



Santa Clara Valley Water District Board Audit Committee Meeting

Via Zoom Teleconference

REGULAR MEETING AGENDA

**Wednesday, February 16, 2022
2:00 PM**

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

BOARD AUDIT COMMITTEE
Barbara Keegan, Chair - District 2
Gary Kremen, Vice Chair - District 7
Richard P. Santos - District 3

During the COVID-19 restrictions, all public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body, will be available to the public through the legislative body agenda web page at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to participate in the legislative body's meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 265-2600.

DARIN TAYLOR
Committee Liaison

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

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

THIS PAGE INTENTIONALLY LEFT BLANK

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

Wednesday, February 16, 2022

2:00 PM

Via Zoom Teleconference

*****BY VIRTUAL TELECONFERENCE ONLY*****

Pursuant to California Government Code section 54953(e), this meeting will be held by teleconference only. No physical location will be available for this meeting; however, members of the public will be able to participate in the meeting as noted below.

In accordance with the requirements of Gov. Code Section 54954.3(a), members of the public wishing to address the Board/Committee at a video conferenced meeting, during public comment or on any item listed on the agenda, should use the "Raise Hand" tool located in the Zoom meeting link listed on the agenda, at the time the item is called. Speakers will be acknowledged by the Board Chair in the order requests are received and granted speaking access to address the Board.

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

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

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

Join Zoom Meeting:

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

Meeting ID: 916 0807 9873

Join by Phone:

1 (669) 900-9128, 91608079873#

1. CALL TO ORDER:

1.1. Roll Call.

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

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

3. APPROVAL OF MINUTES:

4. REGULAR AGENDA:

4.1. Election of 2022 Board Audit Committee Chair and Vice Chair.

[22-0222](#)

Recommendation: Nominate and Elect the 2022 Board Audit Committee Chair and Vice Chair.

Manager: Darin Taylor, 408-630-3068

- 4.2. Board Audit Committee Audit Charter Discussion. [22-0115](#)
- Recommendation: A. Consider recommended changes to Board Audit Committee Charter;
 B. Provide input regarding further changes to Board Audit Committee Charter; and
 C. Approve recommendation to Board of Directors for modifications to Board Audit Committee Charter.
- Manager: Darin Taylor 408-630-3068
- Attachments: [Attachment 1: Red-lined Board Audit Committee Charter](#)
- 4.3. Receive an Update on the Status of the Pacheco Reservoir Expansion Fact-Finding Investigation. [22-0116](#)
- Recommendation: A. Receive an update on the status of the Pacheco Reservoir Expansion fact-finding investigation; and
 B. Approve direction to staff to provide results of the fact-finding to the full Board of Directors.
- Manager: Brian Hopper, 408-630-2765
- Attachments: [Attachment 1: Executive Summary Pacheco Expansion Project](#)
- 4.4. Receive an Update on the Status of the District Counsel Audit Recommendation Implementation. [22-0217](#)
- Recommendation: Receive an update on the status of the District Counsel Audit recommendation implementation.
- Manager: Carlos Orellana, 408-630-2755
- Attachments: [Attachment 1: District Counsel Audit Progress Report](#)
- 4.5. Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. (Navigant), and status update on the Consultant Contracts Improvement Process. [22-0218](#)
- Recommendation: Receive a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and the status of the Consultant Contracts Improvement Process.
- Manager: Tina Yoke, 408-630-2385
- Attachments: [Attachment 1: Navigant Audit](#)
 [Attachment 2: PowerPoint](#)

- 4.6. Second Quarter Fiscal Year 2021-22 Financial Status Update. [22-0223](#)
Recommendation: Receive the second quarter Fiscal Year 2021-22 financial status update as of December 31, 2021.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: PowerPoint](#)
- 4.7. Receive a Final Update on the Status of the Mitigation and Monitoring Compliance Audit Recommendation Implementation. [22-0226](#)
Recommendation: Receive a final update on the status of the Mitigation and Monitoring Compliance Audit recommendation implementation.
Manager: Jennifer Codianne, 408-630-3876
John Bourgeois, 408-630-2990
Attachments: [Attachment 1: Recommendation Status Matrix](#)
- 4.8. Discuss the 2022-2024 Annual Audit Work. [22-0219](#)
Recommendation: Discuss the 2022-2024 Annual Audit Work Plan.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: 2022-2024 Annual Audit Work Plan](#)
[Attachment 2: CIP Performance Audit Scope](#)
- 4.9. Review and Discuss the 2022 Board Audit Committee Work Plan. [22-0221](#)
Recommendation: Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: BAC Work Plan 2022](#)
- 4.10. Financial Auditor Selection Process Discussion (Continued from January 19, 2022). [22-0251](#)
Recommendation: Approve staff recommendations to be incorporated into the Financial Auditor selection process.
Manager: Darin Taylor, 408-630-3068

5. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

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

6. ADJOURN:

- 6.1. Adjourn to Regular Meeting at 2:00 p.m., on March 16, 2022.



Santa Clara Valley Water District

File No.: 22-0222

Agenda Date: 2/16/2022
Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM **Board Audit Committee**

SUBJECT:

Election of 2022 Board Audit Committee Chair and Vice Chair.

RECOMMENDATION:

Nominate and Elect the 2022 Board Audit Committee Chair and Vice Chair.

SUMMARY:

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

Through its oversight of the audit process, the BAC provides the Board with independent advice and guidance regarding the adequacy and effectiveness of Valley Water's management practices and potential improvements to those practices.

As stated in Article 2 of the BAC Audit Charter, Officers of the Committee include the Committee Chair and Vice Chair, who serve as the Committee's primary and secondary facilitators and representatives. The Committee Chair and Vice Chair are elected by the Committee to serve a 1-year term. Nomination and election of the Chair and Vice Chair typically occurs annually at the start of the calendar year.

ATTACHMENTS:

None

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 22-0115

Agenda Date: 2/16/2022

Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Board Audit Committee Audit Charter Discussion.

RECOMMENDATION:

- A. Consider recommended changes to Board Audit Committee Charter;
- B. Provide input regarding further changes to Board Audit Committee Charter; and
- C. Approve recommendation to Board of Directors for modifications to Board Audit Committee Charter.

SUMMARY:

The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits. On September 26, 2018, the BAC directed that an Audit Committee Charter be developed, and on August 27, 2019, the Board formally approved the BAC Audit Charter. On February 23, 2021, the Board of Directors (Board) approved a revised BAC Charter that included updating naming conventions, adding content, adding supplemental text, and providing clarifying language.

A. Recommended Changes

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

First, language was added to Article VIII (Annual Financial Statement Audit) section 3 to include a requirement that financial statement audit results and “pertinent information” identified during the course of the audit must be communicated to the BAC. “Pertinent information” is defined in the change as: “as issues, concerns, practices, programs, or activities that may pose a reputational, operational, financial, or service delivery risk to Valley Water regardless of the magnitude of the apparent risk, as well as any issue deemed pertinent in the auditor’s professional judgment.” Section 4 of Article VIII requires future contracts with the annual financial statement auditor to formally include these requirements. These changes are recommended to ensure that issues that would reasonably be of concern to the BAC will be communicated to it by any auditor during the annual financial

statement audit.

Second, changes are recommended to Article IX (Performance) section 3 (Education) to change the BAC training requirement from once per year to once every two years. To reinforce the importance of training, completion of some annual training is identified as a goal instead of a requirement. This change is recommended to provide the BAC with greater flexibility to complete training when there are competing scheduling demands.

A red-lined copy of the Audit Charter is included as Attachment-1.

B. BAC Input Regarding Further Charter Changes

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

ATTACHMENTS:

Attachment 1: Red-lined Board Audit Committee Charter

UNCLASSIFIED MANAGER:

Darin Taylor 408-630-3068



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

12-13-21 Draft

ARTICLE I - PURPOSE

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

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

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

ARTICLE II - COMPOSITION

1. Number of Committee members/Appointment - The Committee shall consist of at least three members of the Board and shall be appointed by the Board in accordance with the Board's Governance Policies. Committee members shall serve one-year terms.
2. Quorum - The quorum for the Committee shall be a majority of the members.
3. Committee Chair - A Committee Chair shall be elected by a majority of the Committee at the first Committee meeting of the calendar year and shall serve for a one-year term. The Committee Chair shall be responsible for approving agendas for Committee meetings, approving the payment of invoices to Auditors, and making all initial efforts to resolve any conflicts that may arise during an audit. To the extent the Chair is unable to resolve conflicts arising during the audit, the matter shall be referred to the Committee for attempted resolution.
4. Committee Vice-Chair - A Committee Vice-Chair shall be elected by a majority of the Committee at the first Committee meeting of the calendar year and shall serve for a one-year term. The Vice-Chair shall assume the duties of the Chair during the Chair's absence.

ARTICLE III – OPERATIONAL PRINCIPLES

1. Committee Values. The Committee shall conduct itself in accordance with Valley Water's values as set forth in Valley Water's Governance Policies of the Board of Directors, Governance Process No. GP-7 (Values Statement).
2. Communications – The Committee expects that all communication with management and staff of Valley Water as well as with any external auditors will be direct, open, and complete. The Committee is entitled to receive any explanatory

information that it deems necessary to discharge its responsibilities. The Committee will communicate directly with the Board and will not exercise actual authority over Valley Water employees.

3. Disclosure of Impairment to Independence – The Auditor shall disclose the details of any audit-related impairment in fact or in appearance to the Committee (~~e.g.e.g.~~ one which threatens the ability to carry out audit responsibilities in an unbiased manner, including matters of audit identification, scope, procedures, frequency, timing, and report content).
4. Access to Information - Except where action by the full Board is required (such as for the waiver of a legal privilege), the Committee shall have unrestricted access to records, data, reports, and all other relevant information it consider necessary to discharge its duties. If access to requested documents is denied due to legal or confidentiality reasons, the Committee shall follow any prescribed, Board approved mechanism for resolution of the matter.
5. Authority – This Charter sets out the authority of the Committee to carry out the responsibilities established for it by the Board. In the event of any conflict between this Charter and either the District Act or the Board Governance Policies, the provisions of the District Act and Board Governance Policies shall prevail.
6. Annual Work Plan –
 - 6.1. Work Plans are used by all Board Committees to increase Committee efficiency, provide increased public notice of intended Committee discussions, and enable improved follow-up by Valley Water staff. Work Plans are dynamic documents managed by Committee chairs and are subject to change. Annual Work Plans establish a framework for committee discussion and action during the annual meeting schedule. Committee Work Plans also serve as Annual Committee Accomplishments Reports.
 - 6.2. The Committee shall, in coordination with Valley Water’s Clerk of the Board, develop a proposed Annual Work Plan. Items shall be included in the Annual Work Plan based upon a majority vote of the Committee.
7. Annual Audit Work Plan
 - 7.1. While the Annual Work Plan governs the overall work of the Committee, the Committee shall also develop a proposed “Annual Audit Work Plan” which shall list each of the individual audits to be performed over the course of the year.

- 7.2. At least annually, the Committee shall develop and submit a proposed Annual Audit Work Plan to the full Board for consideration and approval. Following such Board consideration and approval, the Annual Audit Work Plan shall be automatically updated to include any additional audits formally referred to the Committee by the full Board. Any proposed substantive changes to the Annual Audit Work Plan (e.g., combining audits, removing an audit, or significantly delaying initiation of an audit) must be approved by the Board. Recommended changes should be evidence based.
- 7.3. Only audits properly included in an approved Annual Audit Work Plan, as set forth in section 7.2 above, may be undertaken by the Committee.
- 7.4. Risk Assessment – The Committee shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, tri-annually and to annually update Valley Water-wide audit risk assessment to include objectively recommended audits ranked based upon the potential level of risk to Valley Water. The results of this Valley Water-wide audit risk assessment should be relied upon to develop the proposed Annual Audit Work Plan.
8. Valley Water Independent Auditor – Upon approval of the Board following recommendation by the Committee, Valley Water may retain an Independent Auditor to serve as support to the Committee, to make recommendations for the Annual Work Plan, and to recommend audits for inclusion in the Annual Audit Work Plan. The Independent Auditor shall not be an employee of Valley Water. The Independent Auditor must report directly to the Audit Committee and Valley Water staff shall not direct or attempt to direct the work of the Independent Auditor. The Committee may recommend that the Independent Auditor perform individual audits but shall ensure that additional auditors are recommended for use in planned audits so that no single firm conducts a disproportionate number of audits in a given fiscal year.
9. Committee Evaluation of Auditor Performance – The Committee shall evaluate the performance of the Independent Auditor and any other Auditor retained by the Board. The Committee may make a recommendation to the Board to discharge such Independent Auditors or other Auditors where they are not adequately fulfilling their contracted duties.
10. Preparation and Attendance – Committee members are obligated to prepare for and participate in Committee meetings.

11. Conflicts of Interest – It is the responsibility of Committee members to disclose any conflict of interest or appearance of a conflict of interest to the Committee regarding any matters coming before or considered by the Committee.

ARTICLE IV – MEETINGS

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

ARTICLE V – AUDIT PRINCIPLES

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

- b. Internal audits – Internal audits review the environment, information, and activities that are designed to provide proper accountability over Valley Water operations;
 - c. Compliance audits – Compliance audits review adherence to Valley Water policies and procedures, state regulatory requirements, or federal regulatory requirements;
 - d. Performance audits – Performance audits review the economy, efficiency, and effectiveness of Valley Water’s programs, services and operations. Performance audits can evaluate current impact or assess operations prospectively;
 - e. Desk reviews – Small and quick audits of limited size or duration for the purpose of determining if a full performance audit is needed. Board approval is not required for Desk reviews, however the Committee shall, as soon as is practicable, provide the Board with notice following the Committee’s approval to initiate any Desk review;
 - f. Follow up audits – Audits evaluating to what extent prior audit recommendations have been implemented. Follow up audits may also assess other actions taken to respond to or prevent the occurrence of problems;
 - g. Best practice reviews – Audits which compare current Valley Water operations to best practices.
3. Audit Objectives – Audit objectives must be developed for every audit conducted on behalf of Valley Water. These audit objectives are questions posed by management, Committee members, Board members, or auditors about the specific nature of the issue or concern that is the subject of the audit. Suggested Audit Objectives shall be referenced in the Annual Audit Work Plan for every audit listed therein. The audit objectives may be subject to revision as necessary during the planning phase of the audit.
4. Audit Standards – Audits conducted by or on behalf of the Committee shall conform with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (Standards) (RED Book) or the Generally Accepted Government Auditing Standards established by the U.S. Government Accountability Standards (YELLOW Book), or both.
5. Limited Investigations.
- a) Purpose. In lieu of an audit, the Committee shall also have discretion to conduct or request Limited Investigations to address any discrete issue or concern regarding fraud, waste, or violations of law or policy at Valley

Water. The Committee shall not have jurisdiction to conduct Limited Investigations on any other matters. Prior Board approval is not required for the initiation of Limited Investigations.

- b) Scope. Such Limited Investigations may or may not be subject to the Audit Standards set forth above and shall be undertaken only where: (1) the Limited Investigation is designed to determine the existence or nonexistence of discrete facts involving alleged fraud, waste, or violations of law or policy at Valley Water; (2) the Committee has determined that an audit is not appropriate to address the concern; and (3) the Limited Investigation does not address any matters covered or potentially covered by Board Governance Policy GP-6 (Board Members' Code of Conduct).
 - c) Classified Employees. Classified employees who are parties to any Limited Investigation shall be afforded all applicable rights under the Meyers-Milias-Brown Act and the Memorandum of Understanding then in effect with the employee's union.
 - d) Timely completion. All Limited Investigations must be completed in a timely manner.
 - e) Report of Results. The Committee shall advise the Board of the results of all completed Limited Investigations.
6. Protection of Confidential or Privileged Information – The Committee shall take all necessary steps to prevent the unnecessary disclosure of privileged or confidential information arising in the audit process, arising in the final reports on the audits, arising in the Limited Investigation process, or arising in final reports issued on Limited Investigations.

ARTICLE VI – COMMITTEE OVERSIGHT OF BOARD INITIATED AUDITS

Committee recommendation of Auditors – The Committee shall make recommendations to the full Board for the selection of all Auditors to perform audits in the approved Annual Audit Work Plan. In making such recommendations, the Committee shall consider multiple auditors in order to avoid having any single auditor perform a disproportionate number of audits in a given fiscal year. Following such recommendation, the Board shall make the final decision regarding the selection of such auditors.

- 1. Board Auditors and Valley Water Staff – Valley Water staff may assist the Committee in its work and may provide information to, assist, or work with Auditors retained by the Board, as necessary. Valley Water staff shall not, however, attempt to direct any Auditors retained by the Board. Auditors retained by the Board shall have a duty to the Board and shall not take direction from Valley Water staff.

2. Communications with Auditors – Individual Committee members shall have the right to speak with Auditors directly regarding the Auditor’s assignments. However, direction to Auditors shall come from the Committee as a whole.
3. Completion of Annual Audit Work Plan – The Committee shall ensure that audits on the Annual Audit Work Plan are initiated and completed in an accurate and timely manner.
4. Review of Audit Results/Notice to Board – The Committee shall review the observations and conclusions of all audits conducted pursuant to the Annual Audit Work Plan. Upon finalization of the audits and any related reports, the Committee shall provide the Board with the results and make any recommendations to the Board regarding improvement of program performance and operations, cost reductions, and best practices.
5. Draft Audit Reports - The Committee may request the opportunity to review and comment on any draft audit reports before such reports are finalized by the auditor.
7. Valley Water Management Response to Audits – Valley Water Management must review, for technical accuracy, and provide comments on any preliminary draft audit report within ten working days from issuance. Valley Water Management must review and respond to draft audit report recommendations included in Board Initiated audits within fifteen working days from issuance of any draft audit report, unless the Auditor requires the Management response in a shorter amount of time. The Committee, at the request of Valley Water management, may extend the review and comment periods on an audit by audit basis. The Committee may ask questions about or make comments on any responses to the draft audit report recommendations. However, the Committee shall not attempt to direct Valley Water staff in its response to any audit.
8. Board Monitoring of Committee Performance – The Committee shall provide the Board with timely and periodic reports regarding its activities, its progress on individual audits, its progress on the Annual Work Plan, its progress on the Annual Audit Work Plan, the results of completed audits, and the Committee’s recommendations based upon the audit results. The Committee may also identify any recognizable trends in the audit results as part of its periodic reports. The Committee shall provide such reports to the Board at least four times per calendar year.

ARTICLE VII – THIRD-PARTY AND MANAGEMENT INITIATED AUDITS

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

Committee is not reasonably possible, the Committee Chair may conduct such review and comment himself/herself and shall report upon such review and comment at the next scheduled Committee meeting. The Committee Chair may also delegate this responsibility to the Vice Chair for any particular Management Initiated Audit, where the Committee Chair is unavailable. The Committee shall be provided with copies of any final reports on Management Initiated Audits.

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

ARTICLE VIII – ANNUAL FINANCIAL STATEMENT AUDIT

1. Annual Financial Statement Audit - The Committee shall participate in Valley Water's procurement process for Valley Water's annual financial statement audit.
2. The Committee's participation shall include, but not be limited to, providing input to Valley Water management on the selection criteria and desired qualifications of the public accounting firm. The selected external financial auditor shall submit to the Committee Valley Water's audited financial statements annually, including all related management letters to the Committee for review and comment.
3. Financial Statement audit results and pertinent information identified during the course of the audit shall be communicated, in writing or verbally, to the Board Audit Committee. For purposes of this section, "pertinent information" is defined as issues, concerns, practices, programs, or activities that may pose a reputational, operational, financial, or service delivery risk to Valley Water regardless of the magnitude of the apparent risk, as well as any issue deemed pertinent in the auditor's professional judgment.
- ~~2.4.~~ Valley Water contracts for performance of the Annual Financial Statement Audit entered into after [ADD DATE AFTER CHARTER AMENDMENT] shall

Formatted: Highlight

include express contractual obligations in accordance with the aforementioned ARTICLE VIII, Section 3.

ARTICLE IX – PERFORMANCE MANAGEMENT

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



Santa Clara Valley Water District

File No.: 22-0116

Agenda Date: 2/16/2022

Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Receive an Update on the Status of the Pacheco Reservoir Expansion Fact-Finding Investigation.

RECOMMENDATION:

- A. Receive an update on the status of the Pacheco Reservoir Expansion fact-finding investigation; and
- B. Approve direction to staff to provide results of the fact-finding to the full Board of Directors.

SUMMARY:

The Board Audit Committee (BAC) was established by the Santa Clara Valley Water District Board of Directors (Board) to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

At its February 17, 2021 meeting, based on direction from the full Board, the BAC approved an update to the BAC Work Plan to include an audit of the Pacheco Reservoir Expansion Project, specifically to understand the timeline associated with cost increases during the exploratory phase of the effort. At its March 17, 2021 meeting, the BAC expressed a preference that the review be conducted by legal firm instead of an audit firm. At the May 26, 2021 meeting, Legal counsel clarified that the effort being conducted is a “fact-finding investigation” not to be confused with an “audit.”

A list of issues to be addressed in the fact-finding was developed based upon District Counsel Office interviews with members of Valley Water’s Water Storage Exploratory Committee, since that was the body that originally brought concerns to the attention of the Board. The District Counsel’s Office ultimately retained attorney Cepideh Roufougar from San Francisco’s Jackson Lewis, P.C. to conduct the fact-finding.

Ms. Roufougar is an experienced investigator in a wide variety of matters for public entities. Ms. Roufougar’s role was not to perform any technical evaluation of project cost escalations or to evaluate whether the escalators were or were not supported by sound engineering principles. The fact-finding, instead, focused on when certain cost information was known and by whom. The fact-finding included interviews with elected officials, interviews with current and former Valley Water

employees, and the review of records related to the Pacheco Reservoir Expansion Project.

The fact-finding has now been concluded. An Executive Summary outlining Ms. Roufougar's efforts and her conclusions is attached hereto as Attachment-1. As noted in the Executive Summary, Ms. Roufougar made the following overarching determination:

The investigator did not find sufficient evidence to conclude that staff withheld information about the cost escalations for the Pacheco Project for a nefarious reason. Instead, the investigator finds that the project was proceeding on simultaneous tracks, with costing estimates needing to be prepared for funding opportunities prior to completion of the geotechnical analysis. As a result, a more complete picture of the costs of the project was not known until late summer or early fall in 2020. At that time, final calculations were performed and it was determined that the cost of the project would be approximately 2.2 billion, increasing to \$2.5B after considering inflation. Upon learning that the feasibility study submitted to Reclamation had been rejected, District staff took steps to share the costs of the project based on completed geotechnical analysis, and alternative options, with the Water Storage Committee (in December of 2020), and then with the full Board (in January of 2021). (Attachment 1, p. 5.)

Staff will be prepared to address any questions regarding the Executive Summary and the underlying fact-finding.

Formal direction is requested from the BAC regarding how and when to report on the results of the fact-finding to the full Board of Directors.

ATTACHMENTS:

Attachment 1: Executive Summary Pacheco Expansion Project

UNCLASSIFIED MANAGER:

Brian Hopper, 408-630-2765

Via Email

February 9, 2022

Brian C. Hopper
Senior Assistant District Counsel
Office of the District Counsel
Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, CA 95118-3614
bhopper@valleywater.org

Re: Executive Summary of Investigation into Pacheco Reservoir Expansion Cost Escalation

Dear Mr. Hopper:

This letter provides a summary of the investigation conducted into the escalation of construction costs related to the Pacheco Reservoir Expansion Project ("Pacheco Project"). Included is a summary of the information obtained during the investigation, the methodology of the investigation, and my conclusions and findings related to when information was known about cost escalations associated with the project.

I. Summary of Information Obtained

The Pacheco Project is a joint project that involves the Santa Clara Valley Water District ("District"), the San Benito Water District, and the Pacheco Pass Water District. The project serves two purposes: (1) to expand water storage capacity in the District; and (2) to meet the needs of remedying issues with the San Luis low point.

In 2017, the District submitted an application for funding from the State of California in support of the Pacheco Project. In support of this application, District staff determined the anticipated cost of the Pacheco Project to be approximately \$969 million. Although this calculation was done in 2017, it was calculated using 2015 dollars under the term of the application for funds.

This amount did not include the costs of consultant contracts, which were unknown at the time of the application. The District was awarded a grant equal to one-half of the projected cost, or approximately \$485 million (“Prop 1 funds”).

At the time that the District applied for the Prop 1 funds, the District had not performed any significant geo-technical inspection of the proposed site of the Pacheco Project. Instead, the feasibility of the Pacheco Project, including the anticipated costs of the project, was determined based on a conceptual design and based on satellite images and GIS information. To obtain access to the site to perform the necessarily geo-technical inspections and study, the District had to resort to the court to obtain access to the proposed site.

After receiving the Prop 1 funds, and in July of 2018, the District created a temporary division known as the Pacheco Project Division. The purpose of this division was to help to take the Pacheco Project from a grant application phase to “full blown capital improvement project.” This included shepherding the project through the planning, design and construction phases. At this time, District staff escalated the project costs to account from when staff applied for the Prop 1 funds. This brought the anticipated cost of the project to \$1.025 billion.

In November of 2018, the District entered into consultant contracts related to the Pacheco Project. These consultant contracts totaled approximately \$120 million. Once these consultant contracts, along with approximately \$25 million in District labor costs that had not been included in the grant application were factored into the project budget, the Pacheco Project was estimated to cost approximately \$1.182 billion. With estimated future inflation, the cost of the Pacheco Project was revised to \$1.345 billion. This cost was included in the District’s Capital Improvement Plan budget in January of 2019.

In June of 2019, the District began performing the geotechnical analysis at the proposed project site. This analysis included taking soil samples and to use a laser survey to get a 3-D landscape of the current site. There were some starts and stops of the geo-technical work, in part due to issues with obtaining site access. Based on what was being discovered during the geotechnical analysis, it was discovered that some of the assumptions in the conceptual design were significantly underestimated. The analysis also revealed challenges that were not obvious in the conceptual design.

While the geotechnical analysis was underway, the District had an opportunity to pursue federal funding to pay for a portion of the Pacheco Project. Specifically, the District applied to receive funding through the Water Infrastructure Improvements for the Nation Act (“WIIN”). In February of 2020, the District prepared and submitted a feasibility study to the Bureau of Reclamation (“Reclamation”). This study included a new preliminary cost estimate of approximately \$1.8 billion (and up to \$2.167 on the high end of contingencies). This cost estimate was created

from scratch and considered the site-specific information that was obtained during the ongoing geotechnical analysis.

In the spring of 2020, District staff were attempting to determine what number should be included in the Capital Improvement Plan budget for the Pacheco Project. According to a witness, staff were debating if they should escalate the costs of the Pacheco Project to be approximately \$2 billion. The District was endeavoring to keep water rates low and adjusting the cost of the Pacheco Project would impact those rates. The decision was made to keep the current costs listed in the budget until the geotechnical analysis was complete and final numbers could be determined.

In June of 2020, the geotechnical analysis for the Pacheco Project was completed. The District began to look at design alternatives to the one which had been proposed in the feasibility study submitted to Reclamation. Several possible alternatives were identified. Because the District was still awaiting a final decision from Reclamation on its application for WIIN funding, staff was sensitive to publishing any information about potential design alternatives while waiting for a decision from Reclamation. Staff was concerned that it would jeopardize efforts to obtain federal funding if staff was to publicly present an alternative that was different from the one described in the feasibility report.

In October of 2020, staff needed to prepare figures for the Capital Improvement Budget. Using the preliminary design figures, staff prepared an update that included approximately \$145 million in "soft costs" such as consultant fees and District costs, plus approximately 5% for construction management costs. The updated costs of the Pacheco Project increased to \$2.2 billion, and up to \$2.5 billion after considering inflation. These figures were then shared with the Water Storage Committee in December of 2020 and with the full Board in January of 2021. This updated cost information was shared after District staff learned that the District would not be receiving WIIN funds through Reclamation.

II. Methodology of the Investigation

The District retained Jackson Lewis P.C. to conduct an investigation into the cost escalations associated with the Pacheco Project. As the investigator, I did not perform a technical evaluation of the cost escalations or evaluate whether the escalations were or were not supported by sound engineering principles. Instead, the focus of the investigation was to determine when certain cost information was known and by whom.

I interviewed District staff assigned to the Pacheco Project. I also reviewed various documents related to the Pacheco Project, including the preliminary cost estimate, various powerpoint presentations, staff reports, and other documents.

In reaching the conclusions summarized below, I did not set out to prove or disprove any sequence of events, but rather to gather information in a neutral fashion and then reach reasoned conclusions. In reaching the conclusions described below, and weighing the evidence that was gathered, a preponderance of the evidence standard was applied. Therefore, an incident was found to have occurred if the preponderance of the evidence obtained during the investigation supported a conclusion that it was more likely than not that the event occurred. In reaching conclusions, I considered information from witnesses that would be considered hearsay in a legal proceeding and gave appropriate weight to such information. Credibility determinations were also made where appropriate.

III. Summary of Investigation Findings

Based on the information obtained during the investigation, the investigator finds that District staff knew of the potential for cost escalations from the initial application for Prop 1 funds. The original feasibility study was based on a conceptual design, using satellite and GIS information. No geotechnical analysis had been done at the time, and instead, District access to the proposed site was limited by property owners who did not want to grant access. Thus, from the beginning, it was expected that there would be cost increases to the Pacheco Project.

In the summer of 2019, the District began to perform the necessary geotechnical analysis at the proposed site of the Pacheco Project. Based on this analysis, it was determined that the original conceptual design would need to be modified significantly. These design modifications resulted in increases to the construction costs of the Pacheco Project. The first preliminary cost estimate based on the geotechnical analysis was prepared in February of 2020 and in connection with an application for WIIN funds through Reclamation. This preliminary cost estimate provided for an increase in project costs from \$1.3 billion to \$1.8 billion (and up to \$2.167 billion on the high end of contingencies).

The geotechnical analysis was completed in the summer of 2020. After the analysis was completed, it was estimated that the Pacheco Project would cost approximately \$2.2 billion (and up to \$2.5 billion after considering inflation). This estimate was completed in October of 2020 and included in the District's Capital Improvement Plan budget.

Those employees who worked in the Pacheco Project Division were aware of the potential cost increases to the Pacheco Project. A determination was made to not share the preliminary estimate that was submitted to Reclamation for the following reasons:

1. The geotechnical analysis was on-going and had not been completed yet. This information would impact water rates, and so a decision was made to wait on escalating project costs in the District's budget until final costs could be determined.

2. The information provided to Reclamation was a preliminary draft. Staff expressed concern with publishing draft information, as well as information that could negatively impact the pending request for WIIN funding. Staff was sensitive to publishing information and/or taking any steps that could cause Reclamation to believe that staff was exploring project alternatives that differed from the proposal contained in the feasibility study submitted in support of the requested WIIN funding.

On September 9, 2020, during a budget working group meeting, the information from the preliminary cost estimate provided to Reclamation was shared with the District's CEO and elected officials. This information was shared as staff presented information on efforts being made to obtain federal funding for various projects. The Pacheco Project was listed as one of the items for which funding was being sought. During the meeting, staff attempted to explain that the number listed belonged to Reclamation.

The investigator did not find sufficient evidence to conclude that staff withheld information about the cost escalations for the Pacheco Project for a nefarious reason. Instead, the investigator finds that the project was proceeding on simultaneous tracks, with costing estimates needing to be prepared for funding opportunities prior to completion of the geotechnical analysis. As a result, a more complete picture of the costs of the project was not known until late summer or early fall in 2020. At that time, final calculations were performed and it was determined that the cost of the project would be approximately \$2.2 billion, increasing to \$2.5 billion after considering inflation. Upon learning that the feasibility study submitted to Reclamation had been rejected, District staff took steps to share the costs of the project based on completed geotechnical analysis, and alternative options, with the Water Storage Committee (in December of 2020), and then with the full Board (in January of 2021).

Thank you for the opportunity to assist the District in this matter. Please let me know if there are any questions or concerns.

Very truly yours,



Cepideh Roufougar
415.796.5417 Direct
cepideh.roufougar@jacksonlewis.com
Jackson Lewis P.C.

THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 22-0217

Agenda Date: 2/16/2022

Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Receive an Update on the Status of the District Counsel Audit Recommendation Implementation.

RECOMMENDATION:

Receive an update on the status of the District Counsel Audit recommendation implementation.

SUMMARY:

On February 26, 2019, the Board authorized TAP International, Inc. (TAP) to conduct a performance audit of the District Counsel's office.

The District Counsel Audit Draft Report was presented to the Board Audit Committee (BAC) for their review at their October 21, 2020, meeting. The BAC approved the final audit report and management response at their December 16, 2020, meeting. Staff presented the final report to the Board of Directors at the January 26, 2021, Board meeting.

There are a total of five recommendations in the Audit. The final report acknowledged that the District Counsel at the time, Stanly Yamamoto, was retiring, and the management response indicated that many items of implementation would await appointment of a new District Counsel. Mr. Yamamoto retired as planned, and Carlos Orellana was appointed by the Board of Directors as the new District Counsel effective June 1, 2021.

Staff is returning to the BAC to provide a progress report on the implementation of audit recommendations. A summary of the audit recommendations and an update on implementation is included as Attachment 1. Staff will be prepared to address any questions the BAC may have regarding the individual recommendations and their implementation.

ATTACHMENTS:

Attachment 1: District Counsel Audit Progress Report

File No.: 22-0217

Agenda Date: 2/16/2022
Item No.: 4.4.

UNCLASSIFIED MANAGER:
Carlos Orellana, 408-630-2755

2020 District Counsel's Office Audit Progress Report

Ref #	Summary of Recommendation	Implementation Update
1	<p>The District Counsel's Office should develop and implement a written strategy for approval by the Board that provides an updated operating model for efficient service delivery. In the development of the strategy, the District Counsel can consider, for example, enhanced policy and procedure development and new/enhanced tools described throughout this report. These tools, for example, can include workflow management, SLAs, added performance measurement, use of multi-source feedback assessments, and risk -based criteria assessments</p>	<p>The successor District Counsel is in the process of implementing a written strategy for the Office of District Counsel and will review it with the Board in 2022.</p> <p>As part of the development of this strategy, District Counsel Orellana had meetings with all of Valley Water's Chiefs. A draft Service Level Agreement (SLA) for routine transactions has also been developed and distributed to the Chiefs for consideration. Once approved by all stakeholders, it will be used as the model for SLAs for other types of legal reviews. Finally, workflow and case management software has been evaluated for potential use by the office as part of the strategy.</p>
2	<p>The District Counsel and the Information Technology & Administrative Services Chief Operating Officer should update Valley Water Administrative Policies that (1) identify areas that require the development of new contractual and agreement templates, and (2) identify the responsible party for updating existing contract, agreement, and amendment templates as well as non-disclosure agreements (NDAs). These updates should also include the responsible party for NDA monitoring.</p>	<p>A draft policy for NDAs was developed by the District Counsel's Office and submitted to Valley Water's Chiefs for review in 2021. The Chiefs are scheduled to revisit the matter at their meeting of February 18, 2022. It is anticipated that the final policy will be approved and implemented by mid-2022.</p> <p>The updates to relevant administrative policies are being planned for completion in 2022.</p>
3	<p>The District Counsel should convene a workgroup on planning activities or projects involving contracting opportunities with key stakeholders (E.g., Chief Executive Officer (CEO) and Chief Operating Officers (COOs)) to develop a decision-making guide for early engagement with the District Counsel Office and Risk Management.</p>	<p>The draft SLA the District Counsel has provided to the Chiefs includes a decision-making guide for early engagement with the District Counsel's Office and Risk Management unit. This guide, once approved by all stakeholders, will serve as the model for decision-making guides for other activities, projects, and transactions</p>
4	<p>The District Counsel should discuss with the Board the use of a master</p>	<p>The District Counsel has had discussions with the Board regarding a master services agreement for legal</p>

	services agreement to add another procurement mechanism for legal services.	services. In that vein, on January 24, 2022, Valley Water issued a formal Request for Proposals for Legal Services. Bids are due from outside firms by March 4, 2022.
5	The Board Audit Committee should ensure that the scope of the audit currently proposed in the annual audit work plan for the risk management function, include an evaluation of the advantages and disadvantages of implementing alternative organizational alignments for the Risk Management Unit and the Workers' Compensation programs.	The Auditor noted that this recommendation was made to the Board Audit Committee and was not applicable for management response. This item remains not applicable for management response.



Santa Clara Valley Water District

File No.: 22-0218

Agenda Date: 2/16/2022
Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

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

RECOMMENDATION:

Receive a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and the status of the Consultant Contracts Improvement Process.

SUMMARY:

Valley Water staff has prepared the third status update on the implementation of the 2015 Navigant Audit recommendations and the Consultant Contract Improvement Plan. The previous status update was provided on February 17, 2021.

2015 Consultant Contracts Management Process Audit

After non-compliance events were identified in 2014, Valley Water management commissioned an audit of the Consultant Contracts Post-Award Management Process (Audit). Navigant was engaged and completed a detailed compliance review of 66 consultant contracts. Navigant also reviewed Valley Water's policies, processes, and technology framework within which consultant contracts are managed post-award.

Audit Findings

Results of the Audit noted key findings and recommendations which included pre-award and post-award activities, as follows: 1) inconsistent pre-award and post-award contract management processes and decentralized recordkeeping; 2) the lack of standard processes for post-award contract management functions; 3) proper staff resources necessary to manage workload; 4) the need to improve policies, procedures, and processes to provide post-award to achieve excellence; 5) the need for an integrated system for cohesive information and documentation; 6) CAS is not an optimal system to ensure contract compliance; 7) the need to establish a standard for post-award

compliance; 8) the need to develop a process for consultant evaluation and compliance to ensure accountability, and 9) improve performance management and reporting programs. Other improvement factors stated in the audit were to 10) improve cycle times, boilerplates, and the development of scope of services templates including the assignment of roles and responsibilities for pre-award and post-award i.e., the scope of services and contract management, and 11) improve standards in the development of scope of services and assign the responsibility to the Project Manager and manager to review and evaluate scope based on established metrics.

Consultant Contract Management Process

The Consultant Contract Management Process was implemented following a workshop that focused on pre-award process improvements to the workflow to shorten the timelines to publish a solicitation and secure an executed contract. The process improvement team focused on establishing clear roles and responsibilities and timelines to improve ownership of the process. Components critical to this process included the need to provide training to improve the development of the scope of work and the involvement of Valley Water's District Counsel to improve and standardize agreement boilerplate documents.

Policies and Procedures

The Purchasing and Contracts Unit's policies and procedures are under review and in development. The necessity to update policies and procedures was a finding in the audit and process improvement plan. Updated policies and procedures will provide clarity to the contract staff's roles and responsibilities. The updated policies and procedures will reflect new processes and nomenclature associated with the implementation of the INFOR ERP system and the new Planet Bids software replacing the Contracts Administration System (CAS) system.

Technology Upgrades

The audit identified a lack of cohesive technology functions that limit the ability for quality record-keeping, reporting key performance metrics, locating documents, and establishing a consistent records management system. The implementation of INFOR ERP and the Planet Bids software systems are designed to manage procurement solicitations, bids, vendors, produce reports, and improve record keeping. This will establish the cohesive technology functions recommended by the audit. INFOR and Planet Bids replace PeopleSoft and CAS and greatly enhance the contract process improvement effort.

Roles and Responsibilities

The Purchasing and Contracts Unit is completing a Procurement Manual that will be made available online and will provide the information, guidance, sample forms, requirements, and regulations that govern procurement practices at Valley Water. This manual will serve as a guide to employees as they initiate a request and through contract completion and contract close-out phase. Information to manage vendor performance, discrepancies, and challenges will also be included. This manual will address many of the audit findings, specifically the roles and responsibilities for pre-award and post-

award processes, vendor evaluation, and compliance. The Procurement Manual will provide the information the requestors need to improve the quality of their submittals which will impact overall procurement processing timelines.

Key Performance Indicators

Key performance indicators include the number of contracts completed and the respective values. A total of 40 contracts were processed in FY18-19 for a value of \$182M. In FY19-20, a total of 55 contracts were completed for a total value of \$59M and a total of 43 contracts with a total value of \$47.9M in FY20-21. In the current FY 21-22, a total of 57 contracts have been completed. Additional indicators include the completion of 40 amendments in the current FY 21-22, for a total value of \$5.4M. Due to factors such as the complexities of changed circumstances; the time needed to resolve difficult negotiated items with the firms; and the extent to which older agreements need significant standard language updating, amendments can be as, or more, time-consuming as an original award in many cases. In addition, there are many (45+) existing 'legacy' agreements (prepared prior to implementation of the significantly updated templates in September 2015) still being amended and these take time and effort to draft and finalize.

Improvements in the workflow plan, established designation of roles and responsibilities, improved boilerplates, increase in staff, contract staff training, and ownership of pre-award and post-award tasks are factors that increased the performance in the volume of contract activity.

Next Steps

Staff plans to submit an annual status update on the performance improvements and the implementation of the key recommendations that will demonstrate the continuation of consultant contract process improvements.

ATTACHMENTS:

Attachment 1: Navigant Audit
Attachment 2: PowerPoint

UNCLASSIFIED MANAGER:

Tina Yoke, 408-630-2385

THIS PAGE INTENTIONALLY LEFT BLANK

Consultant Contracts Management Process Audit

Prepared for:
Santa Clara Valley Water District



Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, California 95118-3614

March 10, 2015



Navigant Consulting, Inc.
One California Plaza, Suite 2900
300 South Grand Avenue
Los Angeles, CA 90071

Main: 213.670.3200
Fax: 213.670.3250
www.navigant.com

Table of Contents

Executive Summary	1
1. Introduction and Approach.....	3
1.1 Introduction	3
1.1.1 Background on the Audit.....	3
1.1.2 Objectives of the Audit	4
1.2 Approach to the Audit	4
1.2.1 Consultant Contracts Post-Award Compliance Audit	5
1.2.2 “Blueprint” Assessment and Gap Assessment	5
2. Contract Management Mission and Roles & Responsibilities	7
3. Consultant Contracts Post-Award Compliance Audit.....	9
3.1 Scope and Approach	9
3.1.1 Task 1: Identify Contracts to Be Reviewed	10
3.1.2 Task 2: Review and Identify Applicable Post-Award Contract Management Protocols	11
3.1.3 Task 3: Conduct Audit.....	11
3.2 Summary of Findings	13
3.2.1 Summary of the 15 Pre-Identified Contracts	13
3.2.2 Summary of the 51 Contract Sample	16
3.2.3 Other Comments	17
3.3 Overview of Findings.....	18
4. “Blueprint” Assessment	19
4.1 Scope and Approach	19
4.1.1 Affirm the Vision.....	19
4.1.2 Identify Standards.....	20
4.1.3 Assess Activities	21
4.1.4 Confirm Results.....	21
4.2 Blueprint and Current State Review	21
4.2.1 Policies	21
4.2.2 Business Processes	22
4.2.3 People.....	23
4.2.4 Systems and Data	24
4.2.5 Contract Management	25
4.2.6 Reporting.....	26
4.3 Additional Findings.....	27
4.3.1 Areas of Strength.....	27
4.3.2 Pre-Award Processes	27
4.4 Overview of Findings.....	29

5. Conclusions and Recommendations	30
Appendix A. List of Interviews	31
Appendix B. List of Documents	32
Appendix C. List of Contracts	33
C.1 15 Contracts of Interest.....	33
C.2 Random Contract Sample	34
Appendix D. Description of Insurance Issues	37
D.1 15 Contracts of Interest – Insurance	37
D.2 Random Contract Sample – Insurance.....	38
Appendix E. “Blueprint” Components	41

Executive Summary

Navigant Consulting (Navigant) has completed a Consultant Contracts Post-Award Management Process Audit (Audit) of the Santa Clara Valley Water District (the District). To complete this Audit, Navigant conducted a detailed compliance review of 66 consultant contracts, and reviewed the current policy, process, and technology framework within which consultant contracts are managed (post-award).

Results of the Audit reflect a weakness in the District's post-award contract management processes: the majority of post-award contract management activities (including contract data and documentation record-keeping) are conducted in a decentralized and inconsistent manner across multiple individuals, teams, departments and systems. This, combined with a lack of clear accountability for post-award contract management tasks, is the principal cause of the non-compliance events identified in 2014.

The most significant Audit finding is related to the on-going management of insurance certificates in CAS. According to work instruction document W-741-029, all insurance certificates are to be uploaded to CAS. We acknowledge this is a pre-award work instruction; however, Navigant did not find a work instruction addressing post-award insurance certificate management. To our knowledge, no document exists that addresses insurance management in the post-award environment. The audit identified expired insurance certificates in CAS, as well as missing insurance certificates for certain contracts. Although the District worked diligently to locate the missing certificates, Navigant was unable to confirm the presence of complete insurance documentation, and therefore was unable to deem most of the 66 contracts reviewed compliant. Further, accountability for maintaining insurance certifications was unclear among District staff. These factors created a challenging environment in which to complete the audit.

Navigant also identified several additional issues related to post-award contract management in areas such as invoice management (certain invoices were submitted and approved past the agreement expiration date) and general contract management (several contracts were missing from CAS altogether). This highlights a lack of governance and diligence in post-award contract management, particularly in record keeping.

In addition to the contract audit, the Navigant team conducted a gap assessment, evaluating the District's current operations in relation to a "blueprint" for post-award contract management excellence. Key findings of the gap assessment include:

- » The District does not have a single-source, comprehensive business policy document that establishes clear accountability and expectations for post-award contract management.
- » There are not a standard set of business process flows that represent the standard for post-award contract management activities at a detailed level.
- » Post-award consultant contract management activities are determined on an individual basis, resulting in a lack of consistency and standardization across the District.
- » Critical aspects of post-award contract management, such as continuous monitoring of contract compliance and the maintenance and archiving of contract documentation, are not identified in existing policies or guidelines.
- » Given the roles and responsibilities defined by best practice for contracting departments, the Consultant Contracts Group appears to have an incomplete mandate and be understaffed for an organization as large as the District.

- » There is a significant lack of integration between the District's two major systems: CAS and PeopleSoft. This results in the dispersal of data across multiple departments and teams.

Results of the contract compliance audit and gap assessment confirm that the District's post-award contract management processes are deficient, and undermined by unclear accountabilities and underutilized technology applications. Significant attention needs to be made in "People, Process, Technology, and Governance" areas to improve current post-award consultant contracting activities.

1. Introduction and Approach

The District manages an integrated water resources system that includes 10 dams and surface water reservoirs, three water treatment plants, an advanced recycled water purification center, a water quality laboratory, nearly 400 acres of groundwater recharge ponds, and more than 275 miles of streams. The Mission of the District is to:

“...provide Silicon Valley safe, clean water for a healthy life, environment, and economy.”

The District’s highest-level priorities are encompassed in three Board of Director (Board) policies:

- » Clean, Reliable Water: There is reliable, clean water supply for current and future generations.
- » Natural Flood Protection: There is a healthy and safe environment for residents, business and visitors, as well as for future generations.
- » Healthy Creeks and Ecosystems: There is water resources stewardship to protect and enhance watersheds and natural resources and to improve the quality of life in Santa Clara County.

The effective and efficient procurement of materials and professional services (within a strong control environment) is a key enabler of achieving these priorities. Excellence in procurement and contract management is particularly critical, given the District’s dual objectives of maintaining the network and infrastructure necessary to transport, treat and deliver clean, reliable water on behalf of Santa Clara County’s 1.8 million residents, and also reduce headcount, operating costs and provide precise budgeting, while improving efficiency, effectiveness and optimization of services throughout the district.

1.1 Introduction

The following section describes the background and objectives of the Audit, as well as the approach taken to complete the Audit.

1.1.1 Background on the Audit

In the District’s CEO Bulletin dated the week of June 13-19, 2014, notification of non-compliance with several procurement and contracting related policies was provided to the Board. Specifically, the District was found to be in non-compliance with certain Board policies and in violation with audit standards as a result of the following:

- » Invoices were paid without an authorized agreement or insurance certificate.
- » Non-compliance was not reported in a “timely” manner (within five (5) business days from the issue arising).
- » Work was authorized for Optional Services without a Board authorized contract in effect.

As a result of this event (and in order to ensure that all contracts are being properly managed), the District authorized a variety of measures, including principally:

1. Conduct an immediate review of all consulting contracts to ensure that agreements are within budget and that both agreements and insurance certifications are current.
2. Review all consulting contracts to ensure that work being conducted is within the scope of services as specified in the contract.

3. Lead an audit of the post-award contract management process to identify and make recommendations to correct systemic issues.

Navigant was awarded the contract to undertake the Audit, after responding to an RFP issued by the District on July 8, 2014. For this Audit, Navigant conducted a review and assessment of the extent to which the District's consultant contracts and agreements, post-award, are managed in accordance with:

1. District policies and procedures,
2. Statutory and other requirements,
3. Agreed scope and deliverables, and
4. Best practices regarding change management, and contract management administration (including documentation, invoicing, financial, and other controls).

1.1.2 Objectives of the Audit

The objective of the Audit is to:

1. Evaluate and provide evidence of compliance or non-compliance for a subset of contracts for the period 2009 through 2014, and
2. Assess the District's post-award process for authorizing, approving, and managing consulting services contracts.

Although focused primarily on the post-award consulting contracting process, Navigant gained insight into the entire "end-to-end" contract management process and has included in this report recommendations for improvement focused on some pre-award activities.

Through this audit, the District aims to understand the extent to which compliance issues have been present during the review period (2009-2014), and identify potential areas of improvement to the "as-is" post-award contract management framework (including relevant policies, processes, and protocols).

1.2 Approach to the Audit

The District outlined seven primary task areas associated with the audit comprised of the following:

- » Task 1: Review and Identify Contracts to be Reviewed
- » Task 2: Review and Identify Applicable Post-Award Contract Management Controls
- » Task 3: Entrance Conference / Review of Audit Purpose, Scope and Timing
- » Task 4: Develop and Present the Audit Work Plan
- » Task 5: Conduct Audit
- » Task 6: Draft Audit Report and Presentation
- » Task 7: Final Audit Report and Presentation

To complete the scope of work associated with these task areas, Navigant designated two primary components: the post-award consultant contract compliance audit, and the "blueprint" assessment and gap assessment. The post-award consultant contracts compliance audit focused on audit fieldwork activities and a detailed review of the contracts in question, evaluating the "as-is" state of operations. In addition to the audit fieldwork, Navigant specified a "blueprint" for excellence in consulting services contract management, based on which the District was evaluated and then provided with recommendations for improvement in the gap assessment.

1.2.1 Consultant Contracts Post-Award Compliance Audit

Navigant was tasked to perform a direct compliance review of 15 consultant contracts pre-identified by the District as needing further review, and to derive and review a sample from a database of consultant contracts and service agreements that would provide a 90% or higher confidence rate on compliance testing results.

The scope included the 15 pre-identified consultant contracts executed between 2001 and 2014 and a larger sample of contracts executed between 2009 and 2014 randomly selected by Navigant.

At the highest level, focus areas associated with the tasks in the consultant contracts compliance audit included the following:

Figure 1. Approach to Compliance Audit



As noted, while the focus of the Audit was post-award contract management processes and activities, Navigant did gain insight into pre-award processes and activities (a high-level review of which is included in Section 4.3.2).

1.2.2 “Blueprint” Assessment and Gap Assessment

Navigant believes an important objective of any audit or assessment is to evaluate the current, “as-is” state of operations in a comprehensive manner in order to identify specific actions that will deliver operational and organizational improvement.

Therefore, in addition to the audit fieldwork and detailed review of the contracts in question, Navigant evaluated the District’s activities, business processes and roles & responsibilities against a “blueprint” for excellence in consulting services contract management. Specification of a blueprint for consultant contract management excellence provided a frame of reference – or template – against which current post-award activities and practices can be compared, and potential improvements identified.

This blueprint was derived from a variety of sources, including:

- » Best practice recommendations from a variety of organizations directly relevant to contract and procurement management,
- » The practices of peer water and other utility companies,
- » Leading business management standards in areas such as process management & optimization, business policy design, technology management, and governance & risk control.

Importantly, Navigant also considered the District's specific Mission and objectives, regulatory/governance requirements, and culture surrounding contract management when conducting the blueprint assessment.

2. Contract Management Mission and Roles & Responsibilities

As described in Section 1, the Mission of the District is to:

“...provide Silicon Valley safe, clean water for a healthy life, environment, and economy.”

Further, the Vision of the District is to be:

“...nationally recognized as a leading water resources management agency.”

Related to the District’s broad organizational Mission and Vision objectives are specific contracting and procurement related objectives.

Figure 2. District Procurement and Contracting Objectives

District Procurement Objectives	Consulting Contracts Objectives
<p><i>The mission of the District is to manage the procurement of goods and services with the highest level of integrity, ethics, and accountability. The District will solicit information and award contracts through a fair, open, transparent, and competitive process. The District has a strong policy of promoting Small Business Enterprises through preference credits.</i></p>	<p><i>The Consultant Contracts Program provides centralized consulting contracts processing services on behalf of all District operating units. The information presented here¹ is designed to help you understand how the District conducts business with consultants, including, but not limited to, those providing engineering, environmental, architectural, financial, auditing, management consulting, and other professional and non-professional services.</i></p>

In any organization, procurement and contract management activities are comprised of multiple activities, business processes, and related roles & responsibilities. A number of different organizational structures can be created to deliver these activities, given goals of ensuring high levels of efficiency, effectiveness, and control.

The exhibit below outlines the responsibilities of the different groups at the District for the overall contracting process.

¹ The Consultant Contracts webpage at: www.valleywater.org/Business/DoingBusiness/ConsultantContracts.aspx.

Table 1. Contracting Roles and Responsibilities

Activities		Contracts Group	Project Manager	Legal Department	Accounting	Risk Manager	Unit Manager	Board/CEO
Pre-Award	Identify of project need		✓				✓	✓
	Develop of Scope of Work		✓					
	Assess internal capabilities and capacity to complete the project		✓					
	Develop RFP/RFI/RFQ	✓	✓					
	Create RFP/RFI/RFQ in CAS	✓						
	Select consultant		✓					
	Negotiate		✓					
	Develop Standard Consultant Agreement	✓	✓	✓		✓		
	Confirm available funding and project account				✓			
	Confirm vendor tax information and W-9				✓			
	Approve contract	✓		✓			✓	✓
Post-Award	Assess work completed against original Scope of Work		✓					
	Maintain payment history and track total cost				✓			
	Develop amendments	✓	✓	✓				
	Approve amendments	✓		✓	✓		✓	✓
	Conduct compliance check							
	Close out contract	✓	✓		✓			

This functional structure is a consideration in our blueprint assessment and recommendation analysis.

3. Consultant Contracts Post-Award Compliance Audit

The principal objective of the Audit was to assess the District's post-award process of authorizing, approving, and managing consulting services contracts. Central to this effort was a detailed compliance review of 15 contracts identified by the District and 51 additional randomly selected contracts, for a total of 66 consultant contracts. The methodology for this audit fieldwork and Navigant's findings are presented in the following sections.

Based on the compliance review, Navigant identified non-compliance issues in the majority of the 66 contracts. Most of the issues identified related to incomplete or expired insurance documentation in CAS. Additionally, six of the 66 contracts were found to have work completed and invoices submitted past the Agreement expiration date, and one contract represented significantly more than 100% task completions. One of these has been previously addressed by a CEO Bulletin and presented to the Board (Agreement A2303A).

Navigant believes that the evidence obtained from the audit fieldwork, described in detail below, provides a reasonable basis for the audit findings at this time; however, it is important to add that the review was conducted with only readily available information. Navigant worked with the District to collect additional documentation, primarily from project managers. This effort met with some success in obtaining valid documents. This is noted, but the original findings remain unchanged to reflect what was readily available to an outside party, and what was not.

3.1 Scope and Approach

To accomplish the audit fieldwork objectives, Navigant performed the following procedures:

- » Obtained and reviewed a database of consultant contracts provided by the District,
- » Provided to the District a sampling methodology and the resulting list of 52 contracts for the compliance review (reduced to 51 at a later time),
- » Obtained and reviewed relevant consultant contract policies and procedures,
- » Interviewed key District personnel, and
- » Reviewed a total of 66 consultant contracts for compliance (15 contracts selected by the District and 51 contracts identified using sampling methodology), using currently available data sources.

Audit fieldwork was primarily conducted from November 6, 2014 through January 27, 2015. The work completed in 2015 was focused on the collection of additional insurance documents from project managers and the assessment of accounting-related issues.

The District identified 15 potentially non-compliant consultant contracts to be reviewed by the Navigant team during the audit. In addition to these, Navigant selected a sample of 51 consultant contracts for a total of 66 contracts. The 51 contracts were selected randomly from a consultant contracts database provided by the District, containing 180 contracts executed between Fiscal Year 2009 and 2014. The random sampling methodology used to identify the 51 contracts is further described in Section 3.1.1

Before reviewing the 66 consultant contracts, the Navigant team gathered information on the District's contract management protocol and day-to-day consultant contracting activity, and conducted focused interviews with key District personnel. Relevant documents and interviews are summarized in Section 3.1.2

In order to evaluate the 66 contracts, the Navigant team developed a consultant contract post-award compliance checklist, the parameters of which were derived from the scope of work agreed upon for this audit. The Navigant team used this checklist to record available contract information from the CAS and consultant contract invoice and payment files and tax information from the Accounting Department. The approach is described in detail in Section 3.1.3

3.1.1 Task 1: Identify Contracts to Be Reviewed

The District provided Navigant with a sampling consultant contracts database that included contracts executed between Fiscal Year 2009 and 2014. The 15 consultant contracts pre-identified by the District and consultant contract amendments were excluded. In total, 180 contracts were included in the sampling database. The District requested a 90% confidence level target for the sample selected from this database.

The 180 contracts in the sampling database were randomly ordered and run with the RATSTAT sampling model.¹ RATSTAT is a free statistical tool developed by the U.S. Government used to determine sample sizes. The tool takes the total population of the records to be sampled, the desired confidence level, and confidence interval and determines the minimum number of observations to be sampled. Using RATSTAT, Navigant developed 12 scenarios reflecting multiple combinations of confidence levels and confidence intervals, to determine with the District which combination of confidence level and confidence interval would provide the best compromise between sample accuracy and number of contracts to be reviewed.

Given the District’s 90% confidence level target and the reasonable sample accuracy provided by a 10% confidence interval, Navigant recommended the review of 52 consultant contracts in addition to the 15 contracts pre-identified by the district. The scenarios developed by Navigant are shown in Table 2, below.

Table 2. Sampling Scenarios

		Confidence Level			
		80%	90%	95%	99%
Confidence Interval	+2.5%	143	155	161	180
	+5%	94	114	126	144
	+10%	38	52	64	85

The sample of 52 contracts represents almost 30% of the total contract population provided by the District, and 23.6% of the total dollar value (Table 3).

Table 3. Final Contract Sample

# of Contracts	Contract Value	% of Contracts	Sample Value	% of Total Dollar Value
52	\$ 6,017,027	28.9%	\$ 25,335,374	23.6%

¹ <http://oig.hhs.gov/compliance/rat-stats/index.asp>

Following the District project manager's approval of the sample size, Navigant provided the list of 52 contracts for review. The District identified three of the 52 contracts as non-consultant contracts (reflecting an error in the original sampling database), and the next three randomly ordered contracts were moved into the sample. Towards the end of the Audit, contract A3623 was also identified as a non-consultant contract. This contract was removed from the results for a total of 51 randomly selected consultant contracts. The final contract sample is listed in Appendix C.

3.1.2 Task 2: Review and Identify Applicable Post-Award Contract Management Protocols

Navigant's review of the District's post-award contract management control documentation focused on the extent to which it provides clear procedures and processes to ensure that a project is in compliance with District policy and the authorized agreement, and that it is administered appropriately. Before beginning the detailed review of the 66 contracts, Navigant initiated the collection of contract policy, procedure, and process documentation by submitting a data request. The list of documents provided by the District is included in Appendix B.

To seek clarification on this documentation and to clearly understand current post-award contract management practices, Navigant conducted several rounds of focused interviews. Interviews were conducted with a cross-section of management, staff, project managers, and other key individuals associated with contract management. Initial interviews included the District's executive management and representatives from the accounting department and the contracts department. All interviews are listed in Appendix A.

3.1.3 Task 3: Conduct Audit

The audit fieldwork initially included a review of contract documentation uploaded on CAS and recorded by the Accounting Department in hardcopy paper files.

The District uses CAS as a contract management tool primarily for the development of solicitations through contract execution; however, CAS also includes relevant descriptions and documentation of executed contract terms, scope, and required insurance, as well as amendments (change orders). Contract information on CAS is managed by the District's Consultant Contract Services group in the Purchasing, Consultant Contracts, and Warehouse Services Unit. Navigant was provided access to CAS and received support from the Contracts group to learn how to navigate the online system.

Invoice and payment information is housed in the General Accounting Unit, which uses PeopleSoft and hardcopy file folders to manage documents. As identified in interviews, the most accessible source of invoice and payment information is the spreadsheet maintained by the accountant responsible for consultant contracts. Accounting files requested by the Navigant team based on the sample of 51 contracts were provided for in-person review at the District accounting offices. Throughout the review, Navigant worked closely with the District to locate relevant information and ensure findings were accurate. However, Navigant did not have direct access to the PeopleSoft database.

Each contract was assessed using the parameters outlined in Table 4, below. These parameters were derived from the scope of work agreed upon for this audit. The checklist was reviewed with the Contracts group to locate where most of the items would be found.

Table 4. Consultant Contract Audit Checklist

Parameter	Evidence
Operating within the contract scope of work services	<ul style="list-style-type: none"> • Description of original scope • Tasks and deliverables completed
Adhering to the contract schedule	<ul style="list-style-type: none"> • Date agreement executed/signed as reported in CAS • Date agreement expired as reported in CAS • Date agreement expired as reported in Standard Consultant Agreement • Accounting close-out date as reported in project files
Monitoring to ensure conformance with authorized agreement and amendment amounts	<ul style="list-style-type: none"> • Agreement value at execution as reported in CAS • Agreement value as reported in Standard Consultant Agreement • Number of amendments reported in CAS • Total dollar value of amendments reported in CAS • Final agreement value as reported in CAS
Invoices are reviewed, revised as necessary, and approved before payment, and payments are approved and made on valid agreements	<ul style="list-style-type: none"> • Number of amendments as reported in project files • Number of invoice(s) related to this agreement as reported in project files • Total dollar value of invoices as reported in project files • Last invoice end date as reported in project files • Date of last invoice approval as reported in project files • Date of final payment as reported in project files
Compliance with terms and conditions of the agreement including licensure requirements, permit requirements	<ul style="list-style-type: none"> • Date Standard Consultant Agreement executed (actual document) • Date Agreement Routing Approval executed • Date W-9 executed
Reviewing documentation to ensure non-fiscal requirements continue to be met throughout the duration of the contract and beyond	<ul style="list-style-type: none"> • List of insurance documents available in CAS • Start date of insurance requirement • Expiration date of insurance requirement

Based on preliminary results from the CAS and accounting file review, Navigant determined it was necessary to interview a selection of project managers and the District’s Risk Manager. Four project managers in addition to the Risk Manager were interviewed. These interviews provided insight into the location and ownership of certain information that was often not complete in CAS or not under the accounting domain (e.g. insurance documentation residing with project managers).

The Navigant team worked closely with the District to contact the project manager for each of the 51 sample consultant contracts in order to support and/or improve findings from CAS and the accounting files. Additionally, Navigant determined it was necessary to request some consultant W-9 forms that were missing from or unsigned on CAS, and worked with Accounts Payable to locate this information.

3.2 Summary of Findings

From the detailed compliance review of 15 consultant contracts identified by the District and 51 additional randomly selecting consultant contracts, Navigant gathered a set of key findings. Of note, only five of the 66 contracts reviewed were found to be fully compliant from initial work. The vast majority of the non-compliance issues identified were incomplete or expired insurance documentation. It is important to add that this finding is based only on information in CAS, the accounting files, and feedback from Accounts Payable. Following up on this finding, Navigant requested insurance documentation from the project managers, resulting in 30 responses and ten other contracts that could be found compliant based on this additional information. These are summarized in Appendix D.

Initially, 11 of the 66 contracts were found to have missing or unsigned W-9 forms for tax requirements on CAS. However, this finding was revised to zero non-compliant contracts based on adequate information provided by the District’s Accounts Payable group regarding the 11 contracts. However, six of the 66 contracts were found to have work completed past the Agreement expiration date and one additional contract was found to be potentially non-compliant based on greater than 100% task completions. Three of the first six contracts are found to be non-compliant based on available information, while the other three would require further review for a final compliance score. Overall, these findings most clearly reveal difficulties in obtaining current and accurate documentation for consultant contracts. Additionally, many contracts had invoices approved and paid after the Agreement expiration date. These contracts are found to be compliant based on valid work periods within the contract period, but are in disagreement with best practices.

Navigant also noted inconsistencies and missing noncritical information in CAS and on invoices during the review. These findings are relevant to recommendations for the improvement of District processes, despite not impacting the compliance findings, and are presented at the end of the section.

3.2.1 Summary of the 15 Pre-Identified Contracts

Of the 15 pre-identified consultant contracts, seven contracts were missing from CAS online and hence were deemed non-compliant based on missing insurance documentation. However, these contracts did have hardcopy accounting files and Accounts Payable information from PeopleSoft, enabling a partial compliance review.

Table 5. List of Contracts Not Found on CAS

	Agreement Number	Agreement Name
1	A2218A	Planning Study, value engineering, and geotechnical and hazardous material investigations for Matadero & Barron Creeks remediation project (Palo Alto)
2	A3109A	Contract for Operation and Maintenance of the Coyote and Pacheco Substations
3	A3462RE	On Call Real Estate Services Appraisal Agreement MAI
4	A3464RE	Real Estate Turnkey Services
5	A3467RE	On Call Real Estate Services Appraisal Agreement MAI
6	A3469RE	On Call Real Estate Services Appraisal Agreement MAI
7	A3471RE	On Call Real Estate Services Appraisal Agreement MAI

The remaining eight contracts were successfully found on CAS; however, seven of these had incomplete insurance information. The insurance issues for the 15 pre-identified contracts are summarized below (one contract had multiple issues). Detailed insurance findings are listed in Appendix D.1.

Table 6. Types of Insurance Issues Identified for the 15 Pre-Identified Contracts

Insurance Issue	Number of Contracts
No documents found on CAS	7
Insurance expires before end of project	2
Insurance starts after date of Notice to Proceed	4
Missing insurance documents	2

Aside from insurance issues, three of the 15 contracts had problematic payment activity. These contracts are summarized in Table 7, below.

Table 7. Non-Compliance Issues in the 15 Pre-Identified Contracts

Agreement Number	Agreement Name	Issue	Additional Comments
1 A2403A	Engineering Planning Services on Berryessa Creek Downstream of Calaveras Blvd.	Last invoice dated 12/23/2013; Agreement expired on 12/31/2009	The District is aware of this issue, which led to the Audit.
2 A3159A	PWTP Standby Power System Project	Last invoice dated 3/5/2011; Agreement expired on 3/31/2010 – Requires Further Review	The contract has a Letter of Authorization (No. 3) dated 3/29/2010, authorizing extended work, but did not specify a new expiration date.
3 A3467RE	On Call Real Estate Services Appraisal Agreement MAI	Last invoice dated 6/27/2014; Agreement expired on 3/31/2014 – Requires Further Review	The Agreement specifies a 24 month term with the option to extend 12 months, but the Agreement does not specify task dates and is "On-Call."

Agreement A2925F was originally considered to have work completed after the expiration date based on the expiration date listed in CAS; however, the text of the Agreement was found to contain "The Agreement will be complete when all deliverables have been received and approved and the Scope of Service tasks have been verified by the District's Project Manager." Hence, it is compliant but serves as an example of disagreement between different information systems at the District. The District reports that poorly-defined termination dates and schedules were resolved for post-2012 agreements.

All of the contracts were found to have remained within their total agreement amounts, with no budget-related non-compliance issues. The spreadsheet provided by the District summarizing the 15 contracts had identified seven contracts having a higher final payment amount than the Agreement amount; this was not found to be the case after all amendments were accounted for during Navigant's review.

For the contracts which were initially recorded as having incomplete tax information, the explanations from the Accounts Payable group are summarized in the following table:

Table 8. Accounts Payable Information for the 15 Pre-Identified Contracts

	Agreement Number	Agreement Name	Tax Resolution
1	A2218A	Planning Study, value engineering, and geotechnical and hazardous material investigations for Matadero & Barron Creeks remediation project (Palo Alto)	Tax ID information was captured in PeopleSoft.
2	A2403A	Engineering Planning Services on Berryessa Creek Downstream of Calaveras Blvd.	Tax ID information was captured in PeopleSoft.
3	A2925F	The SCVWD Wants to Become a CAL/OSHA VPP Star Site	Per W-9 form Part II Certification, 4 Other Payments, the W-9 signature is not required for non-employee compensation (unless taxpayer is notified of previously incorrect TIN). ²
4	A3109A	Contract for Operation and Maintenance of the Coyote and Pacheco Substations	Tax ID information was captured in PeopleSoft.
5	A3228F	State Lobbying Services: 2009	Per W-9 form Part II Certification, 4 Other Payments, the W-9 signature is not required for non-employee compensation (unless taxpayer is notified of previously incorrect TIN).
6	A3462RE	On Call Real Estate Services Appraisal Agreement MAI	Tax ID information was captured in PeopleSoft.
7	A3464RE	Real Estate Turnkey Services	Tax ID information was captured in PeopleSoft.
8	A3467RE	On Call Real Estate Services Appraisal Agreement MAI	Tax ID information was captured in PeopleSoft.
9	A3469RE	On Call Real Estate Services Appraisal Agreement MAI	W-9 form provided.
10	A3471RE	On Call Real Estate Services Appraisal Agreement MAI	Tax ID information was captured in PeopleSoft.

For the contracts that had tax ID information in PeopleSoft but were missing a copy of the actual W-9 form, the issue was reported to be that these contracts have unknown set-up dates and cannot be feasibly retrieved from the archive. Overall, tax information appears to be compliant but supporting documentation is not always accessible.

² www.irs.gov/pub/irs-pdf/fw9.pdf

3.2.2 Summary of the 51 Contract Sample

The sample was reduced to 51 consultant contracts after one contract was found to be a non-consultant agreement and excluded, after confirming the agreement type with the District project manager (a special joint use agreement for local trails). 47 of the remaining 51 contracts were found to have non-compliant insurance information based on available documents in CAS. The insurance non-compliance issues range from expired insurance for the last 10 days of work to contract files lacking general liability insurance and other insurance certificates altogether (based on the available, viewable certificates in CAS). Some contracts have more than one of these issues. This finding is summarized below, with further details in Appendix D.2.

Table 9. Types of Insurance Issues Identified for the 51 Contract Sample

Insurance Issue	Number of Contracts
Insurance expires before end of project	30
Insurance starts after date of Notice to Proceed	9
Missing insurance documents	12

Navigant requested up-to-date insurance information from project managers for these contracts. The District was diligent in requesting and finding a number of the insurance files. It is notable, however, that even though ten additional project managers could produce complete insurance documentation upon request, the District has no comprehensive, up-to-date and accessible source of this important information. This observation was validated by the District's Risk Manager, who identified the need for an insurance management system and has advocated for the District to work with a third party insurance handling company.

Further, the CAS system has been reported to have a system error that prevents users from accessing multiple insurance documents for closed contracts. This glitch allows the user to view only the most recently added file, and no others. Additionally, CAS is reported to be set to a 5 Megabyte file size limit that may exclude other insurance files or pages that exceed the limit. All of the contracts that were initially found to have inadequate insurance in CAS are still deemed non-compliant but it is also noted in 0which issues the project managers encountered after being called on to produce insurance documents.

Four of the random contracts sample had non-compliance findings relating to invoicing or payments, although two require further review. These contracts are summarized in Table 10, below.

Table 10. Non-Compliance Issues in the 51 Contract Sample

	Agreement Number	Agreement Name	Issue(s)	Additional Comments
1	A3308A	Geotechnical Engineering Services for Seismic Stability Evaluation of Almaden, Calero and Guadalupe Dams, and Dam Safety Program Update	Final work period dated 2/8/2013; Agreement expired on 12/31/2012	During the draft report review, the District provided feedback that the work period date is a typo.
2	A3429F	2010 Legal Recruitment Services	Final work period dated 8/3/2012; Agreement expired on 7/31/2011	None
3	A3566A	Clean Safe Creeks and Natural Flood Protection Program Performance Audit	Last invoice dated 7/5/2012; Agreement expired on 6/30/2012 – Requires Further Review	The invoice is submitted so close to the expiration date that the work must reasonably have been completed on time, but there is no clear work period to refer to.
4	A3678F	Agreement between the Santa Clara Valley Water District and Environmental Science Associates	Last invoice reports tasks up to 693.9% complete – Requires Further Review	Refer to the project manager for 100%+ task percentage justification.

In addition to the specific issues outlined above, Navigant’s experience with contracting processes of power and water utilities show that it is best practice to ensure all invoices are approved and paid before contract expiration. In the event an invoice cannot be paid or approved before contract expiration, the contract should be extended. Many contracts in the sample had tasks extending to the expiration date, necessitating the approval of invoices past the expiration date.

One additional contract had been initially recorded as having incomplete tax documentation (A3603A), but Accounts Payable offered the explanation that per W-9 form Part II Certification, the W-9 signature is not required for non-employee compensation (unless the taxpayer is notified of a previously incorrect TIN).

3.2.3 Other Comments

While completing the audit fieldwork for contract compliance, Navigant also noted smaller issues that became apparent during the review process. The following comments were made for multiple contracts while completing the audit fieldwork checklist:

- » Agreement start date not specified in CAS
- » Agreement end date not specified in CAS, or date is incorrect
- » Delayed close-out in CAS
- » Incorrect Agreement value in CAS
- » Fully executed Standard Agreement not uploaded to CAS
- » Amendments not recorded in CAS

- » Standard Agreement not dated at execution
- » Standard Agreement does not clearly specify expiration date
- » Fully executed Standard Agreement not included with accounting files
- » Invoices do not specify consultant tasks and activities
- » Agreement Status Change Request form for close-out not included, or not signed by Accounting

Many of these smaller errors were corrected by the Contracts group for agreements executed post-2012, but are reflected in earlier agreements in the sample.

3.3 Overview of Findings

As noted previously, only five of the 66 contracts reviewed can be deemed compliant with the District's post-award contracting procedures and business processes. The compliance metric that led the Navigant team to deem most of the contracts non-compliant was the absence of complete and valid insurance certificates in CAS. Navigant acknowledges that a number of these certificates were found elsewhere by District staff upon request, but there is no complete repository in CAS.

This particular compliance issue has highlighted the key challenges the District will have to address in order to move towards best practice in contract management: develop and implement robust governance and standardization policies and processes while fully utilizing the capabilities of the District's contract management solutions in a centralized manner. These challenges are discussed in detail in the next section.

4. "Blueprint" Assessment

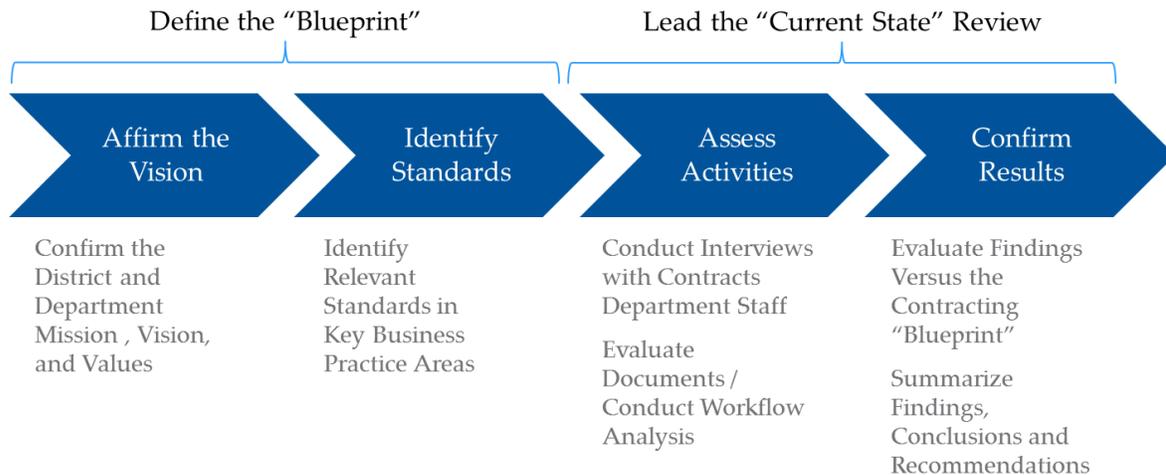
A primary objective of any process audit or assessment is to evaluate the current, "as-is" state of operations in order to identify specific actions that will deliver operational and organizational improvement. The standard of excellence (or "blueprint") to which an organization is compared is therefore an important aspect of any audit or assessment.

The following section outlines Navigant's approach to developing a blueprint for excellence in post-award consulting services contract management; provides a detailed account of the proposed blueprint focus areas; and describes the most important "gaps" in current operations in relation to the blueprint.

4.1 Scope and Approach

Navigant adopted the following high-level approach to complete the "current state" blueprint assessment, which focused on two main activities:

Figure 3. High-Level Approach to Leading the "Current State" Review



- » Define the "Blueprint": Confirming the Vision and Mission of the District in general, as well as in relation to contracting and procurement; identifying the standards in contract management to which the District would be compared.
- » Lead the "Current State" Review: Evaluating current contract management activities in a number of key areas, through document collection, interviews, and process evaluations; comparing current state activities to the blueprint.

The remainder of this section describes the steps taken to complete the blueprint assessment.

4.1.1 Affirm the Vision

We believe that understanding an organization's overall Vision and Mission in contract management is a key input to any audit or assessment. These objectives (and the plans designed to achieve them) form the foundation of any evaluation. We confirmed the District's highest level objectives and values through interviews with senior leadership and a comprehensive documentation review. Primary documents and sources of information included the District Annual Report and content from the District's website ("Doing Business with the District" and "Doing Business with the District,

Consultant Contracts.” (See Section 2 for a description of the District’s procurement and consultant contracting objectives.)

4.1.2 Identify Standards

The team has drawn from its contract and procurement management experience, knowledge of best practice standards in contracting and related disciplines³, and understanding of relevant peer practices to develop relevant performance standards. Rather than specific tasks or detailed processes, these standards are high-level themes or characteristics we expect to be reflected in leading procurement or contract management groups. The following performance standards were selected by the Navigant team to form the foundation of the blueprint:

“...Collaborate closely with other functional groups in the Company to provide reliable guidance and enable the soundest decisions on contract matters...”

“...Are properly staffed with contract professionals who consistently enhance their skills and capabilities, and utilize innovative tools and techniques to properly manage contract activities...”

“...Are responsible for the actions and decisions they take in relation to contracting and for the resulting outcomes. Contract Management staff are answerable for such activities through established lines of accountability...”

“...Work diligently to ensure compliance with all relevant Acts, Regulations, Standards and Codes...”

“...Consider both cost and non-cost factors when considering “best value” in contract decision-making...”

“...Treat all prospective suppliers/vendors with fairness and in an open and transparent manner with the same access to information about the contract...”

“...Recognize that all contract activities carry some level of risk, and properly recognize this risk and develop appropriate strategies to deal with it...”

“...Observe the highest standards of honesty in all commercial dealings, and conduct their business in a fair, honest and open manner, demonstrating the highest levels of integrity consistent with Company, customer, and stakeholder interest...”

“...Utilize data and metrics to evaluate contract activities and performance...”

Specific attention was given to post-award practices, protocols, and behaviors when developing the blueprint, although many of the standards developed can be applied to the full spectrum of contracting activities.

4.1.2.1 Blueprint Description

An effective and efficient post-award consultant contract management function requires attention and focus in a number of interdependent areas. Our analysis focuses on the District’s current state in six areas:

- » Policies
- » Business Processes

³ Publicly available sources include: Resolutions and other documents from the National Institute of Government Procurement (NIGP); Institute of Civil Engineers, “A Model to Manage the Water Industry Supply Chain Effectively,” 2012; Global Cleantech Center, “The U.S. Water Sector on the Verge of Transformation,” 2013; papers from Supply Chain Quarterly (various); papers from the Chartered Institute of Purchasing & Supply (various); Best Practice Procurement Guidelines from public agencies (various).

- » People
- » Systems & Data
- » Contract Management
- » Reporting

A detailed description of these six areas is provided in Appendix E, *Blueprint Components*. In general, our blueprint identifies approximately 50 characteristics and recommended practices in post-award contract management.

A variety of practices, standards, and frameworks provided input for each of these areas, including:

- » A number of oversight and guidance documents and best practice standards in contract management, derived from organizations such as the National Institute of Governmental Purchasing (NIGP).
- » Common business practice frameworks in process improvement, system and data management, Lean for Service organizations, and governance and internal control.
- » Peer practices from municipal water and other utility companies.

Finally, the six focus areas were tailored to the District-specific vision statements, goals and objectives related to consultant contract management.

4.1.3 Assess Activities

Navigant collected a variety of documents and conducted multiple interviews to understand the current consultant contract management activities and “infrastructure.” This analysis included a high-level workflow review to understand the key handoffs between functional groups in the organization, accountabilities and areas of responsibility, and other facets of organizational capability and effectiveness.

4.1.4 Confirm Results

Once collected and reviewed, Navigant compared information concerning the current state to the specific blueprint standards in each of the six focus areas described above. This comparison resulted in a specific set of recommendations, focused on the most important aspects of post-award consultant contract management.

4.2 *Blueprint and Current State Review*

This section focuses on the evaluation of the District’s current operations versus the blueprint, and provides a clear and concise view of areas of potential improvement and associated key recommendations. It is organized following the six areas of focus constituting the blueprint. For each area of focus, the key findings, their impact on the District’s operations, and proposed improvement recommendations are presented in detail.

Although the focus of this audit is post-award activities and processes, this section makes note of potential areas of improvement prior to execution. Also included are the strengths noted in the consultant contract management process (policies, procedures or protocols) or notable best practices in place or utilized by the District.

4.2.1 Policies

Policies are primarily developed and implemented in order to provide business rules and guidelines that ensure consistency and compliance with the District’s goals and objectives. Policies define

boundaries for the behavior of individuals, business processes, relationships, and systems. Signature authority limits are examples of key business rules that should be included in contracting policies, and the implementation of such rules should be supported by business processes that are consistent with the policies.

4.2.1.1 Key Finding

The District has a variety of documents that collectively establish the policy framework for contracting, including the “Guiding Principles of Public Procurement,” the “Guide to Doing Business with the District,” Document No. Q-741-005 “Procurement of Consulting Services,” and AD.6.3 “Approval Authority for Consultant Services Contracts.” In combination, these documents (among many others) provide guidance in a variety of control and governance-related areas. However, the District does not have a “single source” overarching policy document that establishes the Mission, clear directive guidance, and expectations concerning contracting (including consultant contracting). Such a broad business policy would typically include: a statement affirming management’s commitment to the highest standards of procurement and contracting excellence; an overall governance structure for procurement and contracting; the functional roles accountable for contract management; a code of ethics (for District staff as well as suppliers and vendors); and a “Certificate of Acknowledgement” (among other policy chapters). This kind of high-level policy which consolidates information into one governance framework (and which other policies reference) is commonplace.

<p>Area of Improvement No. 1: The District appears to have a variety of documents that govern contract management activities, but lacks a single, overarching policy that pulls information into a single source and clearly defines the mission, structure, and accountability for contract management.</p>
<p>Impact on SCVWD: The absence of a clear articulation of the District’s governance structure and functional responsibility over contract management, signed and authorized by select staff is an important aspect of good corporate governance.</p>
<p>Recommendations:</p> <ul style="list-style-type: none"> » Write a consolidated business policy concerning contracting management (including consultant contracting), which establishes the governance framework and functional accountability for contract management at the District. Include in this document a “Certificate of Acknowledgement” that staff must sign annually (or more frequently, as required).

4.2.2 Business Processes

Business Process Management (or BPM) refers to a set of activities which organizations can perform to either optimize their business processes or adapt them to new organizational needs. A strong BPM framework is established to first document common activities and expected practices, after which these documented processes are amended to reflect changes in the business and optimized to achieve improvements in organizational effectiveness.

4.2.2.1 Key Finding

The District has established a variety of business process documents (or work instructions) to establish common work activities in various areas, including “Initiation of Consultant Agreements Work Instruction” or “Evaluation of Proposals Work Instruction.” External documents are referenced for each of these processes, and include standards from various organizations (including ISO quality management system standards, contracting standards for public agencies, and other references).

However, the business process documents do not direct standardized tasks and activities for key aspects of the contract management process (including specifically the “Consultant Agreement Administration Work Instruction”). Specifically, our review has concluded that each project manager has significant autonomy in how he/she administers key aspects of the post-award contract. This autonomy has significant “downstream” effects on document management and other aspects of project review (which our team encountered on this project).

<p>Area of Improvement No. 2: There are not standard directed processes for key aspects of the post-award contract management function.</p>
<p>Impact on SCVWD: This autonomy results in a variety of non-standard activities in a post-award environment, including document retention, document “governance” and controls, and contract close-out.</p>
<p>Recommendations:</p> <ul style="list-style-type: none"> » Establish common “ways of working” through directive desk manual business processes for contract management activities; create oversight structures and “checks” for contract management activities.

4.2.3 People

The success of the District’s contract management function is contingent on staff having clearly defined contracting roles and responsibilities matched with relevant skills, qualifications and competencies and the appropriate capacity. All aspects of “Human Capital” (staffing levels, training, succession, career progression) are all critical when considering this focus area.

4.2.3.1 Key Findings

While roles and responsibilities appear to be understood, and staff competencies and commitment do not appear to be a concern, the vast majority of interviewees stated that the group is understaffed. This observation is directly related to the significant role that project managers have in post-award contract management – roles that are commonly filled by contract management staff in peer organizations and conducted in a consistent manner.

<p>Area of Improvement No. 3: The Contracts Group appears to be understaffed, relative to the types of roles and activities that could be provided by this group.</p>
<p>Impact on SCVWD: Certain key contract management, compliance, and maintenance functions are handled in a non-standardized fashion by project managers, resulting in inconsistency across the organization. Further, little to no oversight is currently provided over these activities.</p>
<p>Recommendations:</p> <p>Alternative organizational structures can be considered for the Contracts Group:</p> <ul style="list-style-type: none"> » Create a centralized contract management function, focused on on-going contract administration. » Create analyst positions within specific units to support PMs with contracting activities. <p>Centralization has multiple advantages over the creation of analyst positions, including principally:</p> <ul style="list-style-type: none"> » Increased standardization and consistency. » Focused governance. » Greater efficiency and reduced cost.

To this end, Navigant recommends the centralization of the contract management function. Staffing levels for a centralized Contracts Group would be determined through a comprehensive workflow and workload analysis, considering contract management activity levels, the impact of improved and enhanced use of technology, and re-engineered business processes. (This type of staffing analysis would also be appropriate for areas that impact the end-to-end consultant contract process, including specifically accounting.) Further, specific technical competencies for contract staff would be clearly defined, reflecting the specific characteristics of supply chain and procurement professionals. To be successful, the transition of contracting activities from PMs to the centralized contracting group would have to be implemented according to a well-managed multi step approach.

Another key finding is the need to develop a program to ensure sustained professional excellence in post-award contracting practices, including providing relevant training and education on an ongoing basis and collaborating closely with other functional groups.

Currently, there is significant room for improvement for the District on many aspects of this requirement. First, there is a lack of awareness from PMs and contract professionals on what excellence in post-award contract management really means. This is primarily due to inappropriate or a lack of training. Some PMs have indicated having received only limited training on the existing post-award contracting policies and processes. The overall feeling is that pre-award training may be adequate but that project managers are on their own for post-award contracting activities. Second, knowledge transfer is seen as either insufficient or nonexistent, which makes it even more challenging for junior resources to achieve excellence.

Area of Improvement No. 4: The District does not provide the necessary tools or support to enable its staff to achieve excellence in post-award contracting activities.
Impact on SCVWD: This may cause ineffective and inefficient post-award contract management which, in the worst scenario, can ultimately lead to contract non-compliance.
Recommendations:
<ul style="list-style-type: none"> » Post-award policy and processes socialization plans should be developed and implemented. In addition, training on post-award contracting best practices should be delivered to accountable staff. » A knowledge transfer plan should be developed, providing incentives for future retirees or leavers to ensure successful project transition.

4.2.4 Systems and Data

The maturity of an organization’s technology infrastructure and associated business processes is a key aspect of effective on-going contract management. Carefully selected and implemented systems and databases are requirements for any organization to succeed. For its contracting activity, the District uses two systems:

- » CAS: an eProcurement system primarily used for pre-award contracting activities.
- » PeopleSoft: the District’s Enterprise Resource Planning (ERP) used for accounting, invoicing and reporting purposes.

In addition to utilizing systems to their fullest potential, an important consideration in this focus area is the control infrastructure around the systems and use and manipulation of data.

4.2.4.1 Key Finding

While these systems do not have major flaws or incompatibility issues with the District's business requirements, there is a significant lack of integration between the two systems. Consequently, there is no single "source of truth," since staff have to manage multiple databases which are dispersed across multiple departments and teams.

Area of Improvement No. 5: There are no clear sources of information/documentation for key aspects of contract management.
Impact on SCVWD: It is challenging for the District to track and generate data and key information quickly and accurately. In addition, conflicting information and data may exist in the two systems.
Recommendations: » SCVWD's systems should all be integrated. In parallel, robust systems and data governance policy and processes should be developed and implemented. ⁴

In addition, the functionality of CAS is not optimized to prevent contract non-compliance. For instance, CAS is not currently utilized to monitor insurance certificate expiration (however, the ability to use the system for this purpose exists). A significant number of features could be developed for this system in order to automate contract compliance checking activities.

Area of Improvement No. 6: CAS is not optimized to prevent contract non-compliance.
Impact on SCVWD: Multiple contract non-compliance situations could be prevented with automated compliance checks.
Recommendations: » New functionalities should be built into CAS, such as: <ul style="list-style-type: none">○ Link the CAS entry for contract agreement end date to the District's ERP solution in order to automatically prevent the payment of invoices post contract expiration.○ Create a new entry for insurance certificate end date. Project Managers should be automatically alerted by e-mail 6 months, 3 months, 1 month and then every week before insurance certificate expiration and be automatically prevented from authorizing work after insurance certificate expiration.○ Prevent the upload of incomplete documents.○ Provide a dashboard presenting invoices approved to date (including invoices for amendments) against original budget (including amendments if applicable) and remaining budget balance. Any inconsistencies should be automatically flagged.○ Provide the user the ability to determine whether or not the contract requires insurance.

4.2.5 Contract Management

An effective and efficient contract management function requires business processes that specify the end-to-end post-award contracting business processes and drive business process ownership and accountability, as well as a functional structure that clearly establishes roles and responsibilities for contract management.

⁴ The District has shared with Navigant that it is in the process of assessing the integration of a new eProcurement system with their ERP system. The new eProcurement system would replace CAS.

4.2.5.1 Key Finding

This audit has demonstrated that some critical aspects of post-award contract management, including the continuous monitoring of contract compliance, and the maintenance and archiving of contract documentation are not defined by business processes and clear governance guidelines.

For example, there seems to be a PM perception that as long as payments are approved there is no need to verify the status of the contract. On the accounting side, the perception seems to be that as long as the PM approves the invoice, there should not be any compliance issues. In addition and as stated previously, there is no group charged with on-going contract compliance; the Contracts Group is understaffed and does not have the resources to ensure on-going contract compliance monitoring.

The absence of tools and standard methodologies for on-going management and assessment is also a concern. It is unclear to what extent PMs are diligent in their efforts to actively oversee this aspect of the contract management activity. Furthermore, CAS is not actively used as a document repository or management "system of record." Therefore, each PM takes a distinct approach to how this key activity is managed.

Area of Improvement No. 7: There is no standard process for how critical aspects of post-award contract management are managed.
Impact on SCVWD: Critical contract management activities are not completed.
Recommendations: <ul style="list-style-type: none">» The District should develop specific contract compliance processes, which should include clear governance guidelines.

Another key contract management activity is the tracking, monitoring and analysis of all information required to manage, control and measure supplier/vendor performance over the life of the contract. This activity is currently not performed at the District. In addition, there are no consultant performance evaluation scorecards available to the PMs and no database where a consultant's past performance can be tracked.

Area of Improvement No. 8: Consultant performance evaluation is currently not implemented at the District, and there are no systems in place to support its implementation.
Impact on SCVWD: This significantly increases the risks of sub-par consultant performance.
Recommendations: <ul style="list-style-type: none">» Develop and implement a policy and business processes defining the evaluation of consultant performance.» Develop and implement the necessary tools to support the assessment of consultant performance, including performance evaluation scorecards and a database of consultant past performance evaluations.» In the event of sub-par performance, the tools should inform the development of root cause analyzes and corrective action plans

4.2.6 Reporting

Reporting and performance management are standard and important practices in contract management operations. Contract management organizations routinely design and produce standard reports to assess current performance and performance trends versus various targets, established as an aspect of a comprehensive performance management program. Further, organizations typically have the capability of producing ad hoc reports to address specific management questions and concerns.

4.2.6.1 Key Finding

On-going reporting is an aspect of an organization’s performance management program, which is defined by Key Performance Indicators (KPI), metrics, and “dashboard” reports to facilitate decision-making. Targets for contract management organizations typically focus on operational and financial optimization, and include measures that assess contracting cycle time, compliance with regulatory and other procurement standards, procurement cost reduction trends over-time, and vendor/supplier satisfaction (among others). These metrics are linked to corporate and department objectives, and are an aspect of both department as well as individual performance evaluations.

We understand that quarterly performance reports concerning contract management are generated and represented on the District’s intranet page, and that additional information concerning contract management practices is provided to the Board of Directors. However, we do not believe information is collected from CAS or any other system of record to proactively evaluate contract management performance or to facilitate decision-making around contracting operations on a routine basis. This would include reports generated around key controls, such as pending insurance lapses, payment on invoices after contract expiration, among others. The production of standard and ad hoc reports requires a strong technology platform and data management framework. As in other areas of the review, our findings suggest that CAS and other system and data functionality could be enhanced to serve a central role in an overall performance management and reporting program.

Area of Improvement No. 9: Contract management does not have a performance management and reporting program.
Impact on SCVWD: In the absence of performance measures and routine reporting focused on optimizing contracting practices, the District cannot easily and accurately determine if procurement-related goals and objectives are being met.
Recommendations: <ul style="list-style-type: none">» Design a limited performance management program for contract management.» Improve CAS or other technology platform(s) to capture the information linked to the performance management program and key metrics.» Design standard reports to enable enhanced decision-making around contract management operations.

4.3 Additional Findings

4.3.1 Areas of Strength

Transparency of Contract Management Documentation: The District provides a significant amount of information on its website regarding all aspects of procurement. This information is well-organized, and offers a tremendous amount of transparency into guiding principles of procurement at the District, as well as specific contracting requirements by-category (including consultant contracts). The information is comprehensive, and is an example of leading practice.

4.3.2 Pre-Award Processes

Navigant identified two principal findings and potential areas of improvement in pre-award processes.

4.3.2.1 Key Findings

One of the key attributes of well-designed contracting business processes is to guide and enable the organization to effectively and efficiently complete the day-to-day execution of contracting activities. An important aspect of this attribute is the efficiency that should accompany the execution process, leading to the rapid completion of contracting activities.

Interviews with the District's senior leadership and project managers (PM), as well as Navigant's review of existing policies and business processes have revealed lengthy cycle times for contract creation and approval when compared to best practices and the District's peers. PMs have reported that it can take as long as six (6) months to hire a consultant for contracts valued less than \$100,000. For contracts of a larger value, the process may take up to nine (9) months. Our experience suggests that, depending on the relatively complexity and/or size, finalizing a contract typically takes anywhere from one (1) to three (3) months. This creates many challenges for the District including project completion delays and frustration from some consultants who are accustomed to more rapid contracting processes. This audit shows that this exceptionally long contracting cycle is due to the compounded effect of:

- » Continuous editing and amending of the "boiler plate" Standard Consultant Agreement. Throughout the duration of the contract creation and approval process, the Legal Department appears to be constantly reviewing and editing the Standard Consultant Agreement, resulting in a significant number of draft versions being exchanged with the PMs, ultimately leading to significant delays.
- » Approvals (sign-offs) are required from the same individuals multiple times throughout the contract approval process. Interviews have revealed that during the same contract approval process, the same individual has to provide his/her approval 4 to 5 times.

Area of Improvement No. 1: The cycle time associated with contract creation and approval is exceptionally long when compared to best practice and SCVWD's peers.
Impact on SCVWD: This may delay the project completion date and create some frustration among PMs, other key staff and consultants.
Recommendations: <ul style="list-style-type: none">» Improve and maintain a "boiler plate" Standard Agreement. Only the scope of services and project schedule sections should be drafted by Project Managers. All other sections should be owned by the Legal Department.» The existing control procedures for contract approval should be reviewed and redesigned.

Contract management best practice also specifically includes the on-going assessment of the project completion and deliverables against the original scope of work (SOW). The responsibility for developing the SOW resides with the PMs. In some instances, SOW are not developed to the highest standards which may result in numerous, unwanted contract amendments as it becomes challenging to assess the work completed against the original scope.

Area of Improvement No. 2: In some instances, scope of work and scope of services are not developed to the highest standards.
Impact on SCVWD: Contract management, and in particular the assessment for amendments become challenging.

Recommendation:

- » The District should develop guidelines against which SOW and Scope of Services should be developed and metrics against which they should be evaluated. While Project Managers should be responsible for the development of SOW and Scope of Services, the Unit Managers should be responsible for their evaluation.

4.4 Overview of Findings

Navigant has assessed the District's current, "as-is" state of operations against the following 6 elements of the Blueprint for excellence in post-award consulting services contracting: Policies, Business Processes, People, Systems and Data, Contract Management, and Reporting.

This gap assessment has confirmed that the District's consultant contract post-award management processes are deficient, and undermined by unclear accountabilities and underutilized technology applications. While significant attention needs to be made in all six Blueprint areas, the highest priority items include the development of a consolidated business policy that clearly establishes governance and accountability over procurement and contracting activities, accompanied by detailed process flows that define the work activities tasks in the District's end-to-end contract management process.

5. Conclusions and Recommendations

The District currently conducts post-award consultant contract management activities in a decentralized manner, defined by non-standard business processes, unclear accountabilities, and underutilization of the primary contract management software. We believe that these are the primary factors that led to the non-compliance events that occurred in 2014. Further, we believe that the environment in which these non-compliance events occurred will not improve without dedicated and focused attention in multiple areas of the organization. Key characteristics of the District's deficient processes include:

- » Lack of clarity around the District's governance and functional responsibility over post-award contract activities.
- » Inconsistent and non-standard post-award tasks and activities.
- » The inability to track and generate data and key contract information quickly and accurately.
- » Failure to conduct critical contract management activities, such as continuous monitoring of contract compliance or consultant performance evaluation.

Although the focus of this audit was on the post-award contract management process, Navigant also identified deficiencies with the pre-award processes:

- » The cycle time associated with contract creation and approval is exceptionally long when compared to best practice and SCVWD's peers.
- » In some instances, scope of work and scope of services are not developed to the highest standards.

Significant opportunities exist to improve and streamline the entire post-award contract management activity and support the District's transition towards best practice:

- » Develop a consolidated contract management business policy document, which clearly establishes functional accountabilities and governance arrangements.
- » Establish common "ways of working" through directive desk manual business processes for contract management activities.
- » Establish training, continuous improvement, and performance management programs over contract management.
- » Consider alternative organizational structures for the Contracts Group, including centralization or the creation of analyst positions within specific units to support the PMs. Navigant recommends the centralization of the contracting function.
- » Integrate all SCVWD's systems. In parallel, robust systems and data governance policy and processes should be developed and implemented.

Furthermore, the pre-award contracting processes could be greatly improved with:

- » Improvements to the "boiler plate" Standard Agreement so that fewer revisions are made during contract development.
- » The development of guidelines against which SOW and Scope of Services should be drafted and metrics against which they should be evaluated.
- » The streamlining of the existing control procedures for contract approval.

Appendix A. List of Interviews

Date	Time	Interviewee	Interviewee Department and Title	Location
11/13/2014	9:00-10:00 AM	Anita Ong	Financial Planning and Management Services, Financial Services Unit Manager	Headquarters: Room A-345
11/13/2014	9:00-10:00 AM	Guy Canha	Financial Planning and Management Services, General Accounting	Headquarters: Room A-345
11/13/2014	9:00-10:00 AM	Lillian Ramirez	Financial Planning and Management Services, General Accounting	Headquarters: Room A-345
11/13/2014	11:00-11:30 AM	Jim Fiedler	Water Utility, Chief Operating Officer	Headquarters: Room A-136
11/13/2014	1:30-2:00 PM	Jesus Nava	Administration, Chief Administrative Officer	Headquarters: Room A-168
11/13/2014	2:30-3:00 PM	Beau Goldie	Office of the CEO, Chief Executive Officer	Headquarters: Room A-173
11/13/2014	3:30-4:00 PM	Norma Camacho	Watersheds, Chief Operating Officer	Headquarters: Room A-173
11/13/2014	4:00-5:00 PM	Najon Chu	Administration, Chief Financial Officer	Headquarters: Room A-173
11/18/2014	1:30-3:00 PM	Paul Fulcher	Purchasing, Consultant Contracts and Warehouse Services (CAS System, Contract Files)	Blossom Hill Annex Madrone Room G-121
11/18/2014	3:30-4:00 PM	LeeAnn Pelham	Office of Ethics & Corporate Governance, Director	Headquarters: Room A-345
11/18/2014	4:00-5:00 PM	Ravi Subramanian	Administration, Deputy Administrative Officer	Headquarters: Room A-345
12/11/2014	10:00-10:30 AM	Deanna Forsythe	Project Manager	Conference call
12/11/2014	12:00-1:00 PM	Mike Munson	Project Manager	Conference call
12/11/2014	1:00-2:00 PM	Roger Narsim	Project Manager	Conference call
12/11/2014	2:00-3:00 PM	Tom Spada	Project Manager	Conference call
12/15/2014	10:00-10:30 AM	David Cahen	Risk Manager	Conference call

Appendix B. List of Documents

Reference	Item Description	Date Received
D.R.2.1	Administration Policy AD.6.3 Approval Authority for Consultant Services Contracts	11/5/2014
D.R.2.2	Consultant Agreement Administration Work Instruction W-741-030	11/6/2014
D.R.2.3	Request for Proposals Development W-741-027	11/6/2014
D.R.2.5	Consultant Agreement Preparation, Execution, and Distribution Work Instruction W-741-029	11/6/2014
D.R.2.6	Initiation of Consultant Agreements Work Instruction W-741-026	11/6/2014
D.R.2.7	Procurement of Consulting Services Q-741-005	11/20/2014
D.R.2.8	Evaluation of Proposals Work Instruction W-741-028	11/6/2014
D.R.2.11	Payment for Goods and Services W-610-D16	11/13/2014
D.R.2.12	Use of Alternative Procurement Methods Work Instruction W-741-022	11/6/2014

Appendix C. List of Contracts

C.1 15 Contracts of Interest

Item No.	Agreement No.	Agreement Name	Consultant Name
1	A2218A	Planning Study, value engineering, and geotechnical and hazardous material investigations for Matadero & Barron Creeks remediation project (Palo Alto)	Schaaf & Wheeler Consulting
2	A2403A	Engineering Planning Services on Berryessa Creek Downstream of Calaveras Blvd.	Winzler & Kelly
3	A2925F	The SCVWD Wants to Become A CAL/OSHA VPP Star Site	Michael T. Norder
4	A3062F	Initial Alternatives Economic Analysis San Luis Reservoir LPIP	Walter Yep, Inc.
5	A3109A	Contract for Operation and Maintenance of the Coyote and Pacheco Substations	U.S. Department of Energy
6	A3118A	Comprehensive Water Resources Management Plan	Moore Iacofano Goltsman, Inc.
7	A3159A	PWTP Standby Power System Project	Camp Dresser & McKee, Inc.
8	A3225A	Guadalupe River Mitigation Monitoring Agreement	HT Harvey & Associates
9	A3228F	State Lobbying Services: 2009	Governmental Advocates, Inc.
10	A3285A	Authorization of Chief Executive Officer (CEO) to Execute a Sole Source Agreement with the San Francisco Estuary Institute (SFEI) to Conduct Mercury Monitoring in the Guadalupe River	San Francisco Estuary Institute
11	A3462RE	On Call Real Estate Services Appraisal Agreement MAI	Associated Right of Way Services, Inc.
12	A3464RE	Real Estate Turnkey Services	Associated Right of Way Services, Inc.
13	A3467RE	On Call Real Estate Services Appraisal Agreement MAI	Schmidt-Prescott
14	A3469RE	On Call Real Estate Services Appraisal Agreement MAI	Hansen & Co
15	A3471RE	On Call Real Estate Services Appraisal Agreement MAI	Diaz, Diaz, and Boyd

C.2 Random Contract Sample

Item No.	Agreement No.	Agreement Name	Consultant Name
1	A3198F	Risk management Plans	EORM, Inc.
2	A3209F	Labor Management Relationship Recalibration Services	Cathy Stevens dba Stevens Consulting
3	A3211A	Ground Water Vulnerability Study	Todd Engineers
4	A3216F	Executive Recruitment	Alliance Resource Consulting
5	A3268A	Provide biological consultant services to District projects on an "as needed" basis	HT Harvey & Associates
6	A3283F	Water Supply and Infrastructure Master Planning Process Development	GHD, Inc.
7	A3289F	Decommissioning of Water Quality Lab at Rinconada Water Treatment Plant	RGA Environmental
8	A3294A	Engineering Services for Planning and Preliminary Design for the RWTP Residuals Management Project	CH2M Hill, INC.
9	A3308A	Geotechnical Engineering Services for Seismic Stability Evaluation of Almaden, Calero and Guadalupe Dams, and Dam Safety Program Update	URS Corporation Americas
10	A3322A	Design Services Agreement with Ruggeri-Jensen-Azar & Associates (RJA) for Lower Silver Creek Reaches 4-6A between I-680 and Moss Point Drive	Ruggeri-Jensen-Azar & Associates
11	A3326A	Microwave Telecommunications Project and Sole Source Product Designation of Harris Equipment	Harris Stratex Networks
12	A3335F	Assist SCVWD in the Process of Drawing Redistricting Boundaries	National Demographics Corporation
13	A3343F	Review and Validation of FY 11 Cost of Service Rate Making Model and Procedures	Raftelis Financial Consultants
14	A3346F	Structural Engineering Services for the Pacheco Pumping Plant (PPP) Regulating Tank Seismic Project	Beyaz & Patel, Inc.
15	A3375A	Consultant Agreement for Dam Safety Review Project (DSRP) for Anderson, Almaden, Calero, and Guadalupe Dams	Geosyntec Consultants, Inc.
16	A3389F	Standard On-Call Consulting Agreement between SCVWD and Carollo Engineers, Inc. for Recycled Water Technical Advice	Carollo Engineers, Inc.
17	A3395F	Calculate conjunctive use benefit of treated water and agricultural water	Raftelis Financial Consultants
18	A3410F	Design and construction support services on an as needed basis to facilitate current small cap projects.	Hafsa Burt & Associates
19	A3412F	Geohydrological services in support of quantification of the conjunctive use benefit of treated water and agricultural water users.	HydroMetrics Water Resources, Inc.
20	A3419A	Washington D.C. Representation Services III	Carmen Group, Inc

21	A3421F	Position Specification and Compensation Analysis of District's Unclassified Positions	Management Partners, Inc.
22	A3427F	Wash. D.C. Supplemental Representation Services	Kadesh & Associates
23	A3429F	2010 Legal Recruitment Services	The Hawkins Company
24	A3437F	Public Opinion Research, Analysis and Support for Future Funding	Fairbank, Maslin, Maullin, Metz, and Associates
25	A3479F	Monitoring of the Western Snowy Plover on District facilities in coordination with the monitoring conducted on adjacent properties.	San Francisco Bay Bird Observatory
26	A3486A	Environmental Remediation Action Plan and Design Services - Upper Guadalupe River Flood Protection Project Reach 8	Northgate Environmental Management, INC.
27	A3504F	Conduct a comprehensive assessment of the District's Inclusion Program and recommend improvements to the overall efficiency and effectiveness of the program in meeting the needs of the District.	The Leading Edge
28	A3505F	Improve work efficiency by streamlining District's work management processes and modify current Maximo configurations to facilitate these revised processes for up to six business functions.	Asset Management Engineering, Inc.
29	A3517F	Electromagnetic Inspection of the Penitencia Force Main and Penitencia Delivery Main from the Piedmont Valve Yard to the Penitencia Bypass Structure.	Pure Technologies
30	A3554F	The District will use an executive recruitment firm (Consultant) to assist in outreach, selecting and recruiting candidates for the position of Deputy Administrative Officer, Human Resources.	The Hawkins Company
31	A3562F	Ecological Monitoring & Assessment	San Francisco Estuary Institute
32	A3566A	Clean Safe Creeks and Natural Flood Protection Program Performance Audit	Moss-Adams LLP
33	A3583A	Sunnyvale East/West Channel Flood Protection Project	Horizon Water & Environment
34	A3600F	Executive Pay for Performance Program	The Segal Company
35	A3603A	Recycled Water Independent Advisory Panel	National Water Research Institute
36	A3611A	Financial Advisory Services	Public Resources Advisory Group
37	A3635G	Statistical design and analysis for the Guadalupe River Watershed Stream Condition Assessment	HDR, Inc.
38	A3656G	Maximo Technical Support On-Call Services	Crory Associates, Inc.
39	A3675A	Planning and Environmental Consultant Services for the Calero and Guadalupe Dams Seismic Retrofits Project	GEI Consultants
40	A3677G	Washington D.C. Representation Services - Administrative Agencies and Executive Branch Focus	Manatt, Phelps & Phillips. LLP
41	A3678F	Agreement between the Santa Clara Valley Water District and Environmental Science Associates	Environmental Science Associates

42	A3682F	Watershed Emergency Procedures	AECOM Technical Services, Inc.
43	A3685A	Upper Llagas Creek Flood Protection Project - Real Estate Services	Overland, Pacific & Cutler, Inc.
44	A3686A	Winfield Capital Improvement Project	Group 4 Architecture, Research + Planning, Inc.
45	A3691F	Agreement between the Santa Clara Valley Water District and Brookfair Consulting	Brookfair Consulting
46	A3694A	Infrastructure Reliability Master Plan Project - Planning Services	AECOM
47	A3699A	On-Call Surveying & Mapping Services 2014-2017 between the Santa Clara Valley Water District and Sandis	Sandis
48	A3702F	Succession Development Initiative - Phase II	Frank Benest
49	A3712A	On-Call Geotechnical Engineering Services, Multi-Award #2	Parikh Consultants, Inc.
50	A3722F	Palo Alto Flood Basin Project - Hydrology Study	Schaaf & Wheeler Consulting Civil Engineers, Inc.
51	A3724G	To perform the hydraulic modeling of the south bay and its tributaries required to map the coastal floodplain located within the District's Jurisdiction	DHI Water & Environmental

Appendix D. Description of Insurance Issues

D.1 15 Contracts of Interest – Insurance

Item No.	Agreement No.	Insurance Summary	Project Manager Response
1	A2218A	No documents found on CAS.	No response received.
2	A2403A	Agreement expires on 12/31/2009, insurance starts on 3/1/2010. Insurance expires on 3/1/2011, invoice dated 12/23/2013.	PM reports insurance coverage from 3/1/2010 to 12/1/2015; pre-2010 insurance still unknown.
3	A3062F	Insurance expires on 12/10/2007, 11/4/2007 and 1/31/2007, invoice dated 2/25/2010.	No response received.
4	A3109A	No documents found on CAS.	PM indicated that insurance is not required.
5	A3118A	NTP given on 8/15/2007, while insurance starts on 4/1/2014.	PM reports that insurance should be in Contracts Office.
6	A3159A	NTP given on 1/7/2008, while insurance starts on 1/1/2010.	No response received.
7	A3225A	NTP given on 11/18/2009, while insurance starts on 9/1/2009.	PM reports moving to the project after initiation, other staff members have moved to different units.
8	A3228F	Only Worker's Comp insurance found on CAS.	PM provided valid insurance for 2010-2011 and 2015-2016. PM also provided email correspondence from April 22, 2009 that insurance was faxed; NTP given 11/2008, first 4 months may not have been covered.
9	A3285A	NTP given on 7/6/2009, while insurance starts on 1/31/2010 and 4/1/2010. No worker's comp insurance found on CAS.	PM reports moving to the project after initiation, other staff members have moved to different units.
10	A3462RE	No documents found on CAS.	No response received.
11	A3464RE	No documents found on CAS.	No response received.
12	A3467RE	No documents found on CAS.	No response received.
13	A3469RE	No documents found on CAS.	No response received.
14	A3471RE	No documents found on CAS.	No response received.

D.2 Random Contract Sample – Insurance

Item No.	Agreement No.	Insurance Summary	Project Manager Response
1	A3198F	Insurance expires on 10/1/2008, work period ends on 10/11/2008 according to invoice.	PM reports being unfamiliar with this contract name and number.
2	A3209F	Only automobile insurance found on CAS.	No response received.
3	A3211A	Only professional/pollution liability found on CAS.	PM reports being unable to find additional insurance in project files; consultant mailed certificates to "contract administrator." Possible IT issues with closed contract.
4	A3216F	Only worker's comp found on CAS, NTP given on 9/25/2008 while WC insurance starts on 2/1/2009.	No response received.
5	A3268A	Insurance expires on 9/1/2010, work period ends on 4/30/2011 according to invoice.	PM reports being unable to find insurance in project files; possible IT issues with closed contract.
6	A3283F	Insurance certs expire on 6/11/2010, 2/1/2010, and 12/1/2009, last invoice dated 5/10/2011.	PM reports that project files are now in off-site storage.
7	A3289F	NTP given on 7/8/2009 while insurance starts on 3/1/2010.	No response received.
8	A3294A	Insurance expires on 5/1/2010, invoice dated 7/21/2011.	PM reports being unable to find insurance past the first year of the agreement in central project files; possible IT issues with closed contract.
9	A3308A	Insurance Expires on 5/1/2010 and 1/1/2011, work period ends 2/8/2013 according to invoice.	PM reports contract is closed; possible IT issues with closed contract.
10	A3322A	Insurance expires on 6/19/2013 and 9/1/2013, invoice dated 10/15/2014.	PM provides valid insurance for 6/19/14 to 6/19/15.
11	A3326A	NTP given on 12/8/2009, while insurance starts on 3/31/2013.	No response received.
12	A3335F	Professional Liability insurance expires on 2/7/2010, invoice dated 6/1/2010.	PM confirms the insurance period; Professional Liability still may have inadequate coverage.
13	A3343F	NTP given on 2/4/2010, while insurance starts on 1/21/2011.	No response received.
14	A3346F	NTP given on 2/24/2010 while insurance starts on 1/1/2012.	No response received.
15	A3375A	Insurance expires on 9/1/2010, invoice dated 10/26/2012.	No response received.
16	A3389F	NTP given on 8/4/2010 while insurance starts on 12/31/2013 and 7/4/2013.	No response received.
17	A3410F	Insurance expires on 7/14/2011, work period ends 8/2/2012 according to invoice.	PM reports insurance should be in the Contracts Office. Possible IT issues with closed contract.
18	A3412F	Only worker's comp insurance found on CAS, expires on 1/1/2011, invoice approved 6/3/2011.	No response received.

Item No.	Agreement No.	Insurance Summary	Project Manager Response
19	A3419A	Insurance expires on 9/15/2012, invoice dated 8/21/2013. NTP given on 11/1/2010, insurance starts on 9/15/2011.	PM confirms the insurance period, unable to find additional certificates.
20	A3421F	Insurance expires on 9/28/2011 and 6/20/2011, invoice dated 8/3/2011.	No response received.
21	A3429F	Insurance expires on 6/28/2011, work period ends 8/3/2012 according to invoice.	No response received.
22	A3437F	Insurance expires on 6/24/2011, 5/20/2011 and 12/10/2011, invoice dated 10/7/2011.	No response received.
23	A3479F	Insurance expires on 12/7/2011, invoice dated 12/14/2011 --> check work period?	No response received.
24	A3486A	Insurance expires on 1/22/2012, 12/20/2011 and 1/1/2012, invoice dated 9/12/2013.	No response received.
25	A3505F	Insurance expires on 12/18/2011 and 12/22/2011, invoice dated 12/3/2013.	No response received.
26	A3517F	Insurance expires on 11/1/2011 and 1/23/2012, invoice dated 2/16/2012.	No response received.
27	A3554F	Insurance expires on 6/28/2012, invoice dated 10/31/2012.	PM reports being unable to find insurance in project files; possible IT issues with closed contract.
28	A3562F	Insurance expires on 4/1/2012, invoice dated 7/3/2013.	No response received.
29	A3566A	Only Professional Liability found on CAS.	PM provided valid insurance; Compliant.
30	A3583A	CAS attachment only provides policy number, not certificate and expirations.	PM provided valid insurance; general liability insurance may not be covered for first year 2012-2013.
31	A3600F	Only 1 page of automobile insurance found on CAS, no other insurance found.	No response received.
32	A3603A	Insurance expires on 2/24/2013, invoice dated 7/27/2014.	No response received.
33	A3611A	Insurance expires on 12/9/2013 and 6/12/2013, invoice dated 11/18/2014. NTP given on 10/1/2012, insurance starts 12/9/2012.	PM provided valid insurance for 2014 and 2015; first two months after NTP may not have been covered.
34	A3635G	Insurance expires on 6/1/2014 and 7/1/2014, invoice dated 10/24/2014. NTP given on 4/12/2013, insurance starts on 6/1/2013 and 7/1/2013.	PM provided valid insurance for 2012-2013 and 2014-2015; Compliant.
35	A3656G	NTP given on 7/16/2013, while insurance starts on 5/9/2014.	PM provided valid insurance for 2013; Compliant.
36	A3675A	Insurance expires on 7/1/2014, invoice dated 12/2/2014.	PM provided valid insurance for 2014-2015; Compliant.
37	A3677G	Only worker's comp certificate found on CAS, expires on 4/1/2014.	PM provided valid insurance for 2014-2015; still only worker's compensation coverage.
38	A3678F	Insurance expires on 1/1/2014, invoice dated 12/2/2014.	No response received.

Item No.	Agreement No.	Insurance Summary	Project Manager Response
39	A3685A	Only "Notice of Cancellation to Designated Certificate Holder" uploaded to CAS.	PM provided valid insurance for 2014-2015; but NTP given 11/5/2013 and insurance starts 6/1/2014 - first 6 months may not have been covered.
40	A3686A	Insurance expires on 7/1/2014, 7/18/2014 and 7/22/2014, invoice dated 9/12/2014.	PM provided valid insurance for 2014-2015; Compliant.
41	A3691F	Only "General Liability Additional Insured" form uploaded to CAS.	No response received.
42	A3694A	Insurance expires on 4/1/2014, invoice dated 11/13/2014.	PM provided valid insurance for 2014-2015; Compliant.
43	A3699A	Insurance expires on 3/3/2014, invoice dated 8/12/2014.	No response received.
44	A3702F	Only "Additional Remarks Schedule for Liability Insurance" uploaded to CAS.	PM provided valid insurance through late 2014; is requesting updated automobile & umbrella certificates; Compliant.
45	A3712A	Insurance expires on 9/1/2014, invoice dated 11/13/2014.	PM reports being in the process of updating certificates that expired in late 2014/early 2015; Compliant.
46	A3722F	Insurance expires on 6/1/2014 and 6/6/2014, invoice dated 8/19/2014.	No response received.
47	A3724G	No automobile or worker's comp insurance found on CAS.	PM reports working with the Risk Manager to obtain required documents, is verifying requirements are met as of 1/16/2015; Compliant.

Appendix E. "Blueprint" Components

The following exhibits introduce the main concepts underlying the blueprint for excellence in post-award consultant contracting in each of the six key focus areas.

Policies	Business Processes
<p>Policies should:</p> <ul style="list-style-type: none">» Provide business rules and guidelines that ensure consistency and compliance with the company's goals and objectives» Be truly executable; provide clear accountabilities» Define the governance structure for contracting; also define escalation practices and limits of authority» Maintain a clear delineation from supporting business processes while supporting their implementation» Evolve as business practices and business needs evolve» Be socialized, respected as the recognized practices of the organization, and accompanied by acceptance monitoring» Mitigate risks» Be reviewed and amended no less than annually	<p>Business Processes should:</p> <ul style="list-style-type: none">» Guide and enable the organization to effectively and efficiently complete the day-to-day execution of post-award contracting activities» Clearly specify the end-to-end post-award contracting business processes» Define the residence of tasks for post-award contracting activities» Standardize all aspect of post-award contracting operations» Drive business process ownership and accountability» Be clearly documented, and be amended by process owners as business needs change» Be socialized, respected as the recognized practices of the organization, and accompanied by acceptance monitoring» Be in compliance with all relevant Acts, Regulations, Standards and Codes» Be reviewed and amended no less than annually

People
<p>Key objectives for the People element include:</p> <ul style="list-style-type: none"> » Have clearly defined contracting post-award roles and responsibilities, including: <ul style="list-style-type: none"> ○ Review and approve work of milestone completions ○ Manage change orders ○ Track, measure, analyze and manage supplier/vendor performance ○ Approve, track and review invoices ○ Complete audit for compliance » Match these roles and responsibilities with relevant skills, qualifications and competencies » Support the development of professional excellence in contracting practices, including providing relevant training and education on an ongoing basis and collaborating closely with other functional groups » Be supported and recognized as a strategic partner in the District’s business objectives » Provide governance and oversight over the post-award process; raise issues as necessary

Systems and Data
<p>Key objectives for the Systems and Data element include:</p> <ul style="list-style-type: none"> » Clearly specify SCVWD’s business requirements for systems and data » Implement systems that meet SCVWD’s business requirements » Implement systems with workflow steps that mirror the post-award contracting process » Seek full integration of post-award contracting systems and data, and possible integration with eProcurement and ERP systems » Comprehensively train system users » Implement control protocols to ensure the systems and data are used according to post-award contracting workflows and business processes » Eliminate system “workarounds” to the extent practicable; focus on data control » Translate data to ensure it becomes useful for decision-making » Establish and maintain governance and accountability over system and data management

Contract Management

Key objectives for the Contract Management element include:

- » Centralize accountability for Contract Management
- » Continuously monitor contract compliance
- » Track, monitor and analyze all information required to manage, control and measure supplier/vendor performance over the life of the contract, including but not limited to:
 - Pricing
 - Scope
 - Amendments
 - Contract expiration date
 - Expiration date of non-fiscal documentation, such as insurance certificates
- » Continuously monitor and reevaluate contract risks
- » When necessary, complete root cause analysis and implement corrective action planning
- » Establish and maintain governance and accountability over the contract management function

Reporting

Key objectives for the Reporting element include:

- » Provide performance, financial and operational metrics and reports that enable the active management of the post-award contracting function
- » Identify and report on Key Performance Indicators and related metrics reflecting the high-level goals of the post-award contracting function
- » Report data and metrics using standardized templates
- » Specify the data needed for reporting purposes
- » Establish and maintain governance and accountability over the reporting function



Valley Water

Clean Water • Healthy Environment • Flood Protection

Consultant Contracts Management Process and Consultant Contracts Management Process Audit

Annual Status Update – February 16, 2022

Consultant Contracts Management Process Audit

Table of Contents

- Summary of Audit Report Dates to the Board Audit Committee
- Summary of Key Findings
- Accomplishments and Improvements
- Key Performance
- Action Plan and Implementation
- Audit Status

Consultant Contracts Management Process Audit

Summary of Status Reports to the Board Audit Committee

- Audit Report by Navigant Consulting submitted on March 10, 2015
- Status report February 13, 2018
- Status Report February 17, 2021
- Status Report February 16, 2022

Consultant Contracts Management Process Audit

- **Key Findings:**

- Develop clear and consistent policies and procedures for centralized procurement
- Define roles, responsibilities, and target timelines; accountability framework
- Develop clear post-award process; including insurance compliance
- Increase staff to support customer requirements; provide governance guidelines

- **Status:**

- In progress; Procurement Manual & update policies
- Complete with 5 deliverables
- Complete, including implementation of EBIX
- Complete

Consultant Contracts Management Process Audit

- **Key Findings: (continued)**

- Improve cycle time for contract administration; improve technology tools
- Establish guidelines to improve the development of the Scope of Work
- Develop process for Consultant evaluation and compliance
- Replacing CAS as system for contracts solicitation and compliance

- **Status:**

- Ongoing improvement with cycle times. Implemented ERP technology – INFOR
- Complete. Implemented procurement bidding software – Planet Bids
- In progress
- Transition from CAS to PlanetBids near completion

Consultant Contracts Management Process

Accomplishments/Improvements

- Defined roles and responsibilities for Contract and PM staff.
- Improved boilerplates for consistent contract development, scope, and deliverables; established timelines.
- Track performance and measure against the milestones
- Implemented Procurement Plan Checklist to standardize bid procedures and quality of solicitations
- Insurance Certification Management, vendor EBIX
- Updated Administrative Policies to improve workflow
- Conducted Workshops - Process improvement and SOW writing
- Implemented new procurement bidding software (PlanetBids)
- Implemented new ERP system Procurement and Contracts Module (INFOR)
- Established Procurement Advisory Committee

Consultant Contracts Management Process

Key Performance Summary

FY 18-19 Contract Value	< \$225K	\$225K - \$1M	> \$1M	Total
Qty of Contracts	14	13	13	40
Value of Contracts	\$1.8M	\$6.8M	\$173.6M	\$182.2M
FY 19-20 Contract Value	< \$225K	\$225K - \$1M	> \$1M	Total
Qty of Contracts	30	14	11	55
Value of Contracts	\$6.9M	\$9.8M	\$42.5M	\$59.2M
FY 20-21 Contract Value	NTE \$50K	\$50K - \$225K	\$225K - \$1M	Total
Qty of Contracts	16	10	17	43
Value of Contracts	\$725K	\$2.2M	\$45M	\$47.9M
FY 21-22 Contract Value	NTE \$50K	\$50K - \$225K	\$225K - \$1M	Total
Qty of Contracts	41	9	7	57
Value of Contracts	\$2.1M	\$1.8M	\$16.5M	\$20.7M

Note: FY22 = Partial 7/1/21 - 1/26/22

Consultant Contracts Management Process

Key Performance Summary

FY 19-20 Amendment Value	\$0/Time Only	< \$225K	> \$225K	Total2
Qty of Amendments	15	8	22	45
Value of Amendments	\$0	1.2M	93.4M	\$94.6M
FY 20-21 Amendment Value	\$0/Time Only	< \$225K	> \$225K	Total
Qty of Amendments	33	9	9	51
Value of Amendments	\$0	\$1.8M	\$35.1M	\$36.8M
FY 21-22 Amendment Value	\$0/Time Only	< \$225K	> \$225K	Total
Qty of Amendments	32	3	5	40
Value of Amendments	\$0	\$649K	\$4.8M	\$5.4M

Note: FY22 = Partial 7/1/21 - 1/26/22

Current Average Processing Times

CONTRACT TYPE

PROCESSING TIME

- **Contracts <\$225K:** 3.2 months
- **Contracts between \$225K - \$1M:** 5.7 months
- **Contracts >\$1M: 30 weeks** 6.9 months
- **IT-related Contracts: 21-37 weeks** 4.8 to 8.5 months
- **Non-compete Contracts <\$50K: 5-6 weeks** 1.2 to 1.4 months
- **Single/Sole Source (no BOD, BOD): 10-19 weeks** 2.3 to 4.3 months
- **Time Only Amendments: 4-6** 1 to 1.4 months
- **Amendments <\$225K: 13 weeks** 3 months
- **Amendments > \$225K: 20 weeks** 4.6 months

* Processing time uses average of 4.35 weeks per month

Consultant Contracts Management Process Audit

Action Plan and Implementation

- Complete Procurement Manual and Desktop Procedure Manual (March '22)
- Continue staff training and development
- Complete key performance indicators
- Continue collaboration and communication districtwide through the Procurement Advisory Committee

Consultant Contracts Management Process

Audit Status

A status update will be provided on an annual basis to inform the Committee on key performance and completed improvements recommended in the 2015 Navigant Audit.

The next update will be in February 2023.

QUESTIONS



THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 22-0223

Agenda Date: 2/16/2022

Item No.: 4.6.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Second Quarter Fiscal Year 2021-22 Financial Status Update.

RECOMMENDATION:

Receive the second quarter Fiscal Year 2021-22 financial status update as of December 31, 2021.

SUMMARY:

Valley Water's second quarter Fiscal Year 2021-22 closed on December 31, 2021. The second quarter financial status update presentation (Attachment 1) summarizes cash and investment balances, the debt portfolio and includes a detailed comparison, and analysis, of the budget to actual status of revenues and expenditures for all funds as of December 31, 2021.

These financial statements have been prepared by Valley Water for informational purposes only and have not been audited by the external auditor. No party is authorized to disseminate these unaudited financial statements to the State Comptroller or any nationally recognized rating agency, nor are they authorized to post these financial statements on EMMA or any similar financial reporting outlets or redistribute the information without the express written authorization of the Chief Financial Officer of Valley Water. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water bonds, notes or other obligations and investors and potential investors should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the World Wide Web at <https://emma.msrb.org/>.

ATTACHMENTS:

Attachment 1: PowerPoint

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

THIS PAGE INTENTIONALLY LEFT BLANK

First Half FY2021-22 Mid-Year Financial Status Update

February 16, 2022

Agenda

2

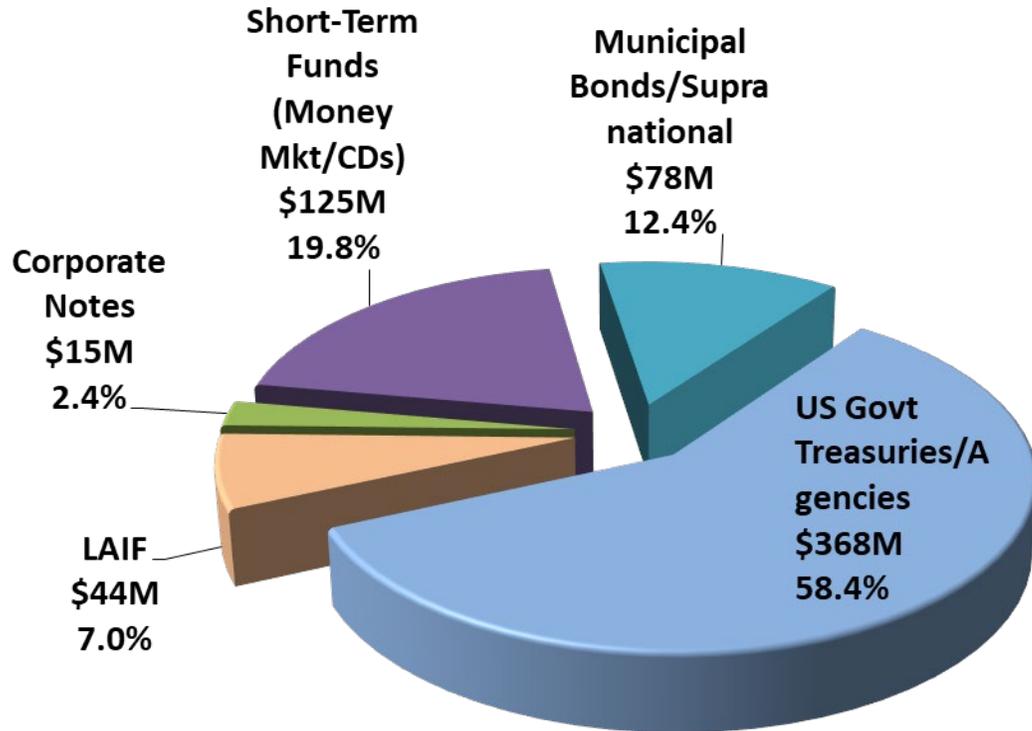
- **Financial Status**
 - **Cash and Investments**
 - **Debt Portfolio**
- **1H FY22 Financial Status Update**
 - **Revenue**
 - **Operating and Capital Expenditures**
 - **Reserves**

Financial Status Update – Cash & Investments

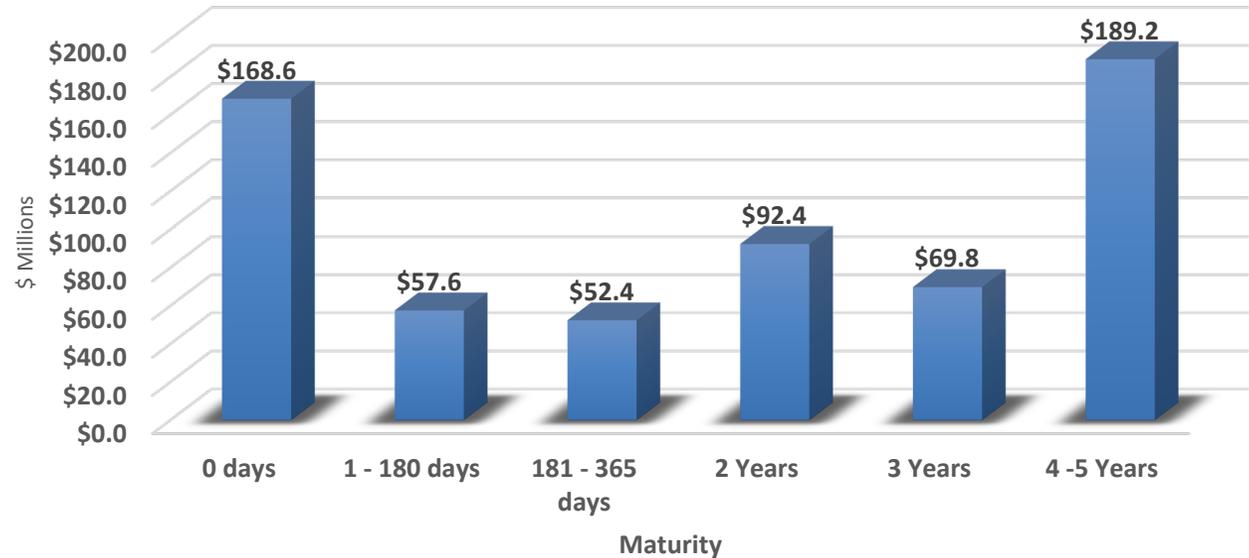
\$279M or 44% of portfolio very liquid (<1-year maturity)

3

Investment Portfolio Composition



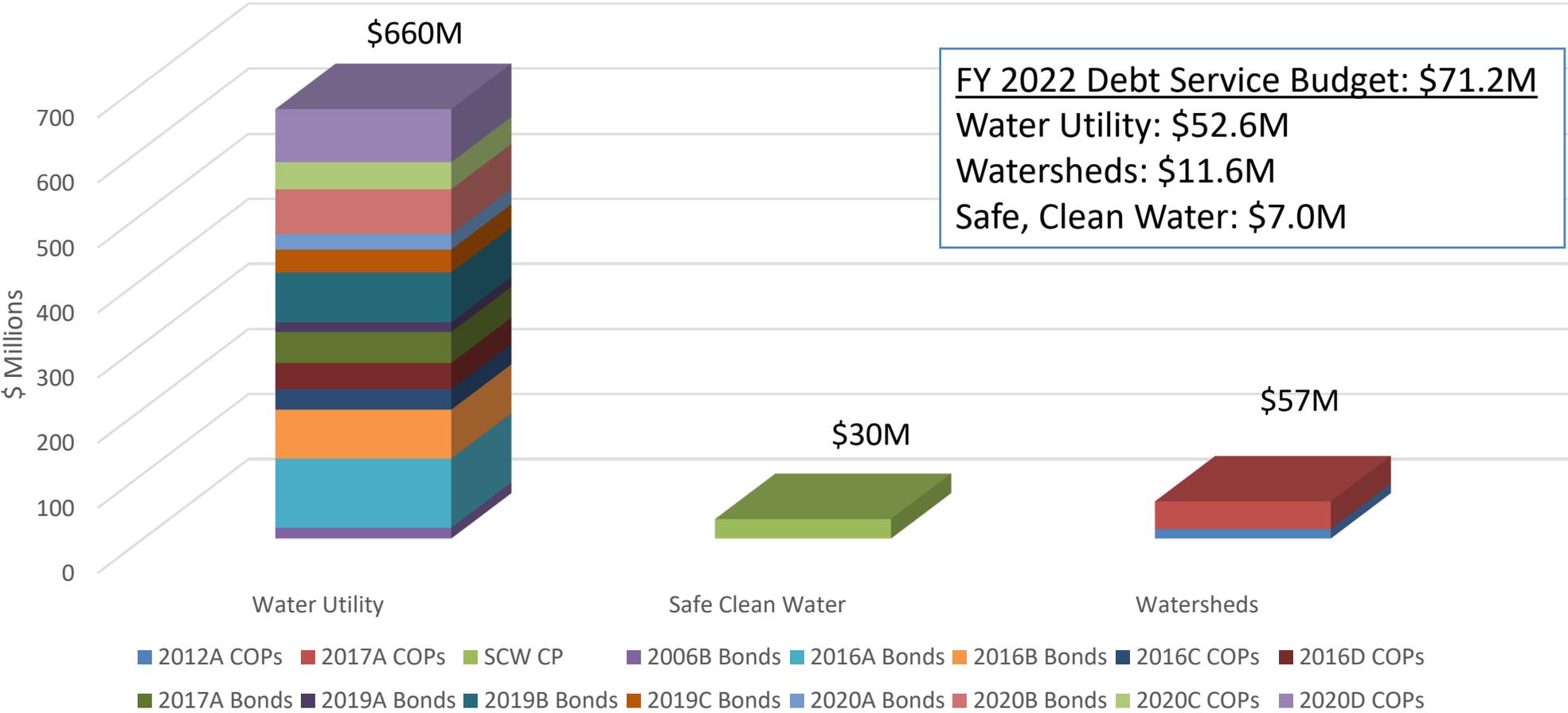
Valley Water Portfolio Aging Report December 31, 2021 Portfolio Book Value: \$630 Million



SCVWD Portfolio Book Value as of Dec 31, 2021: \$630,102,645

Financial Status Update - Outstanding Debt (12/31/21)

Total Outstanding Debt: \$747 Million



Financial Status Update – Debt Portfolio

Ample access to cash at low interest rates

\$320M short-term credit facilities

- \$150M Commercial Paper – ongoing program
- \$170M Bank Line of Credit (\$150M Lead + \$20M Small/Local)
 - US Bank Lead (\$150M), Community Bank of the Bay (\$5M), Bank of SF (\$7M), and First Foundation Bank (8M)

FY 2022 & FY 2023 Financing Plan

- Defease WU 2006B by June (~\$20M)
- Refund SCW and WU outstanding short-term debt by November 2022, pending CIP expenditures

WIFIA Loan Program Update: \$80M SCW + \$1.2B Pacheco

Mid-Year Revenue by Category and Fund

Majority of revenues are anticipated to end the year at budgeted estimates

6

(\$ in millions)	FY22 Adj Budget	1H FY22 Actuals	1H FY22 % Rec'd	1H FY21 Actuals	1H FY21 % Rec'd
Groundwater Production Charges	\$ 135.3	\$ 50.9	38%	\$ 51.9	41%
Treated Water Revenue	150.5	70.6	47%	78.3	57%
Surface/Recycled Water Revenue	2.8	0.1	2%	0.2	2%
1% Ad-valorem Property Tax	118.4	46.9	40%	44.2	40%
Safe Clean Water Special Parcel Tax	47.1	-	0%	-	0%
Benefit Assessment	13.4	-	0%	-	0%
State Water Project Tax	26.0	0.5	2%	0.7	4%
Capital Reimbursements	35.1	10.0	28%	5.1	12%
Interest Income & Other	10.8	7.8	72%	7.3	70%
Total Revenue	\$ 539.4	\$ 186.8	35%	\$ 187.7	37%

(\$ in millions)	FY22 Adj Budget	1H FY22 Actuals	1H FY22 % Rec'd	1H FY21 Actuals	1H FY21 % Rec'd
General Fund	\$ 10.0	\$ 4.7	47%	\$ 3.8	40%
Watershed Stream Stewardship Fund	123.4	44.7	36%	39.4	33%
Safe Clean Water Fund	56.2	5.0	9%	3.6	6%
Water Utility Enterprise Fund	335.9	132.0	39%	140.6	46%
Service Funds	0.4	0.4	100%	0.3	75%
Benefit Assessment Funds	13.5	-	0%	-	0%
Total Revenue	\$ 539.4	\$ 186.8	35%	\$ 187.7	37%

Observations

- 1H FY22 revenue was \$186.8M or 35% of FY22 Budget
- SCW Special Parcel, Benefit Assessment and State Water Project Tax revenues will be received in second-half of the fiscal year
- Groundwater production charges \$50.9M or 38% of Budget and \$1.0M lower than 1H FY21 actuals
- Treated water revenue \$70.6M or 47% of Budget and \$7.7M lower than 1H FY21 actuals
- Capital reimbursements of \$10.0M, which varies year-over-year depending on progress of grant-funded projects

valleywater.org



Mid-Year Operating and Capital Expenditures

Operating & Capital expenditures estimated to end FY within budgeted levels

7

valleywater.org

(\$ in millions)	FY22 Adj Budget	1H FY22 Actuals	1H FY22 % Spent	1H FY21 Actuals	1H FY21 % Spent
General Fund	\$ 76.5	\$ 36.3	47%	\$ 34.4	49%
Watershed Stream Stewardship Fund	68.6	32.3	47%	30.6	49%
Safe Clean Water Fund	30.2	8.8	29%	8.1	37%
Water Utility Enterprise Fund	299.4	155.8	52%	97.9	39%
Service Funds	34.8	13.2	38%	14.6	45%
Benefit Assessment Funds	11.2	1.2	11%	1.4	12%
Total Operating Expenditures	\$ 520.7	\$ 247.6	48%	\$ 187.0	42%

Note 1: Operating Adjusted Budget includes Adopted Budget and current year budget adjustments

Note 2: Budgetary basis Actuals includes actuals and encumbrances as of 12/31/21

Observations

- 1H FY22 Operating Expenditures of \$247.6M or 48% of FY22 Adjusted Budget
- Benefit Assessment Funds expenses occur in second half of fiscal year
- Safe Clean Water Fund expenses lower than budget due to delay in CP issuance and deferral of the 2022A bond issuance

(\$ in millions)	FY22 Adj Budget	1H FY22 Actuals	1H FY22 % Spent	1H FY21 Actuals	1H FY21 % Spent
General Fund	\$ 6.1	\$ 1.8	30%	\$ 0.7	23%
Watershed Stream Stewardship Fund	87.5	34.7	40%	12.6	17%
Safe Clean Water Fund	115.3	41.2	36%	46.5	39%
Water Utility Enterprise Fund	326.2	113.0	35%	67.9	34%
Service Funds	15.3	5.7	37%	2.0	11%
Total Capital Expenditures	\$ 550.4	\$ 196.4	36%	\$ 129.7	32%

Note 1: Capital Adjusted Budget includes Adopted Budget and prior year capital carryforward

Note 2: Budgetary basis Actuals includes actuals and encumbrances as of 12/31/21

- 1H FY22 Capital Expenditures of \$196.4M or 36% of Adjusted Budget; 4% higher as compared to the same period of FY21



Reserve Balances

Projected FY22 year-end reserve balances higher than Adopted Budget

(\$ in millions)	FY22 Adopted Budget	FY22 Estimate Year-end	Estimate vs Adopted
Restricted Reserves			
Safe Clean Water Fund	\$ 123.9	\$ 155.6	\$ 31.7
Water Utility Enterprise Fund	60.1	92.1	32.0
Restricted Subtotal	\$ 184.0	\$ 247.7	\$ 63.7
Committed Reserves			
General Fund	\$ 6.6	\$ 7.0	\$ 0.4
Watershed & Stream Stewardship Fund	74.3	117.1	42.8
Water Utility Enterprise Fund	56.7	87.0	30.3
Service Funds	14.7	18.9	4.2
Committed Subtotal	\$ 152.3	\$ 230.0	\$ 77.7
Total Reserves	\$ 336.3	\$ 477.7	\$ 141.4

Observations

- FY22 projected reserve balances at year-end \$477.7M, \$141.4M higher than Adopted Budget
- Safe Clean Water Fund reserve \$31.7M higher than FY22 Adopted Budget due to higher currently authorized capital projects reserve carried from FY21
- Watershed & Stream Stewardship Fund reserve \$42.8M higher than FY22 Adopted Budget due to higher Actual reserves balance in FY21 (\$38.9M) and higher FY22 Property Tax Revenue (\$3.2M)
- Water Utility Enterprise Fund reserve \$62.3M higher than FY22 Adopted budget due to higher Actual reserve balance in FY21 (\$88.6M) and increase in FY22 Debt Proceeds (\$12.0M) offset by a projected decrease in Water Revenue in FY22 (\$43M)



Mid-Year Financial Update Summary

9

- Will continue to monitor performance of revenues in second half of fiscal year
- Operating expenditures estimated to end FY within budgeted levels
- First half capital expenditures trending lower than budget
- Highlight any significant developments as well as identify any potential budget actions necessary in second half of fiscal year

THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 22-0226

Agenda Date: 2/16/2022

Item No.: 4.7.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Receive a Final Update on the Status of the Mitigation and Monitoring Compliance Audit Recommendation Implementation.

RECOMMENDATION:

Receive a final update on the status of the Mitigation and Monitoring Compliance Audit recommendation implementation.

SUMMARY:

In 2014, at the request of the CEO, an audit of Valley Water's compensatory mitigation and monitoring obligations, and compliance with those obligations was conducted. Panorama Environmental, Inc. was selected to conduct the audit and a benchmarking review to compare Valley Water's compensatory mitigation obligations to other similar public agencies. Panorama prepared a draft report in October 2014 and presented their findings to the Chiefs on November 10, 2014. A final report was received in January 2015.

The audit identified fifteen (15) recommendations grouped into three (3) main objectives. Fourteen (14) of the recommendations have been implemented. The remaining recommendation, Recommendation 2c, "Consolidate the mitigation tracking databases and include a GIS element" is expected to be fully implemented in the next couple of months.

On December 7, 2021, staff provided an update stating that the SMP is the primary mitigation database for Watershed O&M activities. The SMP database has been fully integrated with MAXIMO as of 06/2020. Current enhancement activities include development of geospatial data collection capabilities through Mobile Maximo, which is scheduled for completion in 2022. Development of a geospatial cloud application is underway and will allow internal and external users to access SMP historical data, perform regulatory approvals and access program reporting from a customizable user interface. This enhancement is scheduled to go live by May 2022. Additionally, a partnership agreement has been entered into with San Francisco Estuary Institute (SFEI) to develop a data transfer tool to allow the SMP database to share watershed data with the EcoAtlas platform. This will make much of the SMP data available to the public.

EcoAtlas is used by the San Francisco Bay Regional Water Quality Control Board and others.

Projects are more frequently required to enter key information, especially regarding mitigation on the EcoAtlas Project Tracker. EcoAtlas has become a consistent environmental permit requirement on Water Board Orders for Valley Water and all other applicants. Project Tracker includes geospatial (GIS) location. Capital projects each have multiple mitigation requirements, where EMMU monitors mitigation, enters information on Project Tracker, maintains an Excel file tracking mitigation monitoring report (MMR) deadlines and key staff, and manages compliance with the mitigation monitoring plans (MMPs) and environmental permit requirements. Thus, EcoAtlas has or is becoming the consolidated Valley Water database for mitigation.

Valley Water GIS continues to be the most comprehensive geo-spatial tool for staff, showing the location and extent of capital projects and SMP mitigation, including current and historic native plant mitigation sites, and continues to be updated with jurisdictional habitat mitigation sites as they are established. The SCVWD Native Plant Mitigation Sites GIS file is the source for entering projects onto EcoAtlas / Project Tracker.

Furthermore, in response to Recommendation 3c, "Increase collaboration between environmental units", Program/Environmental Permitting Coordination meetings have been held with key staff. The team met on 2/23/21 and 1/10/22 and will continue to meet on a periodic basis.

With the implementation of Recommendation 2c, all recommendations of the audit have been accomplished and is reflected in Attachment 1. At this meeting, the Committee will receive a final status on the implementation of audit recommendations from staff.

ATTACHMENTS:

Attachment 1: Recommendation Status Matrix

UNCLASSIFIED MANAGER:

Jennifer Codianne, 408-630-3876

John Bourgeois, 408-630-2990

Audit (Panorama) Recommendations	Response	Implementation Actions
1. Improve the mitigation measure and permit negotiation process		
Recommendation 1a: Revisit and implement previous recommendations made for the permit negotiation process.	Management agrees with this recommendation. Many of the recommendations in this audit are consistent with a previous evaluation report prepared by internal staff in 2002. In addition, there are findings in the 2002 report that are being addressed through the District's Master Planning efforts and the Ecological Monitoring and Assessment Program (EMAP). Also, reorganization of environmental staff, such as creation of the Environmental Mitigation & Monitoring Unit, and regular coordination meetings will assist in ensuring consistency and coordination among staff, units, and divisions.	To ensure consistency and coordination across the District as recommended in the previous permit negotiation process audit, environmental staff have been reorganized with the creation of the Environmental Mitigation & Monitoring Unit, regular permitting coordination meetings are held, multi-disciplinary water resources specialist quality control of permitting actions has been implemented, and District projects engage in early consultation with resource agency staff. In addition, there are findings in the 2002 report that are being addressed through One Water and the Ecological Monitoring and Assessment Program (EMAP), which has evolved into Safe, Clean Water, Project D5. Status: Complete 7/23/18
Recommendation 1b: Use an outside California Environmental Quality Act (CEQA) lawyer to review and negotiate mitigation measures, land management plans, and conservation easements to ensure the efficient, cost-effective, and timely completion of mitigation, land management plans, and conservation easements.	Management agrees with this recommendation. Using an outside CEQA attorney is appropriate in certain situations when negotiations are at an impasse or a legal interpretation of complex laws and regulations is needed. We do not agree that an outside CEQA attorney is necessary for every project. District counsel is able to respond to most staff requests for legal assistance and will obtain a legal opinion from outside counsel when necessary.	Office of District Counsel has existing legal services agreements with outside counsel who can provide assistance regarding CEQA and environmental permitting related issues as needed. Status: Complete 8/2/18
Recommendation 1c: The District environmental planners should negotiate permits with the regulatory agencies.	We agree with this recommendation with the additional comment that environmental planners should be the lead contact with the agencies during the negotiation process, but that permit negotiations are most successful when a multi-disciplinary team is involved with the negotiations. For example, biologists with specific expertise may be needed for negotiations involving ecological issues. To ensure consistency among staff and improve negotiation skills, we also recommend that training be provided to staff who will be negotiating permits.	Project teams with assigned environmental planners in the WUE and Watersheds planning units rely on environmental planners to lead a multi-disciplinary team through the permitting process, including negotiation of terms and conditions. Permit applications are routed through applicable decision-making staff using the green folder process. Training opportunities relevant to permitting actions are offered to staff as they arise Status: Complete 7/25/18
Recommendation 1d: Allow more time for permitting.	We agree with this recommendation. Project Managers should include an accurate schedule that includes time for	Ensure realistic timeframes for permitting are incorporated into project schedules by having Planning Units

Audit (Panorama) Recommendations	Response	Implementation Actions
	agency response and permit negotiations based on current experiences with permitting projects.	review and approve project schedules prior to finalizing. Incorporate into QEMS work instructions. Status: Complete 2/20/20
Recommendation 1e: Improve continuity in environmental participation from design phase through construction.	We agree with the “cradle to grave” concept, however; because of limited staff resources and the increasing number of capital projects, when an environmental planner and biologist complete CEQA and obtain permits for a project, they immediately are assigned to the next priority capital project or other priority project. To accomplish this, the Water Resources and Environmental Planning Units and Mitigation and Monitoring Unit would likely need to redirect staff to ensure that permit conditions and mitigation measures are implemented from project planning and design through construction, and finally mitigation monitoring and reporting. Alternately, capital construction inspectors could be trained to provide more oversight of environmental requirements during construction.	Require establishment of multidisciplinary project teams that include an environmental planner and biologist; ensure project team meetings are regularly scheduled and necessary team members are always invited; and both Watersheds and WUE have qualified construction inspectors assigned to construction projects through their completion. On April 11, 2019, Valley Water consolidated environmental services within the Watersheds Division with the goals to improve consistency, streamline environmental permitting, and foster a more coordinated approach to environmental stewardship. The design thru construction phases are the Watersheds Design & Construction (formerly Capital) and Water Utility Capital Divisions' responsibility with environmental support from the environmental planning unit, SMP unit, and environmental mitigation and monitoring unit Status: Complete 2/10/20
Recommendation 1f: Enhance on-site habitat; if not possible, fund habitat acquisition through a third-party.	Land acquisition mitigation was negotiated for the 2001 Stream Maintenance Program (SMP). Additional land acquisition may be needed to satisfy mitigation needs for SMP-2 and upcoming capital projects and meet the US Army Corps of Engineers requirement to mitigate using a mitigation bank. While we agree that third-party land management experts provide an ideal partnership, District staff will still need to take the lead on negotiating with the resource and regulatory agencies while enlisting the assistance of expert mitigation banking attorney and/or operator.	A consultant has been hired by the Environmental Mitigation & Monitoring Unit to explore options for future mitigation. SMP-1 land acquisition successfully completed. Status: Complete 7/24/18
2. Track impacts and mitigation implementation to avoid expending more than required on mitigation		
Recommendation 2a: Revisit and implement previous recommendations regarding tracking of mitigation activities consistently and in one database. • There are flaws in	The District currently has multiple databases that track varying levels of environmental permitting and CEQA requirements. The District Permit Management System (DPMS) was developed to track permit conditions and compliance with those conditions,	Valley Water currently has multiple databases that track varying levels of environmental permitting and CEQA requirements. The Environmental Monitoring - Information Management System (EM-IMS) is rapidly being developed to hold Valley Water's

Audit (Panorama) Recommendations	Response	Implementation Actions
<p>the District's tracking of mitigation monitoring activities and there is a need for better data management structures and procedures, including consistent staff access to monitoring data.</p>	<p>however; it is not used consistently, does not include a GIS element, and does not have a simple method for accessing mitigation monitoring data. We agree that there should be one District-wide database that tracks permit requirements including mitigation obligations. Additionally, there should be clear procedures and processes in place to ensure the database is effective and is utilized as intended.</p>	<p>environmental data, including mitigation and monitoring activities.</p> <p>Status: Complete 7/24/18</p>
<p>Recommendation 2b: Define actual impacts from previous projects and compare to mitigation implemented to determine whether excess mitigation is available for other projects.</p>	<p>Agreed. The District should be more proactive in pursuing mitigation credit when there is excess. A strong documented history of agency negotiation agreements and final accounting will be required to be able to make a strong case with the resource agencies. Capital projects are doing this to some extent when there is an obvious change to a project that results in fewer mitigation requirements. The Stream Maintenance Program -2 has a process in place to track and obtain credit for excess mitigation.</p>	<p>Watersheds permitting practices for capital projects focuses on appropriate performance-based mitigation. Final sign-off upon successful completion of mitigation consistent with approved mitigation plan requirements ensures mitigation value is appropriately documented.</p> <p>Status: Complete 7/25/18</p>
<p>Recommendation 2c: Consolidate the Mitigation Tracking Databases and include a GIS Element.</p>	<p>The District currently has multiple databases that track varying levels of environmental permitting and CEQA requirements. The District Permit Management System (DPMS) was developed to track permit conditions and compliance with those conditions, however; it is not used consistently, does not include a GIS element, and does not have a simple method for accessing mitigation monitoring data. We agree that there should be one District-wide database that tracks permit requirements including mitigation obligations. Additionally, there should be clear procedures and processes in place to ensure the database is effective and is utilized as intended.</p>	<p>SMP is the primary mitigation database for Watershed O&M activities. The SMP database has been fully integrated with MAXIMO as of 06/2020. Current enhancement activities include development of geospatial data collection capabilities through Mobile Maximo scheduled for completion in May of 2022. Development of a geospatial cloud application is underway and will allow internal and external users to access SMP historical data, perform regulatory approvals and access program reporting from a customizable user interface. This enhancement is scheduled to go live by May 2022. Additionally, a partnership agreement has been entered into with San Francisco Estuary Institute (SFEI) to develop a data transfer tool to allow the SMP database to share watershed data with SFRWQCB's EcoAtlas platform. This will make much of the SMP data available to the general public. EM-IMS is a non-SMP database for water temperature, Hg, wildlife, fisheries, and selected WUE biological surveys. The SCVWD Native Plant Mitigation Sites (GIS-based) continues to be updated with locations of jurisdictional habitat mitigation sites as they are established for capital projects.</p>

Audit (Panorama) Recommendations	Response	Implementation Actions
		<p>Capital projects each have multiple mitigation requirements (MMR). EMMU maintains an Excel file tracking mitigation monitoring reports, manages mitigation monitoring plan (MMP) and env permit requirements.</p> <p>Status: Complete May 2022</p>
<p>3. Improve District structure and procedures for permitting</p>		
<p>Recommendation 3a: The District should revisit and implement previous recommendations regarding improving staff collaboration:</p> <ul style="list-style-type: none"> the District needs qualified staff to integrate the District's monitoring efforts into a unified, efficient, and effective program the District lacks communication between engineering Project Managers and staff scientists. (see report for complete text) 	<p>Management agrees, in part to the statement that qualified staff are needed to integrate the District's monitoring efforts. While this was a recognized gap, the Environmental Mitigation and Monitoring Unit was created to address these issues specifically through the Environmental Monitoring and Assessment Program (EMAP). The Environmental Planning Unit has staff dedicated to efficient and consistent CEQA and permitting. Water Utility has begun permitting through the Valley Habitat Plan.</p> <p>Management agrees that better collaboration and communication can occur between engineering project managers and environmental planners and biologists. The sign off process identified as a need in Recommendation 1c will ensure that the appropriate disciplines are involved and concur with permit conditions.</p> <p>There is also a need for more collaboration between water utility and watershed staff. This is occurring more frequently through the permit coordination meetings and Regulatory Permit Strategy meetings.</p>	<p>The Environmental Planning Units have staff dedicated to efficient and consistent CEQA and permitting. Management agrees that better collaboration and communication can occur between engineering project managers and environmental planners and biologists. The sign off process identified in 1c ensures that the appropriate disciplines are involved and concur with permit conditions. There is also a need for more collaboration between water utility and watershed staff. A Watersheds and Water Utility team was established that discusses permitting issues quarterly</p> <p>Status: Complete 7/25/18</p>
<p>Recommendation 3b: Specify procedures for CEQA planners to conduct mitigation monitoring or reporting following completion of the CEQA document.</p>	<p>Management agrees with the "cradle to grave" concept, however; because of limited staff resources and the increasing number of capital projects, when an environmental planner completes CEQA and obtains permits for a project, they immediately are assigned to the next priority capital project. To accomplish this, and estimated two additional FTE's would be needed to ensure that permit conditions and mitigation measures are implemented from project planning and design through construction, and finally mitigation monitoring and reporting. The District has an ISO work instruction that identifies the process for conducting</p>	<p>Watersheds has implemented a "cradle to grave" staffing where planners remain engaged and act as environmental compliance leads for capital construction projects. Close coordination with project engineers, biologists, water quality specialists, inspectors, consultants, and contractors ensures compliance with permit conditions is maintained during construction to the maximum extent practicable. Watersheds Mitigation and Monitoring Unit manages compliance with mitigation monitoring and reporting activities.</p>

Audit (Panorama) Recommendations	Response	Implementation Actions
	mitigation monitoring or reporting as required by CEQA. It is the Biologists' responsibility in the Environmental Mitigation and Monitoring Unit to conduct all mitigation monitoring and reporting for District Programs. Management agrees that better communication and coordination should occur between the Planning and Biology Units to ensure that in addition to permit requirements; all CEQA requirements are met in the mitigation and monitoring phase of a project.	Status: Complete 7/25/18
Recommendation 3c: Increase collaboration between environmental units.	Agreed. This includes collaboration across Divisions and occurs in periodic permit coordination meetings and the Regulatory Permit Strategy Team.	A Watersheds and Water Utility team was established that discusses permitting issues quarterly. The cross-functional Program/Permit Coordination team last met on 2/23/21. Status: Complete 7/25/18
Recommendation 3d: Hold in-house training for CEQA and regulatory requirements and the District's mitigation and maintenance process.	Agreed. The District has held on site CEQA training for environmental staff through the Association of Environmental Planners for the past 12 years, however; these trainings are focused on environmental professionals. Additional training to engineers, construction inspectors, and other non-environmental professionals should be conducted so there is a general understanding of environmental laws and regulations and the consequences of non-compliance as well as increase environmental proficiency overall. Additionally, participation in these classes would help foster collaboration among staff.	Basic and advanced CEQA training offered annually in partnership with the Association of Environmental Professionals. A Waters Permitting Guide has been produced and distributed to train non-environmental professionals on typical regulatory requirements. Additionally, water resources specialists provide guidance on an individual basis as teams proceed through the planning process Status: Complete 7/25/18
Recommendation 3e: Future SMPs should define a process similar to the Sonoma County Water Agency SMP where interim agency authorizations are not required, in order to function more like a program.	We agree that the SMP no longer functions as a "program". SMP staff is working with the regulatory agencies to streamline the notification and reporting process. Additionally, a team should be formed, including a regulatory legal expert to identify strategies for the next SMP permitting cycle.	The District is currently in negotiations with state and federal regulatory agencies to update several of the SMP permits. (While the program has a ten year term, several permits can only be issued for 5 years – USACOE, RWQCB, BCDC). As part of this renegotiation process, District staff has benchmarked process and reporting requirements with several other agencies including Sonoma County Water Agency. In addition, staff has worked with the General Counsel's Office to secure the services of an outside counsel with permitting and regulatory expertise (Nossaman LLP). Since several other of the SMP permits have ten year terms (CDF&W, USF&W, NMFS) the District will be required to continue with an annual authorization

Audit (Panorama) Recommendations	Response	Implementation Actions
		<p>process. However, District staff is working with all regulatory agencies to streamline and simplify the process to reduce the scope of the annual submittal process and shorten the required review period.</p> <p>Since major changes to the agency authorization process won't be able to be implemented until 2023 (when the next ten year program would begin), this recommendation is considered implemented.</p> <p>Status: Complete 8/7/18</p>
<p>Recommendation 3f: The District should close out mitigation for projects that have been completed.</p>	<p>We agree that District should receive formal "sign off" from the agencies when mitigation projects are completed and have met success criteria. When projects are completed, staff notifies the agencies and requests approval to close out the monitoring effort for that particular site. Many times the agencies do not respond to these requests. Internal records are kept to document that mitigation requirements have been met and the agencies have been notified, however; this information should be tracked in a central database.</p>	<p>Ensure that all completed mitigation projects have documented concurrence from relevant agencies or that records are kept documenting notification to the agencies.</p> <p>Status: Complete 7/24/18</p>



Santa Clara Valley Water District

File No.: 22-0219

Agenda Date: 2/16/2022

Item No.: 4.8.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Discuss the 2022-2024 Annual Audit Work.

RECOMMENDATION:

Discuss the 2022-2024 Annual Audit Work Plan.

SUMMARY:

On December 15, 2021, TAP International, Inc. (TAP) presented the 2021 Risk Assessment analysis to the Board Audit Committee (BAC) assessing operational risks to the Santa Clara Valley Water District ("Valley Water"). The Risk Assessment analysis helped to develop heat maps of Valley Water operational areas based on risk impact (low, moderate, and high risk). The results of the risk assessment included input from Valley Water's Board of Directors (the Board), executives, and management and was used to help develop the 2022-2024 Annual Audit Work Plan (Attachment 1).

On January 11, 2022 the proposed 2022-2024 Annual Audit Work Plan was approved by the Board. At its January 19th meeting the BAC identified 3 areas of interest to be considered as the first audit to be conducted: 1) ID #1, CIP Process; 2) ID #3, Emergency Response; and 3) ID #6, Data Management. Throughout the discussion the CIP Process seemed to be the most critical area of risk.

The Chief Audit Executive (CAE), George Skiles of Sjoberg Evashenk Consulting, Inc. (Sjoberg), stated that having a conversation with each Director would help him to understand their perspective on risk to Valley Water. Also, the committee stated that it would like to understand how soon audits for ID #3 and #6 could be conducted.

The purpose of this agenda item is to provide the BAC with a proposed schedule to conduct audits in 2022.

MILESTONE	TIMELINE											
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
CIP Process												
Emergency Response												
Data Management												

ATTACHMENTS:

Attachment 1: 2022-2024 Annual Audit Work Plan

Attachment 2: CIP Performance Audit Scope

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



TAPInternational

FY 2022-2024 Annual Audit Work Plan

November 10, 2021

Final

ANNUAL AUDIT WORK PLAN

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

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

Audits can:

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

The types of audits that can be conducted include:

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

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

SECTION A

ONGOING SUPPORT SERVICES AND SPECIAL PROJECTS

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

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

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

SECTION B

AUDIT SERVICES – INDEPENDENT AND ON-CALL AUDITORS

Labor Summary

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

Recommended Audits

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

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

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

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

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

					for reimbursement by awarding state agencies?
9	Plan Monitoring	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Human Resources Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. What progress has been made in implementing existing workforce development and succession planning plans? 2. What evidenced-based factors have been significant in facilitating the hiring of technical and operational staff? 3. To what extent have position descriptions and classification evolved to ensure that Valley Water has the technical capability to meet future demands to solve complex problems in an agile and creative manner?
10	Aging Infrastructure Detection Aging Infrastructure Monitoring	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	Asset Management	Cross-Functional Performance Audit	<ol style="list-style-type: none"> 1. To what extent do Valley Water divisions and units ensure compliance to specification standards to prevent substandard replacements of parts, equipment, and capital assets? 2. Is Valley Water adequately meeting the needs of equipment maintenance?
11	Data Accuracy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Unmetered Groundwater Measurement	Desk Review	<ol style="list-style-type: none"> 1. Is the methodology supporting unmetered groundwater usage measurement valid and include all applicable methodological assumptions?
12	CIP Planning Process Financial Management	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Reputational <input type="checkbox"/> Operational	Capital Project Budgeting	Performance Audit	<ol style="list-style-type: none"> 1. Are there areas of Valley Water's capital project budgeting practices that can benefit from adopting best practices?
13	IT Security Management	<input type="checkbox"/> Financial <input type="checkbox"/> Reputational <input checked="" type="checkbox"/> Operational	SCADA	Performance Audit	<ol style="list-style-type: none"> 1. What is the status of implementation of prior audit recommendations? 2. Will the recommendations as implemented by Valley Water accomplish intended goals and objectives?

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

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

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

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

for contracting external legal services?

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

SECTION C

AUDIT SERVICES – VALLEY WATER RESPONSIBILITY

QEMS ACTIVITIES

Under development

COMPLIANCE AND FINANCIAL AUDITS

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

SANTA CLARA VALLEY WATER DISTRICT

Audit Scoping Document

2022 Audit Plan Item

Review of Valley Water's Capital Project Planning Process.

Audit Objectives

To evaluate the capital project planning process employed by Valley Water to determine the extent to which the process is consistent with relevant requirements, policies, and best practices.

Audit Scope

Valley Water activities associated with planning, developing, executing, and monitoring the Capital Improvement Program.

Audit Approach

Phase I—Audit Planning

- Through interviews, document review, and system and process walk-throughs, gain an understanding of Valley Waters procedures and activities related to its CIP.
- Obtain and review criteria relevant to Valley Water's capital project planning process, including statutes, Board policies, management policies and procedures, and best practices.
- Identify roles and responsibilities of key departments, units, and staff in planning, developing, executing, and monitoring the CIP.

Phase II—Audit Fieldwork

- Assess the processes employed to identify projects for inclusion on the CIP, update the CIP, and to prioritize projects to ensure practices are in-line with the Board's intent and goals for the CIP. This includes evaluating aging infrastructure and condition assessments, system monitoring and detection systems, internal and external stakeholder input, Board priorities, and long-term planning.
- Identifying protocols employed to identify and secure funding sources to implement the CIP, including grant funding and administration, rate setting, financing,
- Map out the CIP cycle, identifying key parties involved and business processes; identify the time and resources required for each step in the process (depending on information available), as well as potential gaps, inefficiencies, or opportunities for improvement.
- Evaluate historic trends relating to the CIP, including target start and completion dates, project budgets, and project goals, and compare to actual results; evaluate metrics established to define and evaluate project success or measure program performance.
- Evaluate Valley Water's protocols for monitoring the CIP program, project delivery, project outcomes, and overall performance.
- Evaluate Valley Water's processes for implementing the CIP, including its approach to project delivery. Determine whether Valley Water's project management functions (including contract oversight, contract monitoring, and accurate payment of contract invoices) are performed effectively to ensure that projects are completed on time, on budget, and in the most economical way practicable. This includes project strategy, organization, and administration; project financial

SANTA CLARA VALLEY WATER DISTRICT Audit Scoping Document

management, procurement management, project controls and risk management, change order management, and schedule management. Based on a sample of past capital projects, this includes assessing whether:

- The solicitation and award of contracts comply with Valley Water policies.
- Project contractors comply with service delivery requirements in their contracts.
- Project contractors submit complete, accurate, and timely claims that comply with contract provisions, and that costs were reasonable for the services provided.
- Change order management is consistent with best practices to control costs.
- Assess the practices and policies employed by the contractor to control costs, effectively manage projects, identify key budget and performance indicators—such as schedule/milestones, costing, change order management, etc.—designed to limit cost overruns and scheduling delays.
- Conduct benchmarking research to identify best practices in CIP planning and monitoring among large water districts and public works agencies in California. Compare results with practices observed at Valley Water, and identify potential opportunities for improvement.

Phase III—Reporting

- Develop Draft Report
- Develop Final Report

Proposed Project Budget & Schedule

	Partner	Director	Sr. Consultant	Associate Consultant	Total Hours	Total Cost
<i>HOURLY RATE:</i>	\$230	\$180	\$115	\$90		
Task Description						
Project Initiation & Planning	45	45	45		135	\$23,625
Fieldwork	40	150	200	160	550	\$73,600
Draft & Final Report	60	35			95	\$20,100
<i>Total Hours</i>	145	230	245	160	780	
Total Project Costs						\$117,325

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



Santa Clara Valley Water District

File No.: 22-0221

Agenda Date: 2/16/2022

Item No.: 4.9.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Review and Discuss the 2022 Board Audit Committee Work Plan.

RECOMMENDATION:

Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan.

SUMMARY:

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

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

The proposed 2022 BAC Work Plan (Attachment 1) reflects the standing topics discussed every year, efforts still under way from 2021, and topics identified specifically for discussion in 2022.

Upon review, the BAC may make changes to be incorporated into the next revision. At this time, the BAC is requested to approve the proposed 2022 BAC Work Plan and identify changes that will be incorporated into the next version.

ATTACHMENTS:

Attachment 1: Proposed 2022 BAC Work Plan

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

THIS PAGE INTENTIONALLY LEFT BLANK

BOARD AUDIT COMMITTEE 2022 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		19-Jan	16-Feb	16-Mar	20-Apr	18-May	15-Jun	20-Jul	17-Aug	21-Sep	19-Oct	16-Nov	21-Dec	
Board Audit Committee Meeting Dates														
	Number of Agenda Items per Meeting Date	8	10	6	5	5	3	4	7	5	2	6	4	Note: For informational purposes only.
	Meeting Dates	•	•	•	•	•	•	•	•	•	•	•	•	Note: The BAC approved a regular meeting schedule for 2022, to meet monthly, on the third Wednesdays at 2:00 p.m.
Board Audit Committee Management														
1	Election of 2022 BAC Chair and Vice Chair		•											Recommendation: Nominate and elect the 2022 Board Audit Committee Chair and Vice Chair.
2	Board Audit Committee Audit Charter		•											Recommendation: Propose modifications to the Board Audit Committee Audit Charter to be presented to the full Board.
3	Review and Update 2022 BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	Recommendation: A. Review and Discuss topics of interest raised at prior Board Audit Committee Meetings and make any necessary adjustments to the Board Audit Committee Work Plan; and B. Approve the updated 2022 Board Audit Committee Work Plan.
4	Discuss Scope of Annual Audit Training from Board Independent Auditor				•									Recommendation: Discuss scope of Annual Audit Training from Board Independent Auditor.
5	Receive Annual Audit Training from Board Independent Auditor					•								Recommendation: Receive Annual Audit Training from Board Independent Auditor.
6	Conduct Annual Self-Evaluation	•		•	•									Recommendation: A. Conduct Annual Self-Evaluation; and B. Discuss the Results of the Annual Self-Evaluation; and C. Prepare Formal Report to provide to the full Board. Note: Jan = Discuss the Eval and provide forms; Feb = Discuss the results of the Eval; Mar = Provide a Summary Report of Evals; Apr = Present Eval Results to Full Board
7	Discuss Chief Audit Executive (CAE) Final Contract Close-out Report from TAP International, Inc. (Jan 2022) Receive and Discuss CAE Activity Report to Evaluate Auditor Performance (Starting in Jan 2023)	•												Recommendation for 2022: Receive Final Contract Close-out Report from TAP International, Inc. Recommendation for 2023: Receive and discuss CAE Activity Report from Sjoberg Evashenk to evaluate CAE Performance.

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

BOARD AUDIT COMMITTEE 2022 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		19-Jan	16-Feb	16-Mar	20-Apr	18-May	15-Jun	20-Jul	17-Aug	21-Sep	19-Oct	16-Nov	21-Dec	
8	Discuss Extension or Termination of Board Chief Audit Executive (CAE) Contract for Board Independent Auditing Services Prior to Expiration of the Agreement around December 2024													Recommendation: A. Discuss option to extend Board Independent Auditor Contract with TAP International, Inc. for Board Independent Auditing Services currently scheduled to expire effective June 30, 2022; and B. Approve recommendation to the full Board to: 1. Allow the expiration of the Board Independent Auditor Contract with TAP International; or 2. Exercise option to extend Board Independent Auditor Contract with TAP International, Inc. Note: Agreement effective date was 12/27/21 or 1/1/22.
9	Chief Audit Executive - Request for Proposal: Review Panel (Apr 2024)													Note: Review Panel for the role of the Chief Board Auditor will be the BAC members
10	Tri-annual Risk Assessment (CY 2024)													Recommendation: Discuss the scope of work for the 2024 Risk Assessment. Note: Initiate discussions in February 2024; Deliverable due by September 2024
Board Audit Committee Special Requests														
11	External Financial Auditor Meeting with Individual Board members													Note: Schedule as needed.
12	Provide status report to full Board quarterly			•									•	Note: Report to be provided to Board in non-agenda the month after each BAC meeting.
13	Risk Management Organization				•									Note: In October 2021 The BAC suggested pushing discussion on this topic out a few months to allow new District Counsel time to ascertain effectiveness of current organizational structure (assume April 2022). Recommendation: Review and discuss Risk Management Organization.
14	Financial Auditor Selection Parameters	•	•											Recommendation: Discuss prior to the selection of the next financial auditor Note: Next procurement scheduled for January 2022.
Management and Third Party Audits														
15	Review Draft Audited Financial Statements												•	Recommendation: A. Review draft Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2022; and B. Direct staff to have Financial Auditor to contact Board Members and present, if necessary. Note: This is a Nov. agenda item

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

BOARD AUDIT COMMITTEE 2022 WORKPLAN

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

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

BOARD AUDIT COMMITTEE 2022 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		19-Jan	16-Feb	16-Mar	20-Apr	18-May	15-Jun	20-Jul	17-Aug	21-Sep	19-Oct	16-Nov	21-Dec	
25	Review Pacheco Project Investigation Progress Report		•										Recommendation: Receive an update on the status of the on-going investigation. Note: Work with District Counsel on this item	
Audit - To Be Determined														
26	Receive notification of initiated Audit												Note: Audit Objectives - What is the objective of this audit?	
27	Review Audit Progress Report												Recommendation: Receive an update on the status of the on-going audit.	
28	Review Audit Draft Report Presentation												Recommendation: Receive and discuss the Final Draft Audit Report.	
29	Review Management's Response to Audit Final Draft Report												Recommendation: A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Authorize staff work with the CAE to finalize the Audit Report and present it to the Board of Directors.	
Management Audits - PMA, MGO, and 3rd Party Items														
Audit - 2014 Transparency Compliance Audit														
30	Recommendation Implementation Status (Annual Rpt. in November; Target Completion = TBD)											•	Recommendation: Receive and discuss a status update on the implementation of audit recommendations.	
Audit - 2015 Mitigation and Monitoring Compliance Audit														
31	Recommendation Implementation Status (Annual Rpt. in January; Target Completion = TBD)		•										Recommendation: Receive and discuss a status update on the implementation of audit recommendations.	
Audit - 2015 Consultant Contracts Audit														
32	Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. and the Consultant Contracts Improvement Process.		•						•				Note: Staff CAS update every 6 months. Recommendation: Receive and discuss a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and on the Consultant Contracts Improvement Process.	
Audit - 2019 Lower Silver Creek Audit														
33	Recommendation Implementation Status (Annual Rpt. in February; Target Completion = TBD)			•									Recommendation: Receive and discuss a status update on the implementation of audit recommendations.	
Audit - 2022 Human Resources Audit														
34	HR Audit Report - Review and Comment regarding Management's Response	•											Recommendation: Receive and discuss a status update on the implementation of audit recommendations.	
QEMS Improvements Implementation														
35	Recommendation Implementation Status (Annual Rpt. in August; Target Completion = TBD)								•				Recommendation: Receive and discuss a status update on the implementation of audit recommendations.	
Miscellaneous BAC Work Plan Items														

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

BOARD AUDIT COMMITTEE 2022 WORKPLAN

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		19-Jan	16-Feb	16-Mar	20-Apr	18-May	15-Jun	20-Jul	17-Aug	21-Sep	19-Oct	16-Nov	21-Dec	
36	Financial Status - Quarterly Update		•			•			•			•		<p><u>Note:</u> suggested frequency is as follows: February for mid-year review; May for Q3 review; September for unaudited close; November for Q1 review</p> <p>Schedule as needed</p> <p><u>Recommendation:</u> Discuss the Financial Audit</p> <p>Added per Darin's comments at the 12/15/21 BAC Meeting</p> <p><u>Recommendation:</u> Receive and Discuss the SBCCC Partnership Grant Issue</p>
37	Financial Audit - Periodic Update						•							
38	SBCCC Partnership Grant Issue	•												

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

THIS PAGE INTENTIONALLY LEFT BLANK



Santa Clara Valley Water District

File No.: 22-0251

Agenda Date: 2/16/2022
Item No.: 4.10.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

SUBJECT:

Financial Auditor Selection Process Discussion (Continued from January 19, 2022).

RECOMMENDATION:

Approve staff recommendations to be incorporated into the Financial Auditor selection process.

SUMMARY:

Per the Board Audit Committee (BAC) Audit Charter, Article 8, regarding the annual financial statement audit, "The Committee shall participate in Valley Water's procurement process for Valley Water's annual financial statement audit. The Committee's participation shall include, but not be limited to, providing input to Valley Water management on the selection criteria and desired qualifications of the public accounting firm. The selected external financial auditor shall submit to the Committee Valley Water's audited financial statements annually, including all related management letters to the Committee for review and comment."

Valley Water staff will be initiating a solicitation to put a new financial auditor in place by the summer of 2022. Based on the discussion on this topic at the January 19, 2022 BAC meeting, staff recommends the following actions be incorporated into the solicitation process:

1. Incorporate the following language into the minimum qualifications noted in the Request for Proposal (RFP):
 - Experience conducting financial audits of other public utilities and districts within California of a similar size or larger than Valley Water (.e.g. revenue, assets, customers, etc.)
2. The RFP is currently being drafted. When ready, staff will provide the draft experience and minimum requirements portions of the RFP to committee members for their input.
3. Extend special invitations to financial audit firms that currently serve large California water utilities or special districts to submit proposals to Valley Water's forthcoming RFP. The financial

audit firms serving several large public utilities in California are listed below:

- Metropolitan Water District: KPMG
- San Francisco PUC: KPMG
- East Bay MUD: LSL (Lance, Soll & Lunghard)
- Orange County Water District: CliftonLarsonAllen
- San Diego County Water Authority: Davis Farr
- Sacramento Municipal Utility District: Baker Tilly
- Zone 7 Water Agency: The Pun Group

ATTACHMENTS:

None

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068