water's grants management and administration program and processes with best practices.

### Scope

The scope of this audit covered Valley Water's Safe, Clean Water grants program activity for Fiscal Years 2017-18, 2018-19, and 2019-20. We concentrated on grants that were both awarded and for which payments were made during that time period, and examined processes currently in place. Specifically, we reviewed Civic Engagement's management and administration activities within the grants lifecycle through the lens of internal control and considering Valley Water's processes and program results.

### Methodology

Our audit methodology included gaining an understanding of Valley Water's grant awarding, monitoring, and payment processes; reviewing grant agreements, grantee invoices, and monitoring supporting documentation; reviewing grant requirements, grantee disbursement data and Valley Water's policies and procedures; and performing tests and other procedures on the information obtained. Additionally, we surveyed grantees for their input on strengths and weaknesses of the grant program and their anonymized responses are included in Attachment B of this report.

#### Sampling Methodology:

To test grant awards, grant monitoring, and grant payments at Valley Water, we stratified the population of grant expenditures by the four grant priority areas in the Safe, Clean Water program. We used professional judgment to select a sample of payments to grantees in the same proportion of each priority area as the total population. Our sample of 33 grants (including partnerships and mini-grants) represented \$4.6M of \$10.9M in awarded grants, or 43 percent of total dollar amount awarded, open and closed grants within our review period. Our audit testing focused on timeliness in two key timeframes: (1) days from grantee award date to grant agreement execution, and (2) days from invoice submission date to payment date (the date Valley Water issued a check to the grantee). The selected sample items do not necessarily represent the entire population of all grants; therefore, it would not be appropriate to project the test results to the population. We also tested selected grant payments and the associated grants for appropriate approvals and compliance with internal procedures, and assessed the reasonableness of project activities and results, compared to the requirements in the grant agreement.

#### Procedures and Tests Conducted:

- We conducted a risk assessment to identify the threats facing the grants program and to identify the controls or procedures VW has in place to prevent, eliminate or minimize those threats. The risk assessment allowed us to focus our testing areas most vulnerable to unmitigated risks.

- We reviewed Valley Water’s grant management policies and procedures and processes to determine whether they aligned with national guidance. Both the National Grants Management Association’s (NGMA) Grants Management Body of Knowledge (GMBok Guide) and the Government Finance Officers Association (GFOA) have organized best practice steps for grant internal control into the five essential components of a comprehensive framework of internal control: 1) Control Environment; 2) Risk Assessment; 3) Control Activities; 4) Information and Communication; and 5) Monitoring. These components are consistent with the internal control framework provided by the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government, also known as the Green Book. The GAO bases the Green Book on a model of internal control created by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)<sup>1</sup>. We then performed a gap analysis to compare Valley Water’s current practices to national best practices.
- We interviewed Valley Water Civic Engagement management and employees to assess roles and responsibilities and identify the unit’s processes, and to identify controls in place. This included comparing best practices for staffing a grants management function to existing staff job specifications.
- We tracked processing time for invoice payment and compared to internal guidelines, and reviewed for internal controls over the review, approval, and authorization of payments.

While we remained attentive to indications of fraud, waste, and abuse, we did not specifically design audit objectives to search for it.

We did not include any testing for grantee compliance with provisions of the grant agreement as it was not included in our audit objectives.

Our work was conducted between September 1 and November 19, 2020. 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.

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## Background

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In 2012, Santa Clara County voters approved Measure B, the Safe, Clean Water and Natural Flood Protection Program, as a countywide special parcel tax for 15 years with a sunset date of June 30, 2028. It identified five priorities:

- Priority A: Ensure a Safe, Reliable Water Supply
- Priority B: Reduce Toxins, Hazards and Contaminants in our Waterways
- Priority C: Protect our Water Supply from Earthquakes and Natural Disasters
- Priority D: Restore Wildlife Habitat and Provide Open Space
- Priority E: Provide Flood Protection to Homes, Businesses, Schools and Highways

Eight unique grant programs exist in three priority areas within the Safe, Clean Water grants and partnerships program as follows:

- A2: Water Conservation, Water to Go, and Pilot Mini-Grants

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<sup>1</sup> The Green Book may also be adopted by state, local and non-federal entities and non-profit organizations.



- B3: Pollution Prevention and Partnerships Grants
- B7: Support Volunteer Cleanup Efforts and Education Grants
- D3: Grants and Partnerships to Restore Wildlife Habitat, Grants and Partnerships to Access Trails & Open Space, and Mini-Grants

Valley Water's 63 grantees and partners are a mix of non-profit organizations, municipalities, educational institutions, special districts and other community stakeholders. Grant opportunities are made available on a rolling basis for each priority area, except for A2 and D3 mini-grants, which accept applications on a year-round basis. As of September 2020, there have been 135 individual grant projects, representing \$13,120,529 in total awarded funds, with a balance of \$4,845,560.<sup>2</sup>

The Safe, Clean Water grant management and administration is performed by the Office of Civic Engagement, which is part of the External Affairs Division of Valley Water. Staffing is comprised of 2.25 full time equivalent employees (FTEs): Unit Manager (.25 FTE), Supervising Program Administrator (.60 FTE), Senior Management Analyst (1.0 FTE), and Management Analyst I (.40 FTE). Three of the four individual employees have duties in other Valley Water programs and departments in addition to their grant management duties.

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<sup>2</sup> As of September 15, 2020. This differs from the amount of awarded grants within our audit period, which excluded grant awards in progress (not yet executed), cancelled grants, or grants that closed out prior to FY 2017-18.

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## Principal Findings

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### **Finding 1: Valley Water Needs to Right-size Oversight in all Phases of the Grants Management Cycle**

The GMBok describes risk-based approaches in grants management to identify grantees in greatest need of oversight as a solution to prioritize the highest risk first. Without a risk-based approach to all phases of the grants management cycle, a large investment in resources would be required. Although all grants are unique in their scope, size, goals, and outcomes, Valley Water applies a standard approach to grants management and administration, causing mis-matches between its level of oversight and the level of risk in specific grants. The time and other resources applied to manage a particular grant should be proportional to the size, scope, complexity, duration, risk, and strategic importance of that project. Further, the grantee's status should be considered, e.g. whether the grantee is a repeat, successful partner. For example, a routine B7 project for volunteer clean-up normally requires minimal grant management efforts. On the other hand, a high-value, construction project in B3 or D3 grants that requires California Environmental Quality Act (CEQA) review, permits, and that is strategically important to Valley Water will need a dedicated grant management team (including subject matter experts), greater monitoring, evaluation, risk management, sound decision making and relationship management. First-time grantees may need more substantial review of invoices and support documentation to ensure compliance within the first reporting periods.

A "one size fits all" approach can delay decision making, impede grantee payments and overburden staff, both at Valley Water and the grantee. Because Valley Water wishes to expand the Safe, Clean Water program to work with smaller community partners and non-profits who may have less fiscal capacity, this underscores the need for right-sizing requirements in all phases.

Below, we discuss our findings on operating effectiveness within the standard grants management cycle: Pre-Award, Award, Post-Award and Closeout; and where Valley Water can align its current efforts with best practices within these phases of the grants management cycle.

### **1.1 PRE-AWARD**

#### **Grant Applications (Standard Grants)**

Valley Water is already applying some best practices to the grants management function, mainly in the areas of automating manual, paper-based processes in the pre-award process. To streamline the grant application process, staff implemented a pilot grants management system in 2018 to allow applicants to submit proposals online. The system also allows Valley Water staff to conduct grant application reviews online. Best practices call for developing clear guidelines for "right sized" application and reporting processes, meaning that application requirements should be scaled to fit the size, risk, and complexity of each individual grant. In this area, however, Valley Water has a "one size fits all" approach used for application requirements and grant reporting (with the exception of mini-grants). Valley Water uses the same general requirements for all sizes and types of grants, and generally uses standard terms in its grant agreements, with the exception of Mini-grants.

Per the GMBok, risk-based monitoring is a technique used by federal awarding agencies to identify the grantees in greatest need of oversight. Employing an effective risk scoring process saves valuable resources by lending specific focus to safeguarding public funds. An effective risk-

based plan can be regarded as a due diligence exercise prior to award.<sup>3</sup> Once a grantee's overall risk has been assessed, Valley Water can then determine the level of scrutiny that should be applied for reporting purposes. For example, Valley Water could perform due diligence reviews of grantees to verify that they have the requisite financial management systems that will produce invoice detail required by the grant agreement, or collect information on the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement. If a grantee cannot, Valley Water could consider adjusting reporting requirements or to treat agreements below a dollar threshold similarly to a mini-grant. Within the last year, Valley Water began requesting financial statements from applications for standard grants, where they review assets and liabilities but do not assess other fiscal health indicators or formalize the analysis in the grant file. Valley Water already implements a number of best practices such as checking GuideStar to verify the non-profit's current status and viewing the grantee's IRS Form 990, an important federal filing for many non-profit organizations.

*Please see Recommendation 1 above.*

## 1.2 AWARD

### **Grant Agreement Execution (Standard Grants)**

In the immediate post-award phase, there may be substantial time lags between when the grant is awarded and when the agreement is executed, depending on the level of funding, type of project, and level of project complexity. Six grantees responded to our survey expressing concerns with delays between award and the grant agreement execution. The agreement and project scope negotiation process, requirements for CEQA, permits and number of signatures of Valley Water reviewers (up to nine signatures may be required), create significant time lags in the grant agreement execution process once the grant has been awarded. Based on grantees' feedback and our file review, the execution of agreements can take several months and as long as a year. In our file review sample of 29 competitive grants, we found that it took an average of 152 days from grantee award to contract execution, compared to Valley Water's goal of 60-90 days<sup>4</sup>. One grantee surveyed explained that it took 18 months to sign the contract after Valley Water had agreed in principle to the grant, after the grantee had confirmation on matching grants from other funding partners on the project, and that delays could impact the viability of a project.

These lags stem from both internal and external factors: First, for some grants, resolutions from governing bodies like city councils must be in place before contracts are executed, which could also delay the process. Project complexity is also a factor; for projects where the grantee needs to secure permits to perform the work, that process can take several months, just as those projects requiring CEQA review can also take more time from award to execution. Finally, Valley Water's Agreement execution routing signatures include: Accounting, Risk Management, Legal, Chiefs (as applicable), Assistant CEO, CEO.

Community Resource Planning Unit (CRPU) must also review the agreements. While Valley Water has improved the signature routing process through the use of an electronic signature application, the process can still take weeks due to the review required, and the potential re-routing that must occur if the agreement changes during the review process. Also, not all grantees are awarded the full amount of funding they applied for. Valley Water funds projects based on evaluation criteria and may choose to partially fund multiple projects, which allows them to expand the number of grants in a priority area. For example, in 2018, among the twelve proposals submitted for priority

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<sup>3</sup> GMBok page 184.

<sup>4</sup> Per the RFP guidance for grant cycles, time between the projected District Board approvals and the execution of grant agreements ranges between two and three months, or 60-90 days.

area B7, supporting volunteer clean-up efforts and education, staff recommended funding nine grant proposals -- six at 70 percent, and three at 30 percent of their funding requests. Given the total funding available, the number of qualified projects, and concerns regarding some of the projects' scope, staff determined the funding formula provided the most equitable distribution of available grant dollars and extended Valley Water's ability to provide support to projects throughout the County<sup>5</sup>. Partial funding of a grant project can prolong the contract negotiation process because the grantee has to revise the project budget and workplan accordingly; or may need to secure additional funding to pursue the original project prior to contract execution.

During the grant award process, Valley Water also works with the grantee to become familiar with the program and requirements. Due to the back and forth nature during the post-award invoicing and reporting process, which we found to delay invoice payments to grantees, we determined that Valley Water could do more to orient grantees on the requirements to submit status reports and invoices -- a best practice. For the most recent grant award cycle, Civic Engagement began to provide more orientation for new grantees, which includes instructions on submission of invoices and reports on its new grants management system, FLUXX.

*Please see Recommendation 2 above.*

## 1.3 POST-AWARD

### **Monitoring and Grantee Reimbursement**

At the program level, Valley Water has a robust monitoring system of the overall Safe, Clean Water grant program. The ballot measure that created Safe, Clean Water also created an Independent Monitoring Committee, which annually reviews the program's progress to ensure the outcomes are achieved, and reports its findings to the Board. To the extent that program deficiencies are found, they are communicated in a timely manner to responsible parties, including senior management and elected officials, for corrective action -- a strong internal control.

At the operational level, a control activity for the payment of grantee invoices -- monitoring for payment timeliness -- was not in place during the audit period. Invoices were emailed to a grants inbox that was not reliably staffed due to turnover and lack of coverage. Once available, grantees began to upload their invoices to the grants management system, FLUXX, which is now regularly checked by all staff. More controls are now in place, and the current method of managing and monitoring grants is through Valley Water's Grant Tracker spreadsheet. This spreadsheet is the primary tool for staff to track projects, incoming invoices, address delayed projects, and assign and perform general job duties. The tracker is updated during a weekly monitoring meeting and provides information on all grants in every stage.

As a grantor, Valley Water can make payments to grantees in two ways, either through advances or through reimbursement. Smaller non-profits told us that they can be adversely impacted if reimbursements are untimely. Valley Water pays its standard grantees and partnerships<sup>6</sup> through a reimbursement process, where grantees are required to submit the following documents to receive payment:

- Payment request form
- Invoice form

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<sup>5</sup> File No.:18-0160, Agenda Date 3/13/18, Item No.:\*7.1.

<sup>6</sup> Mini-grants are paid with an advance of \$2,500 and the remainder at close out.

- Status report form
- Direct expenses, including receipts
- Timesheets for labor costs
- Benefits Rate Calculation
- Documentation of all accomplishments

Valley Water’s standard contract includes this language to describe the review process:

*“Valley Water will review Grantee’s invoice within ten working days from receipt and advise Grantee of any disputed items. Valley Water will review and approve undisputed invoices within ten working days from receipt and issue payment within forty-five (45) calendar days from receipt. Valley Water will pay invoices within forty-five (45) calendar days from date invoice is approved by Valley Water’s Program Administrator.”*

We reviewed the dates on invoice requests grantees sent and compared them with the dates checks were cut as shown in Valley Water disbursement reports. On average, it took 119 days for grantees in our sample to be paid, with a low of 10 days and high of 401 days. This average is nearly double the 60-day time to pay invoices in Valley Water policy. This timing was consistent with survey respondents reporting concerns with reimbursement timeliness. In our testing, almost three-quarters of grantees (21 of 29) were paid later than the intended 60-day time frame, while 8 out of 29 grantees were paid within the 60 days. Valley Water’s policy is to pay invoices within 60 days, as shown in Figure 1.0 below. We found that actual invoice payment from our sample of invoices took much longer, as shown in Figure 2.0.

**Figure 1.0: Invoice Payment Timelines in Valley Water Grant Agreement and Policy**

Time to Respond to Grantee (standard grant agreement)	Time to Pay Invoice once Complete (standard grant agreement)	Total Time	Valley Water Invoice Payment Policy
10 working days	45 Calendar Days	~55-60 Calendar Days	<b>60 Calendar Days</b>

**Figure 2.0: Actual Invoice Payment Timelines (FY 2018-2020)**

Valley Water Invoice Payment Policy	Actual Low	Actual Average	Actual High
60 Calendar Days	10 Calendar days	119 Calendar Days	401 Calendar Days

Valley Water maintains a detailed process to review invoices and supporting documents in order to authorize payments to grantees. Once the invoices were reviewed and processed for payment, we observed that key internal controls for accounts payable processing were appropriately in place: separation of duties, authorization and approval, and review and reconciliation. While we recognize that this authorization process is central to internal controls over disbursements, the process lacked the mechanism to monitor payment timeliness in accordance with the grant agreement. With historically inconsistent staffing levels, these combined factors caused Valley Water to exceed the grant agreement timelines for payments:

- First, Valley Water staff explained, and we observed in the grant files, that grantees may not submit the required information completely, and there can be multiple back and forth conversations, emails, resubmissions and reviews over prolonged periods of time before the invoice is deemed responsive and complete in order to authorize for payment. One

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grantee interviewed explained that they submitted an invoice, and five months later, Valley Water called back to say something was missing from their invoice.

- Second, 10 of the 29 grantees responding to our survey expressed concerns with untimely invoice payments, explaining that in some cases, it took months to hear back from Valley Water on submitted invoices and reports, including requests for additional documentation. Grantees suggested, and Valley Water staff confirmed, that these delays were likely due to Valley Water staff turnover. Additionally, during the period of our audit, no tracking mechanism was in place to monitor when invoices were submitted by the grantee and when a response was required, nor did we find evidence that Valley Water responded to grantees within the 10 working days to request follow up information. However, we observed that once the invoice and supporting documentation in the files we reviewed were complete, and the program administrator approved the invoice for payment, the grantee was issued a check immediately, within the 45 days required in the grant agreement.

Lastly, some grantees and partners cannot be paid if an agreement has expired, and the agreement term extensions and subsequent amendment process are holding up payment. When an amendment is needed, it must go through the whole agreement review and approval process as if it were a new agreement. One example was the City of San Jose, where four invoices exceeded one year from receipt as Valley Water and the City continued to work on an amendment to the agreement prior to payment authorization. During the current invoice review process, Valley Water staff are reviewing agreement expiration dates to ensure that the amendment extension process occurs in advance of agreement expiration.

Valley Water is now working through the backlog of invoices that accumulated during periods of turnover and inconsistent staffing. Due to this backlog, Valley Water applied a triage approach to assignments, and this practice allowed grants managers to prioritize tasks and determine which projects need the most attention. Project status is updated weekly using the Grant Tracker, also assigning staff to manage the Grants Inbox, which ensures accountability and monitoring of grantee communication. Valley Water also has an internal practice to respond to grantee questions and communications within 48 working hours.

New management practices and review of invoice data suggests that Valley Water may be better able to meet its grant agreement reimbursement timelines once the backlog is cleared. As of November 5, 2020, Valley Water had 25 invoices to be paid with an average of 243 days outstanding from date of receipt. By November 12, 11 of these invoices had been paid, and the remaining average age of the invoices outstanding was 128 calendar days, indicating older invoices are being paid. Other indications that invoice processing timeliness might be improving were reported in our grantee survey. One grantee explained that for a recent contract signed in April 2020, the process for submission and approval of invoices was set up well and that their invoices are being currently paid in a timely manner.

Most notably, staff are now monitoring the 10-calendar day response time required by the grant agreement on invoices and reports, but are not tracking the 45 calendar days to payment.<sup>7</sup> The grants management system, FLUXX, will be able to run reports regularly to track metrics such as payment cycle times, and ensure that insurance expirations or contract expirations are tracked to ensure that expirations do not impact Valley Water's ability to pay grantees.

*Please see Recommendation 3 above.*

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<sup>7</sup> Civic Engagement includes in their 2021 workplan within goal 2.1 (b) to complete invoice submittal reviews and request any follow-up items within ten days of receipt, and to process 100% of invoices within 45 days from when the invoice has been approved.

### **Status Reports**

Status reporting may be overly burdensome for some grantees. In our survey, three grantees explained that Valley Water progress reporting requirements and documentation may be overly detailed and burdensome to complete, especially for mini-grants. Best practices suggest using a streamlined reporting form for less complex and small dollar value grants, such as mini-grants, to ensure that grantseekers not expend more time and money getting the grant than they receive in funding, and to incorporate grantees' perspectives and their operating environment into the status report requirements.

The grant agreement requires grantees to submit written quarterly reports using Valley Water's standard form and in conjunction with invoicing. Status reports include an update for each task in the grants. In our file review, we found that grantees do not typically submit status reports unless they accompany the invoice. Partnerships frequently submit invoices and progress payments at the same time once significant amounts of work have been completed, but this may not meet the quarterly reporting requirement. This leaves Valley Water without regular information on ongoing projects and is not aligned with the quarterly reporting requirement in the grant agreement. Valley Water staff told us that this occurs because unlike non-profits, cities and other public agencies do not have cash flow issues and can float the costs while the project is ongoing, even if they don't report or invoice each quarter.

*Please see Recommendations 4, 5, 6 and 7 above.*

## **1.4 CLOSEOUT**

### **Final Payment**

Similar to invoice processing, closeouts had long lag times due to lack of monitoring timelines. The closeout process is triggered once the grantee submits the final invoice, along with the required final reports and documentation. To process final invoices, Valley Water uses a Final Invoice Review Worksheet with a checklist for project completion including:

- Final payment request form
- Final invoice
- Project fact sheet
- Final status report form including documentation of all accomplishments
- Notice of Completion for public works construction projects
- Project completion communication with authorized signature
- Presentation to Board of Directors upon request

While no formalized goal or timeline for project closeout is currently documented for Valley Water, federal granting agencies require final reports within 90 calendar days after the end date of the performance period<sup>8</sup>. Of the seven grants in our sample with closed out status, we found two had not yet been paid. We found in our sample that closeouts and the subsequent final invoice payment take an average of 173 days, and final payments can occur beyond six months after the agreement ends. The closeout process involves not only final invoice review and approval but, as noted above, the review, approval and presentation upon request of a final report of the project

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<sup>8</sup> 2 CFR 200.343: Closeout - describes the actions that the non-Federal entity and the Federal awarding agency or pass-through entity must take in order to complete the closeout process at the end of the period of performance (codified 29 CFR Part 95.71 and 97).

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before the Agreement Status Change Request (ASCR) is submitted to the contracts department, where the project is formally closed. Examples include:

- One grantee's agreement closed out in 2019, but the grantee submitted invoices in August 2020, and was paid in October 2020. Although payments to this grantee occurred within 44 days of the invoice, the payments, including the final payment, occurred 282 days from the agreement end date.
- Another grantee completed work a year prior to the agreement end date, and was paid within 69 days of the agreement end date, but did not receive their retention until 343 days after the last invoice was paid.
- Finally, one grantee with an agreement end date of June 30, 2019 submitted their final invoice in July 2019, but the ASCR was not prepared until July 2020 and payment occurred in August 2020, 381 days from the date of the final invoice submission.

Valley Water is currently tracking closeouts in the Grant Tracker, but due dates related to the necessary activities, forms and actions are not captured.

*Please see Recommendation 8 above.*

### **Project Delivery Reporting**

The ASCR and completion of the closeout packet triggers the release of any retention and final payment, but is not prepared until after the agreement end date. Then, a memo is prepared by Civic Engagement staff describing the project, its outcomes and other results. This memo is sent to the Chief of External Affairs. The memo is then submitted to the Board in the CEO Bulletin upon request.

### **Feedback from Grantees**

Valley Water has worked with over 60 different grantees and partners in the Safe, Clean Water program. As part of a sound internal controls system, information and communication between grantor and grantee are key to ensure there is a consistent flow of communication and feedback to allow the grantor to evaluate their practices and strive for continuous improvement. While grantees in our survey were pleased with the new level of communication from Civic Engagement, we noted there was no formal feedback elicited from grantees on regular basis. In the past, grantees have aired their concerns with Board members and the IMC. We recognize that Civic Engagement's Workplan contains their intent to survey grantees, which is a best practice.

*Please see Recommendation 9 above.*

## **Finding 2: Valley Water Needs to Standardize Internal Policies and Processes**

Valley Water oversees grants with positive community results, but its operating effectiveness during the past three fiscal years was hampered by a lack of formalized grants management policies and inconsistent staffing structure. After the 2017 performance audit of the Safe, Clean Water program recommended that grants management be consolidated under Civic Engagement, the function became centralized, but staffing deficiencies raised by that audit remained. Further, past management did not develop basic operational components to develop a grants management function, like an operations manual and position descriptions for grants managers, leaving the program dependent on institutional knowledge and practices of a few staff. At present, Civic Engagement staff roles and responsibilities could be enhanced with end-to-end policies and procedures and job specifications.

Grant program management should be guided by written policies and procedures accessible to all staff. A good organizational structure includes a clear delineation of roles and responsibilities, as well as explicit timelines to accomplish key tasks necessary for effective program implementation.



The lack of policies and procedures, coupled with inconsistent levels of dedicated staffing and turnover, contributed to the invoice payment backlog and other concerns voiced by grantees. A formalized policies and procedures manual can help ensure consistency in operations and can act as a training tool during transition due to turnover, as it helps an organization retain institutional knowledge, and navigate project and grantee issues, as well as provide guidance for the work flow – all of which were lacking during the audit period. New staff hired in FY 2020, although trained on the job, did not have a formal set of standard operating procedures or a manual for managing grants.

*Please see Recommendation 10 above.*

### **Finding 3: Valley Water can Change Staffing Assignments to Enhance the Grant Management Function**

Reconfiguring job assignments should also be considered to enhance the grants management function once the backlog has been addressed and policies and procedures are developed. As the Grants Management Book of Knowledge (GMBok) states, “success in grants management begins with good relationships. Both awarding agency and the recipient (grantee) should make efforts to keep communication open and collegial. Good communication, in turn, requires the grantee knowing the individual in key roles and holding key responsibilities within the awarding organization.”

Presently, Civic Engagement staff are not assigned to particular grants or priority areas. Rather, they are assigned tasks performed across all priority areas. Generally, a Management Analyst (0.4 FTE) handles the mini-grants and closeout documentation, and the Senior Management Analyst (1.0 FTE) handles the standard grants. While the Program Administrator always performs invoice authorization, at any stage, a grant invoice, application or agreement may be handled by any one of the other three Civic Engagement staff. Because staff each maintain a wide range of duties, grantees do not always have a specific point of contact for questions. When information was needed or follow up conducted on unpaid invoices, grantees told us that different staff members had varying levels of familiarity with their particular grant, and individual staff familiarity could impact the answer to the grantees’ question. Because staff are not assigned to specific grants and could be called upon to field questions from any grantee, the current staffing structure requires staff to work with four priority grant programs, consisting of eight unique grant categories. Ten of 29 grantees taking our survey were complimentary of current communications with Civic Engagement staff, but seven generally thought the communication was poor.

The Grants Manager’s Network, in their Staffing Grants Management Report, provides a description of staffing needs necessary for a grants management function – positions, competencies and duties, which aligns job descriptions with grant operations. Similar to what is described in the GMBok, programmatic functions are separated from the administrative and financial functions. This is also a key element of the control environment in the assignment of authority and responsibility, necessary to ensure that staff understand their internal control responsibilities and promote accountability of staff. Based on our review and comparison with Valley Water Civic Engagement staff job specifications, with the exception of the Supervising Program Administrator position, current position descriptions do not adequately address the grants management functions, competencies and duties. All four staff members (whose time dedicated to grants management is 2.25 full-time equivalents) have a full-range of administrative and financial duties including managing active projects, and also comprise assisting applicants and preparing application materials, preparing reports for Board meetings and workshops, reviewing status reports and invoicing documentation, addressing compliance concerns, and closeouts. In addition to historical staff turnover, these tasks are compounded by the release of new grant cycles multiple times a year.

Funding for the Safe, Clean Water program continues to grow with Measure S's passage in November 2020. If current organization and staffing assignments remain the same, it is reasonable to expect that either additional grant management staff may be needed to assume the workload<sup>9</sup> generated by new projects, or that the workload of existing staff could be focused (or more fully dedicated in terms of FTE levels) to manage the increased responsibilities and grant volume. For Civic Engagement to maintain its current service levels and manage more grants, adequate staffing – and/or a clearer staff focus – will be critical. Whether Valley Water considers expanding or maintaining staffing levels, it should match expected workload with its capacity.

*Please see Recommendation 11 above.*

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<sup>9</sup> There is no benchmark or formula that we determined could be applied to set an appropriate grant manager workload due to variations in project complexity, grantee type, and level of staff experience. Best practices research showed a range of projects per grant manager due to differences in granting agencies and programs. Currently, Civic Engagement does not track the number of projects assigned to a grant manager.



## MEMORANDUM

FC 14 (08-21-19)

**TO:** Greta MacDonald and Drummond Kahn

**FROM:** Marta Lugo, External  
Affairs Assistant Officer

**SUBJECT:** Management Response to Grants  
Management Performance Audit

**DATE:** December 30, 2020

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The purpose of this memorandum is to provide the management response to the Grants Management Performance Audit conducted by TAP International's subcontractors Greta MacDonald and Drummond Kahn. Management appreciates the opportunity to undergo a grants management performance audit and understands the value in the process to identify efficiencies and improvements to enhance the program. Despite challenges the program has experienced in the past, program staff has implemented numerous process improvements prior to the audit, which the auditor has highlighted in the report. These improvements include the following:

- Implementation of a grants management system that: manages grant projects through the full life cycle, from application to closeout, produces tracking reports, includes a grantee project management portal for invoicing and reporting, and generates automated email reminders
- Payment of invoices within 45-days upon receipt of supporting documentation from grantees
- Establishment of internal metrics for response time for grantee invoice submissions and inquiries
- Immediate payout of unquestioned and completed invoice items

Management would like to highlight the acknowledgement from the auditor that through a performance audit of the comprehensive Safe, Clean Water Program, the grants program was consolidated under the Office of Civic Engagement in 2017, and though the functions were centralized through the consolidation, adequate staffing levels raised by that audit remained unaddressed at that time. In addition, when the program transitioned over to Civic Engagement, there were no basic operational components that had been developed for grants management, such as an operations manual, so incoming program staff relied heavily on the institutional knowledge and inherited practices and procedures of previous program staff.

To help address these historical issues, additional FTEs have been allocated to the grants program, but as highlighted by the auditor, the program continues to expand and will grow further with the passage of Measure S. In 2014, staff managed 17 open/active grant projects and in 2017, 33 projects. This grew to 70 open/active grant projects in 2018 and currently 79 projects in 2020. The grants program has grown quickly in a relatively short amount of time, and learning and adapting is part of the growth process. Management appreciates that the auditor provides recommendations on how to address this ongoing challenge, to which staff has responded below.

Additionally, management appreciates that the recommendations for improvement are timely as the grants program is undergoing a redesign to meet the expanded program under Measure S.

Management addresses all eleven of the auditor's recommendations below, with the intention to include the final recommendations into the new program.

## Recommendations and Management Response

### Auditor Recommendation:

1. 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.
  - 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.

### **Management Response: Management agrees with this recommendation.**

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 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.

Management recommends that the risk assessment be conducted after the grant is awarded 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 the 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.

**Target Implementation:** July 2021

**Auditor Recommendation:**

2. As new grants are awarded, an orientation for new grantees should be mandatory, and Civic Engagement should provide an electronically accessible grantee guide, outlining all requirements for programmatic and financial reporting compliance. This can be as simple as compiling existing documents, developing reporting templates and developing a process map and including instructions on who to call based on the nature of the question.

**Management Response: Management agrees with this recommendation.**

Management agrees with requiring a mandatory orientation for new grantees. Staff began implementing kick-off/orientation meetings with grantees after agreement execution in early FY21. During the kick-off meeting, staff review and explain all expectations and requirements as specified in the agreement, as well as provide an orientation on the Fluxx grants management system. The agreement templates for standard and mini-grants include the invoicing and reporting templates and staff contact information. Staff will develop process maps and instructions for grantees.

Staff utilize this opportunity to set clear expectations on the reporting dates, which includes reporting even if there are no invoices; invoice documentation requirements; and timeline for reimbursements. Management recommends that this orientation also include a review of the assessment of the grantees' financial management systems and the risk assessment outcomes once those processes and criteria are developed.

Staff will continue to meet with grantees after their agreement is executed, and program staff will remain available and accessible to all grantees throughout the process. Staff will update the agreement template to include the kick-off/orientation meeting as a mandatory activity.

**Target Implementation:** January 2021

**Auditor Recommendation:**

3. Best practices suggest utilizing a grant management information system to run regular reports to track timeliness and to conduct other monitoring activities. While many monitoring functionalities for FLUXX remain in progress, we recommend, at a minimum, adding another column to the Grant Tracker spreadsheet to track the 45-calendar day payment window once initial contact has been made with the grantee. These payment cycle time metrics should be tracked and reported internally monthly, and to the Board Audit Committee quarterly.

**Management Response: Management agrees with this recommendation.**

Management agrees and staff has begun implementing a new column in the grant tracking spreadsheet to track the 45-calendar day payment window once a complete invoice is submitted by the grantee.

Staff began utilizing the Fluxx grants management system in FY20, starting with the grant application cycle, and continues to build out and customize the system functionalities. In FY20, staff began accepting status reports and payment requests on Fluxx. Staff is in the process of migrating active grants data, documentation and files into the Fluxx system to more effectively utilize Fluxx's robust reporting capabilities.

Staff recommends preparing the payment cycle time metrics report monthly to the Chief of External Affairs and Chief Executive Officer and annually to the Safe, Clean Water Independent Monitoring Committee (IMC) as they are the independent oversight committee that reviews all Safe, Clean Water projects. Staff will present the report to the IMC during its annual review. Staff will begin this reporting schedule with the development of the new grants program under Measure S, which will begin in FY22.

In addition, pursuant to Valley Water's practice, staff will provide an update on the audit recommendations to the Board Audit Committee in approximately six months.

**Target Implementation:** January 2021

**Auditor Recommendation:**

4. Monitoring should be conducted, either manually or through automated reminder emails in FLUXX, to ensure that a progress report, or another form of communication from a grantee, is submitted quarterly ensure that Valley Water is kept apprised of project status and to ensure that work is aligned with the grant agreement.

**Management Response: Management agrees with this recommendation.**

Management agrees with this recommendation and staff is currently working on setting up the automatic reminders for grantees to submit their quarterly reports in the Fluxx grants management system to improve efficiency. Fluxx will also send automatic email reminders on upcoming expiration dates for insurance and agreement terms.

**Target Implementation:** January 2021

**Auditor Recommendation:**

5. In addition to right sizing invoicing requirements based on the grant's risk level, Valley Water should right-size the level of progress reporting detail required for smaller dollar value standard grants, for example, under \$25,000.

**Management Response: Management agrees with this recommendation.**

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

### **Auditor Recommendation:**

6. 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.

### **Management Response: Management agrees with this recommendation.**

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 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

**Auditor Recommendation:**

- 7. 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”.

**Management Response: Management agrees with this recommendation.**

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.

- 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.
- b. 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

**Auditor Recommendation:**

8. Valley Water should solicit grantee and partnership feedback regularly, conducted by an independent third party, as best practices suggest. In addition to assessing satisfaction with the program, inquiries should be made to determine the extent to which partial funding has impacted the grantee and the project.

**Management Response: Management agrees with this recommendation.**

Management agrees with this recommendation to solicit grantee feedback using an independent third party. The solicitation of grantee feedback will be timed so that it can be incorporated into the development of the new grants program under Measure S, which will begin in FY22.

**Target Implementation:** January/February 2021

**Auditor Recommendation:**

9. Valley Water should determine a reasonable goal and timeline for final closeout and final payment, including the release of retention. The established dates and timelines should be monitored in the Grant Tracker and when possible, included in any automated flags and alerts that FLUXX can provide.

**Management Response: Management agrees with this recommendation.**

Management agrees and staff will develop closeout timeframes and track them in the grants tracking sheet. The final invoice is held to the same tracking and reporting standards as all other invoices. The retention is only held from the final invoice when documentation of deliverables is still being submitted by the grantee. Once submitted, then the retention is released. The closeout timeframes will be established along with the development of the new grants program under Measure S, which will begin in FY22.

**Target Implementation:** July 2021

**Auditor Recommendation:**

10. Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.

**Management Response: Management agrees with this recommendation.**

Management agrees with this recommendation and believes it will help streamline the overall grants process and enhance grantee understanding of and compliance with all procedures. A grants management operations manual will be developed prior to the implementation of the new grants program under Measure S, which will begin in FY22.

**Target Implementation:** March 2021

**Auditor Recommendation:**

11. To ensure that staff understand and carry out their internal control responsibilities, and to promote accountability, Valley Water should consider reconfiguring job assignments to enhance the grants management function once the backlog has been addressed and policies and procedures are developed:
- a. Option 1: Assign Staff by Priority Area and Specific Grants. This would allow staff to become familiar with the priority area, programs and grantees, as well as create a balanced number of programs a grant manager is expected to manage. This would benefit the grantee with the assignment of a single point of contact for questions at any phase of the project. This would allow for important information concerning a grantee, and project details learned in the application stage to transfer to active project management and throughout the life of the project. The downside to this option is that grant managers would still be required to perform duties that they might not have the technical capacity, knowledge or authorization to properly perform, such as a subject expert having responsibility for invoice processing, or a finance and accounting expert having responsibility for program oversight.
  - b. Option 2: Split Application and Active Grant Management Duties. Civic Engagement may consider dividing the work performed during the application cycle and work performed during the active project management cycle into two separate positions or teams. From an efficiency perspective, this delineation could improve overall workflow by decreasing bottlenecks that occur during certain times of the year (e.g., the allocation/application cycle) and ensure that a sufficient number of staff remains focused on active grant management, such as invoice review processing and monitoring. Additionally, with such a delineation of duties, one individual could be assigned to or specialize in contracts and billings for all grants.
  - c. Once job assignments are determined, the Supervising Program Administrator and Unit Manager should develop a training manual and schedule that clearly identifies the type of training needed to effectively perform specified job duties to address any gaps in staff knowledge, skills and abilities.
  - d. As the Safe, Clean Water grants program grows, and the grants management function within Civic Engagement expands, develop grants management position descriptions.

**Management Response: Management agrees with this recommendation.**

Management agrees with this recommendation. With the development of the new grants program under Measure S, staff and the Board have an opportunity to update the current grants program and begin implementing new criteria, policies and procedures. Once the new program is developed, job assignments may be restructured to best meet the needs of the program as the auditor has suggested here.

- a. With the development of the new grants program under Measure S, the grants will not have defined priority areas to accommodate multi-benefit projects and provide flexibility for new and innovative projects that still achieve Valley Water's mission. Therefore, Option 1 may be more challenging to implement due to the types of grants being more integrated and some grant types receiving more interest than others which would leave the workload unbalanced. Management recommends pursuing Option 2, as described below, to meet the needs of the new grants program.
- b. Management agrees with this recommendation. As the grants staff continue to clean-up the inherited backlog, the team is adopting this model to assign roles. The Program Administrator (0.6 FTE) is managing the new grant cycle process, including applications, and partnerships, and continues to authorize invoice payment. The Senior Management Analyst (1.0 FTE) manages the day-to-day support for all standard grants. The Management Analyst I (0.4 FTE) manages all aspects of the mini-grants, including application, award and monitoring. The grants team meets weekly to ensure sufficient cross-training on all grants management tasks and active items to ensure cohesive customer service to all grantees.

Management agrees with the audit report that “to maintain current service levels and manage more grants, adequate staffing – and/or a clearer staff focus – will be critical.” As the grant portfolio increases every year, which results in a continually increasing workload, management agrees with the audit report that “Valley Water should ensure the expected workload matches its capacity.”

- c. Management agrees with this recommendation and believes it will help ensure the grants program continues to be aligned with industry best practices as they evolve.
- d. Management agrees with this recommendation to provide clearly defined roles and structure to the grants program. The development and implementation of new grants management position descriptions would require collaboration with subject matter experts in Human Resources and consultation with the unions. While the grants team currently does not have the authority to develop and adopt these position descriptions, this idea will be further explored with the Chief of External Affairs and Human Resources department. Establishing processes and procedures in an operations manual will assist with the development of the position descriptions.

**Target Implementation:** July 2021



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Marta Lugo, Assistant Officer  
Office of External Affairs

cc:

K. Yasukawa, A. Fonseca, P. Lam, S. Tran, R. Gibson, D. Taylor, A. Blackmon

## Attachment B – Anonymized Survey Responses

We sent a survey to 63 grantees in September and October, 2020. Anonymized responses of the 29 grantees who responded to the survey follow. Numbered responses match for each of two questions, so for example, answer 1 in both lists is from the same grantee responding to the survey.

### **Anonymized Survey Results:**

#### **Answers to: What are the Strengths of Valley Water's grants process, e.g. what is working well?**

1. The application process is clear. It seems as though recently, the turnover has been limited which made the process clearer and has improved response time. I also appreciated how Valley Water set up phone conversations to address questions and concerns, rather than sending multiple emails back and forth.
2. Fluxx management system is well organized and easy to understand, staff are knowledgeable
3. Staff is available to answer questions and provide technical support.
4. VW staff has been very responsive in helpful in guiding us through the grants process, as well as being flexible and understanding of our institutional processes and special circumstances.
5. The staff are very friendly and professional during communications. They work with us closely to resolve any issues
6. Program Managers are typically well informed of the grant rules. Program Managers are typically very timely and responsive.
7. Personnel are extremely professional, punctual and efficient when available.
8. They fund environmental programs.
9. (Respondent skipped)
10. One of the four contact people assigned to the process was very helpful, providing feedback and guidance
11. Being locally based, applicants have a good chance of success (as opposed to competing for state-wide grants). This program provides funding that has truly amplified our organization's impact in the region. Also, although I know the program has received feedback that the application process is onerous, I would actually say that the application itself is on par and in some ways easier than other programs we have applied to.
12. Information
13. Notification of when grants are open Notification of when my application is incomplete or that they lost some information
14. Their trash efforts along the Creeks
15. Process-driven with explanations on decision - appreciate the thoroughness Grants important issues that don't see a lot of funding opportunities Grants team is very helpful and approachable
16. good intentions to replace lawn with water saving plants
17. there was good coordination with various departments within the Agency
18. Multi-year grants and the ability to plan on the next round of grant funding are strengths of the process. At a high level, the biggest strength of this program is that it encourages cities to invest in watershed restoration in order to unlock the funding through the match requirement. Once this starts, the city usually sees the benefit and continues beyond the grant period. If we want to continue to restore watershed habitat and maintain these habitats for fire, we need to keep this program going with the promised level of investment. The impact for the amount of investment is a great achievement for Valley Water, and they could highlight it more.
19. Good client service from the Valley Water staff.
20. Information session and application process was informative and easy.
21. Flexibility/ nimbleness -- relatively efficient application and amendment processes.

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22. Once the contract was signed in April 2020, the process for submission and approval of invoices was set up well. For the last 3 months it has been working well and our invoices are being paid in a timely manner.
  23. Personalized feedback and responsiveness from staff that guided me through the application and fulfillment process.
  24. Valley Water is very easy to contact and get feedback.
  25. The new team handling the process has helped things go smoother
  26. Instructions are generally very clear, the staff is professional & personable, and there's a lot of support during the application process.
  27. The one-to-one interaction we were able to have with the grants officer to answer questions and field ideas and updates along the way.
  28. Grants program staff are extremely collaborative and willing to work through issues that arise with existing grants. We have new staff, so are not experienced with prior grant application process details with Valley Water. The move toward standardized forms and practices across grant programs at Valley Water is very positive. The opportunity to participate in workshops ahead of grant applications is very helpful. - The availability of prior grant award information on the website is helpful. Staff continuity and team capacity is very helpful and has been a positive for recent work with Valley Water.
  29. The online application process makes it a little easier to keep track of everything and reduces the need for paper, which is great.

**Answers to: What are some of the weaknesses of Valley Water's grant process, e.g. what could be improved in the grants management process?**

1. Admittedly, the repeated turnover mid-grant term was quite challenging. There was different information given to our organization at different times, which caused a lot of back and forth on both ends. Additionally, we had challenges receiving payments punctually which can be difficult for a non-profit organization. There was a lot of confusion with deadlines. We had deadlines outlined by the original grant representative, which conflicted with the contract that stated we had three years. This was eventually cleared up with the new grant team, which we appreciated! I understand that Valley Water needs detailed information about money spent. That said, it would be helpful to have the grant reimbursement request process somehow more streamlined, consistent, and concise.
  2. Process to get final grant agreements in place is very cumbersome and lengthy, due to governance requirements
  3. Communication about timeline for decisions.
  4. None that I can think of. This is our first grant award from VW, so this has been a new learning process for us.
  5. Communications greatly delayed. One of our grants was submitted in 2019, but still no result provided. Often it takes weeks to communicate with staff and 4-6+months for payment on invoices
  6. The execution of agreements can take several months and sometimes over a year.
  7. Delays, below average communication and high rate of staff turnover. From our experience it has been difficult to get a hold of grant managers and sometimes other personnel through email or phone, and when we do come in contact, it is often weeks later. Due to turn over of grant managers, some agreements have not held over to new staff, or have to be renegotiated or re-explained. Finally, the grants system doesn't seem to be being used to its full potential, at least for submitting reports (which we still are doing by email).
  8. The tracking is disproportionate to the amount of money distributed and was not well-explained up front. Our agency manages grants from the state, several counties, the air district, DOE, NHLBI, and foundations, and this is the most tedious of them all. We have decided not to apply for another grant from Valley.
  9. Four different Valley Water contact people were involved over a 3year period, follow-up contact was not very good, upon completion it took nearly three months before I heard back from someone from Valley Water and the issue is still not resolved.
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10. Constant staff turnover Overly administrative Only ever received partial funding. Difficult to find funding to complete projects.
  11. The process seems to be extremely rigid and bureaucratic. Staff are always very friendly and easy to talk to, but they don't seem to be empowered to make decisions. Processing of contracts and invoices takes forever; is it because of routing to various departments? Could this be streamlined? Also, the program could be more forgiving of applications that miss a technicality - we know of at least one instance where an application was not considered because it was missing some piece (I can't remember the details). In a program where you are not being overwhelmed by applications, it seems like it would be possible to be more flexible in these situations. We recently submitted a proposal to OSA and forgot an attachment -- the grant program staff caught this oversight and alerted us to it! Finally, the mini-grants were a great idea and did at first provide quick funding for small projects and accessible to a wider audience. Recently it seems this has become bogged down as well with things like insurance requirements and just an inordinate amount of review. These small projects will often move on without quicker decisions.
  12. None
  13. High staff turnover (4 grant contacts over 1-year grant) Grant system reflects incomplete information on my grant that was completed. Communications is through many people or non-existent Slow payment Slow to reply to application status Non-friendly format for application and for report submission in Flux
  14. It is painful to work thru Staff, slow turnaround on invoices up to 15 months, permits required to execute grants sourced thru District take 7-24 months to receive. Some of it may track back to turnover in these Depts but as a grantee this shouldn't be such a problem. our organization will not seek additional grants via Valley Water.
  15. Process to formalize grant agreements and process payments is way too long - to the point where it impacts organization finances long-term planning. The grant reimbursement requirements are unnecessarily specific and detailed, especially given the fund amounts. For long term partnerships - grant needs to consider general operating support for nonprofits with mission alignment
  16. When I applied for the grant, I thought it would be simple and easy. I started out fine, talked to interns, to contractor on list, and though I was doing everything right. Then communication stopped from Valley Water interns helping with grant program.
  17. during my grant contract, there were several staff changes acting as the grant manager and changes to reporting formats. That was a bit time consuming
  18. The process is overly burdensome both on the grant application side but mainly on the payment side. Payments are often delayed for over 6 months, and Valley Water does not live up to its own contractual commitments to point out any issues with the invoices within a few weeks of receiving the invoice. Furthermore, there is so much staff time wasted on very small costs. We also get paid through a PO process with other departments, and we can get paid within two weeks of submitting the invoices. The amounts are similar and the PO process does not require nearly the amount of proof that the grants process requires. It's like the grants program assumes non-profits are out to cheat them whereas the PO process assumes that private industry wouldn't do such a thing. On the grant application side of things, the mini grant idea has really been lost. Our first mini grant (~4 years ago) was approved within a month and paid out without a lot of documentation. Our last mini grant took over 6 months to get reimbursed, and new requirements were added after the project was completed. Our current mini grant application has been sitting in review mode for over a year. I can't help but think that the amount of staff time to review these \$5K grants exceed the cost of the grant.
  19. None that I observed.
  20. Once the grant was awarded, it took a very long time to draw up and finalize the get the agreement. Since we applied to a mini-grant, the awarded funds just narrowly exceeded the cost of administering the grant on our side. Part of the problem was that we were first time applicants, so I had a lot to learn about the process of grant receipt and administration with Valley Water. However, for small grants in particular, I think it would be appropriate to streamline the process of awarding grant funds in order to increase the impact of grant dollars.
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- 21.** We have experienced very slow processing of grant invoices -- this imposed a significant financial hardship on our organization -- even though it is a relatively large national one.
  - 22.** It took 18 months to sign the contract after Valley Water was agreed in principle to the grant. Valley Water's in principle agreement came in October 2018 after we had confirmation on matching grants from other cities. Delays like this can impact the very viability of a project.
  - 23.** It could be helpful to have specific examples of ways to accomplish goals.
  - 24.** Getting a contract processed takes a long time.
  - 25.** They had a lot of turn over and grant invoices have gone unpaid for more than a year. As a nonprofit who runs on a small budget that puts us in a really difficult spot. The grants also require a lot of specific fulfillment details that can be quite involved for the size of the grant. If the grants were larger amounts the grant requirements would be relative but sometimes the grant is small and the amount of work we have spent trying to fulfill the requirements and get the invoices paid has surpassed the value of the grant. We have limited resources and capacity so having to spend a lot of time following up on unpaid grants is taxing for us.
  - 26.** There is a very long lag time between submitting reports and hearing back about additional info that needs to be submitted; reimbursements took months longer than expected.
  - 27.** We felt that there was quite a bit of documentation and reporting required for the mini grants. This can place a burden on smaller organizations who do not have dedicated development staff.
  - 28.** Legacy issues have been a challenge for budgets and forms for existing Valley Water grants. Length of time for processing grant agreements to be executed has been a challenge.
    - a.** Length of time for processing grant reimbursement requests of more than 6 months has been a significant issue.
    - b.** Staff changes and/or capacity for work load may be impacting Valley Water effectiveness in grant management. This seems to be an issue Valley Water is actively trying to address.
    - c.** When issues arise for natural resources (heavy rain years, drought, plant survival outcomes), there are needs for changes to original budgets that may be made more difficult with staff turn-over.
    - d.** Staff changes resulted in delays and poor communication for some existing grants, this again may be a legacy issue.
    - e.** 30-day review is not what our organization has seen. Delays cause difficulty for project team members involvement in the field and time to discussion for any questions months later on reimbursements.
  - 29.** We totally understand current circumstances but even before, it would take a long time to get invoices paid from the time we submit all our paperwork and reports. Granted, we haven't had to submit anything in FLUXX yet, but that will hopefully help with keeping track of the status of reports and payments.
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