



Santa Clara Valley Water District Board Audit Committee Meeting

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

2:00 PM REGULAR MEETING AGENDA

Wednesday, February 19, 2020
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
Nai Hsueh, Vice Chair, District 5
Gary Kremen, District 7

All public records relating to an item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body will be available for public inspection at the Office of the Clerk of the Board at the Santa Clara Valley Water District Headquarters Building, 5700 Almaden Expressway, San Jose, CA 95118, at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to attend Board of Directors' meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 265-2600.

DARIN TAYLOR
Committee Liaison

MAX OVERLAND
Assistant Deputy Clerk II
Office/Clerk of the Board
(408) 630-2749
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Note: The finalized Board Agenda, exception items and supplemental items will be posted prior to the meeting in accordance with the Brown Act.

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**Santa Clara Valley Water District
Board Audit Committee
2:00 PM REGULAR MEETING
AGENDA**

Wednesday, February 19, 2020

2:00 PM

Headquarters Building Conference Room A-124

1. CALL TO ORDER:

1.1. Roll Call.

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

Notice to the public: This item is reserved for persons desiring to address the Committee on any matter not on this agenda. Members of the public who wish to address the Committee on any item not listed on the agenda should complete a Speaker Form and present it to the Committee Clerk. The Committee Chair will call individuals in turn. Speakers comments should be limited to three minutes or as set by the Chair. The law does not permit Committee action on, or extended discussion of, any item not on the agenda except under special circumstances. If Committee action is requested, the matter may be placed on a future agenda. All comments that require a response will be referred to staff for a reply in writing. The Committee may take action on any item of business appearing on the posted agenda.

3. APPROVAL OF MINUTES:

3.1. Approval of Minutes.

[20-0066](#)

Recommendation: Approve the minutes.

Manager: Michele King, 408-630-2711

Attachments: [Attachment 1: 121619 BAC Minutes](#)
[Attachment 2: 012220 BAC Minutes](#)

Est. Staff Time: 5 Minutes

4. ACTION ITEMS:

4.1. Election of 2020 Board Audit Committee Vice Chair.

[20-0228](#)

Recommendation: Nominate and elect the 2020 Board Audit Committee Vice Chair.

Manager: Michele King, 408-630-2711

Est. Staff Time: 5 Minutes

- 4.2. Approve the Auditor Response to Final Draft Management Response for the Contract Change Order Audit for Presentation to the Full Board. [20-0188](#)

Recommendation: A. Receive and discuss the Auditor Response to the Final Draft Management Response to Draft Contract Change Order Audit Report; and
 B. Approve the Final Draft Audit Report and Management Response for the Contract Change Order Audit and direct staff and TAP International, Inc. to present to the Full Board at a future Board meeting.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: Auditor Response to CCO Audit Mgmt Response](#)

Est. Staff Time: 10 Minutes

- 4.3. Discuss the Options to Extend, Allow to Expire, or Terminate the Board Independent Auditing Services Agreement, with TAP International, Inc., Set to Expire Effective May 8, 2020. [20-0210](#)

Recommendation: A. Discuss options to extend, allow to expire, or terminate Board Independent Auditing Services Agreement with TAP International, Inc. for Board Independent Auditing Services currently scheduled to expire effective May 8, 2020; and
 B. Approve recommendation to the full Board to:
 i. Exercise option to extend Board Independent Auditing Services Agreement with TAP International, Inc. for one year and increase the not-to-exceed amount by \$600,000 from \$1,005,000 to \$1,605,000;
 ii. Allow the expiration of the Board Independent Auditing Services Agreement with TAP International; or
 iii. Exercise option to terminate the Board Independent Auditing Services Agreement with TAP International, Inc. prior to the expiration date of May 8, 2020.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: FY2020 Procurement Year-end Deadlines](#)

Est. Staff Time: 5 Minutes

- 4.4. Conduct Annual Self-Evaluation. [20-0186](#)
- Recommendation: A. Conduct Annual Self-Evaluation; and
B. Prepare Formal Report to Provide to the Full Board.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: BAC Self-Evaluation Framework](#)
- Est. Staff Time: 10 Minutes
- 4.5. Review and Approve the Updated 2020 Board Audit Committee (BAC) Work Plan. [20-0187](#)
- 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 2020 Board Audit Committee Work Plan.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: 2020 BAC Work Plan](#)
- Est. Staff Time: 5 Minutes

5. INFORMATION ITEMS:

- 5.1. Receive and Discuss Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance. (Continued From January 22, 2020) [20-0176](#)
- Recommendation: Receive and Discuss Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: SCVWD Independent Auditor Annual Performance](#)
- Est. Staff Time: 10 Minutes
- 5.2. Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract with TAP International, Inc. (Continued from January 22, 2020) [20-0177](#)
- Recommendation: Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract with TAP International, Inc.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: Financial Analysis](#)
- Est. Staff Time: 10 Minutes

- 5.3. Board Independent Auditor Annual Audit Work Plan - TAP International, [20-0202](#)
Inc.
Recommendation: Discuss the Annual Audit Work Plan and update, if necessary.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: Annual Audit Work Plan](#)
Est. Staff Time: 5 Minutes
- 5.4. Receive an Update on the Status of the District Counsel Audit. [20-0189](#)
Recommendation: Receive an update on the status of the on-going District Counsel Audit.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: Distrct Counsel Audit Progress Report](#)
Est. Staff Time: 5 Minutes
- 5.5. Receive an Update on the Status of the Real Estate Audit. [20-0190](#)
Recommendation: Receive an update on the status of the on-going Real Estate Audit.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: Real Estate Audit Progress Report](#)
Est. Staff Time: 5 Minutes
- 5.6. Receive an Update on the Status of the Grant Management Ad-hoc Desk [20-0207](#)
Review.
Recommendation: Receive an update on the status of the on-going Grant Management Ad-hoc Desk Review.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: Grant Management Ad-hoc Desk Review](#)
Est. Staff Time: 5 Minutes
- 5.7. Receive an Update on the Status of the Hiring Practices Ad-hoc Desk [20-0208](#)
Review.
Recommendation: Receive an update on the status of the on-going Hiring Practices Ad-hoc Desk Review.
Manager: Darin Taylor, 408-630-3068
Attachments: [Attachment 1: Hiring Practice Ad-hoc Desk Review](#)
Est. Staff Time: 5 Minutes

- 5.8. Receive an Update on the Status of the Board Agenda Preparation Ad-hoc Desk Review. [20-0209](#)
- Recommendation: Receive an update on the status of the on-going Board Agenda Preparation Ad-hoc Desk Review.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: Board Agenda Preparation Ad-hoc Desk Review](#)
- Est. Staff Time: 5 Minutes

- 5.9. Discuss Potential Recommendation to Board to Authorize Release of Attorney-Client Privileged Documents to Board Independent Auditor. [20-0224](#)
- Recommendation: Discuss Potential Recommendation to Board to Authorize Release of Attorney-Client Privileged Documents to Board Independent Auditor.
- Manager: Darin Taylor, 408-630-3068
- Est. Staff Time: 5 Minutes

6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

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

7. ADJOURN:

- 7.1. Adjourn to Regular Meeting as Set by the Committee.

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Santa Clara Valley Water District

File No.: 20-0066

Agenda Date: 2/19/2020
Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Approval of Minutes.

RECOMMENDATION:

Approve the minutes.

SUMMARY:

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

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

ATTACHMENTS:

Attachment 1: 121619 BAC Minutes

Attachment 2: 012220 BAC Minutes

UNCLASSIFIED MANAGER:

Michele King, 408-630-2711

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BOARD AUDIT COMMITTEE MEETING

MINUTES

Monday, December 16, 2019
11:0 AM

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A regular meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee) was called to order in the District Headquarters Conference Room A-124, 5700 Almaden Expressway, San Jose, California, at 11:00 AM.

1.1 Roll Call.

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

Staff members in attendance were A. Blackmon, T. Bramer, G. Del Rosario, T. Esch, R. Fuller, C. Hakes, F. Hernandez, B. Hopper, M. Meredith, D. Taylor, S. Tran, K. Yasakawa, and T. Yoke.

Also in attendance were D. Callahan, TAP International, Inc. (TAP), and D. Alvey, Maze and Associates.

2. TIME OPEN FOR PUBLIC COMMENT:

2.1 Time Open for Public Comment on any Item not on the Agenda.

Chairperson Keegan declared time open for public comment on any Item not on the agenda. There was no one present who wished to speak.

3. APPROVAL OF MINUTES

3.1 Approval of Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the November 18, 2019, meeting. It was moved by Director Hsueh, seconded by Director Kremen, and unanimously carried that the minutes be approved.

4. ACTION ITEMS

4.1 Valley Water Comprehensive Financial Report for the Fiscal Year Ending on June 30, 2019.

Recommendation: Discuss the Valley Water Comprehensive Annual Financial Report (CAFR) for the Fiscal Year (FY) Ending June 30, 2019, that staff will be recommending for Board acceptance and provide direction as needed.

Mr. Darin Taylor, Chief Financial Officer, and Ms. Gloria Del Rosario, Accounting Manager, reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action and requested the following:

- Staff to investigate 1 per cent flood capacity channels;
- Staff to strike the following text in Supplemental Attachment 1, Page 3, Paragraph 6 ***“tests results showed that highly purified water produced from treated wastewater is just as safe to drink as regular tap water.”***;
- Staff to correct references for Cities versus Towns;
- Remove/Change “All Reasonable Measures” from the text; and
- Implement software that conducts actuarial studies on pension liability.

4.2 Develop the 2020 Board Audit Committee Work Plan.

Recommendation: A. Provide feedback and approve the 2020 Board Audit Committee Work Plan; and
B. Confirm 2020 Board Audit Committee monthly meeting schedule selecting the third Wednesday of each month beginning at 12:00 p.m.

Mr. Taylor reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action and requested the following:

- The Committee approved, without formal action, to meet on the third Wednesday of each month, except January 22, 2020, at 12:00 p.m.; and
- The Committee Chair will pursue at the next Board meeting to add a discussion at a future Board meeting that the full Board consider revising the Governance Policies of the Board EL-7.10. to allow the Board Audit Committee to be exempted from 10-day posting, or to allow the ability to forego a 10-day Committee posting to be at the discretion of the Committee Chair.

Chair Keegan moved the Agenda to Item 4.4.

4.4 Quality and Environmental Management System (QEMS) Methodology Benchmarking Analysis.

Recommendation: Discuss potential scope of work for QEMS methodology benchmarking analysis and provide staff feedback.

Mr. Taylor reviewed the information on this item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action and requested the following:

- Staff to create new purchase order with a \$25,000 minimum with Tanner Pacific, Inc. to perform analysis.

Chair Keegan moved the Agenda to Item 5.1.

5.1 Review and Update 2019 Audit Committee Work Plan.

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

Chair Keegan, reviewed the information on this item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action.

Chair Keegan returned the Agenda to Item 4.3.

4.3 Request Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance.

Recommendation: Request Board Auditor Activity Report from TAP International, Inc. to evaluate Board Auditor performance.

Ms. Denise Callahan, TAP International, Inc. (TAP), reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action and requested the following:

- The Committee requested an Annual Performance Report from TAP.

5. INFORMATION ITEMS

5.2 Board Independent Auditor Report Update – TAP International, Inc.

- Recommendation:
- A. Discuss the Annual Audit Work Plan and update, if necessary;
 - B. Discuss the status of on-going audits;
 - C. Discuss the Contract Change Order Audit Management Response to Draft Report; and
 - D. Discuss the scope of work for the ad-hoc review audits of grants, Valley Water hiring practices, and Board Agenda preparation process.

Ms. Callahan reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action and requested the following:

- Staff to follow up with the auditor on internal review process and timelines and disclosure of comparator agencies;
- Staff to look at the review process for Construction Contract Change Order Audit and identify opportunities to be more efficient;
- Auditor to provide “List of Threats”, identified with the audit;
- Staff to provide information on audit budget and progress made-to-date;
- Staff to bring to the full Board a waiver for the Board Auditor and associated staff to have the ability to review Attorney-Client privileged documents;
- The Committee expressed support for prioritizing the ad hoc review audits described in Recommendation D as follows: 1st priority – Valley Water Hiring Practices; 2nd priority – Grants; and 3rd priority – Board Agenda preparation process; and
- The Committee additionally requested that the Board Agenda Preparation Process ad hoc Review Audit also include Board Committee agenda preparation process.

5.3 Restrictions on Closed Session Meetings.

- Recommendation: Receive information on the Board Audit Committee’s ability to have future closed session meetings.

Mr. Brian Hopper, Senior Assistant District Counsel, reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action.

6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

6.1 Clerk Review and Clarification of Committee Requests.

Ms. Michelle Meredith, Deputy Clerk of the Board, confirmed that there were no new Committee Recommendations or Requests.

7. ADJOURN

7.1 Adjourn to Regular Meeting at 12:00 p.m., on January 22, 2020, in the Santa Clara Valley Water District, Headquarters Board Conference Room A-124, 5700 Almaden Expressway, San Jose, California.

Chair Keegan adjourned the meeting at 1:30 p.m., to the 12:00 p.m. Regular Meeting on January 22, 2020, in the Santa Clara Valley Water District, Headquarters Board Conference Room A-124, 5700 Almaden Expressway, San Jose, California

Michelle Meredith
Deputy Clerk of the Board

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BOARD AUDIT COMMITTEE MEETING

MINUTES

Wednesday, January 22, 2020
10:00 AM

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A regular meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee) was called to order in the District Headquarters Conference Room A-124, 5700 Almaden Expressway, San Jose, California, at 10:00 AM.

1.1 Roll Call.

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

Staff members in attendance were N. Camacho, Chief Operating Officer, A. Blackmon, T. Bramer, M. Cook, T. Esch, R. Fuller, C. Hakes, N. Hawk, F. Hernandez, B. Hopper, N. Nguyen, A. Noriega, D. Taylor, S. Tran, B. Yerrapotu, and T. Yoke.

Also in attendance was D. Callahan, TAP International, Inc. (TAP).

2. TIME OPEN FOR PUBLIC COMMENT:

2.1 Time Open for Public Comment on any Item not on the Agenda.

Chairperson Keegan declared time open for public comment on any Item not on the agenda. There was no one present who wished to speak.

3. APPROVAL OF MINUTES

None.

4. ACTION ITEMS

4.1 Election of 2020 Board Audit Committee Chairperson and Vice Chairperson.

Recommendation: Nominate and elect the 2020 Board Audit Committee Chairperson and Vice Chairperson.

It was moved by Director Kremen and seconded by Director Hsueh, and unanimously carried that Chairperson Keegan remain Chairperson, and Director Hsueh remain Vice Chairperson.

4.2 Conduct Annual Self-Evaluation.

Recommendation: A. Conduct Annual Self-Evaluation; and
B. Prepare formal report to provide to the full Board.

Ms. Denise Callahan, TAP International, Inc. (TAP) reviewed the information on the Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action and requested the following:

- Staff to make changes to Item 13: Board external financial auditors communicate routinely with the Committee;
- Staff to make changes to Item 15: regarding the discussion of sensitive issues and how it relates to the Brown Act;
- Staff to make changes to Item 17: staff to provide more information as to how this relates to staff;
- Make changes to Item 19: staff to change the word “discusses” to “reviews”;
- Make changes to Item 20: this item is related to the full Board and doesn't pertain to the BAC. If this is to remain on the list staff to show how this relates to the Committee;
- Highlight comingled responsibilities in Attachment 1, pages 1-3.; and
- Updated Self-Evaluation Framework to be reviewed at the February BAC meeting.

5. INFORMATION ITEMS

5.1 Review and Update 2020 Board Audit Committee Work Plan.

Recommendation: A. Review the 2020 Board Audit Committee Work Plan; and
B. Discuss topics of interest raised at prior Board Audit Committee Meetings and make any necessary adjustments to the Board Audit Committee Work Plan.

Mr. Darin Taylor, Chief Financial Officer, reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action and requested the following:

- Staff to make changes to the Audit Charter to be added as a line Item on the Work Plan and discussed at a later Committee meeting;
- Add a note to “Review draft audited financial statements” line Item to connect to “Valuing Water as an Asset” line Item;
- Staff to add Encroachment audit as a line Item on the Work Plan;
- Staff to change “Water Fix” to “Delta Conveyance”;
- Staff to bring the SCADA Audit and Staff SCADA Master Plan (AWIA) for full Board Closed Session meeting; and
- Staff to bring the Fiscal Year 2019 CAFR to the February Committee meeting for discussion.

5.2 Board Independent Audit Report Update – TAP International, Inc.

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

Ms. Callahan reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action and requested the following:

- TAP International, Inc. to conduct closeout meeting with staff before audit results are brought to the Committee for discussion; and
- Classified Information Audit is to be separate from the District Counsel's Audit.

5.3 Final Draft Management Response for the Contract Change Order Audit Conducted by TAP International, Inc.

- Recommendation: Discuss the Final Draft Management Response to Draft Contract Change Order Audit Report.

The Committee noted the information without formal action and requested the following:

- The Committee does not need to see a third revised Management Response Report;
- The February Committee meeting will include the Auditor's response to the Management Response; and
- The Management Response to be presented to the full Board following the approval of the Committee at the February Committee meeting.

5.4 Discuss the Scope of Annual Audit Training from Board Independent Auditor.

Recommendation: Discuss Scope of Annual Audit Training from Board Independent Auditor.

Ms. Callahan reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action and requested the following:

- The Committee requested that the Audit Training Process be provided to staff;
- The Committee requested that Management identify which staff is to attend the training;
- The Committee confirmed that the full Board be requested to attend the training; and
- TAP to present proposed Annual Audit Training at the February Committee meeting.

5.5 Discuss the Scope and Approach of the Ad-hoc Desk Reviews

Recommendation: Discuss the scope and approach of the Ad-hoc Desk Reviews.

Ms. Callahan reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information without formal action.

5.6 Receive and Discuss Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance.

Recommendation: Receive and Discuss Board Auditor Activity Report from TAP International, Inc. to evaluate board auditor performance.

The Committee continued this Item to the February 19, 2020, Committee meeting.

5.7 Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract with TAP International, Inc.

Recommendation: Receive and discuss financial analysis regarding the Board Independent Auditing Services Contract with TAP International, Inc.

The Committee continued this Item to the February 19, 2020, Committee meeting.

6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

6.1 Clerk Review and Clarification of Committee Requests.

Ms. Michelle Meredith, Deputy Clerk of the Board, confirmed that there were no new Committee Recommendations or Requests.

7. ADJOURN

7.1 Adjourn to Regular Meeting at 12:00 p.m., on January 22, 2020, in the Santa Clara Valley Water District, Headquarters Board Conference Room A-124, 5700 Almaden Expressway, San Jose, California.

Chair Keegan adjourned the meeting at 1:30 p.m., to the 12:00 p.m. Regular Meeting on January 22, 2020, in the Santa Clara Valley Water District, Headquarters Board Conference Room A-124, 5700 Almaden Expressway, San Jose, California

Michelle Meredith
Deputy Clerk of the Board

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Santa Clara Valley Water District

File No.: 20-0228

Agenda Date: 2/19/2020

Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Election of 2020 Board Audit Committee Vice Chair.

RECOMMENDATION:

Nominate and elect the 2020 Board Audit Committee Vice Chair.

SUMMARY:

Per the Board-approved Board Audit Committee Audit Charter, 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.

In addition to carrying out audits in a Board approved Annual Audit Work Plan, the BAC's purpose also includes oversight of audits initiated by District management, review and comment upon final audits initiated by third-party governmental or administrative agencies, and the conduct of Limited Investigations to address discrete issues or concerns concerning fraud, waste, or violations of law or policy at Valley Water - no prior Board approval shall be required.

The BAC is also authorized to participate in the District's procurement process for the District's annual financial statement audit. The BAC's participation includes, but is not limited to, providing input to District management on the selection criteria and desired qualifications of the public accounting firm. The selected external financial auditor shall submit to the BAC the District's audited financial statements annually, including all related management letters to the BAC for review and comment.

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

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 annually.

ATTACHMENTS:

File No.: 20-0228

Agenda Date: 2/19/2020
Item No.: 4.1.

None.

UNCLASSIFIED MANAGER:
Michele King, 408-630-2711



Santa Clara Valley Water District

File No.: 20-0188

Agenda Date: 2/19/2020

Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Approve the Auditor Response to Final Draft Management Response for the Contract Change Order Audit for Presentation to the Full Board.

RECOMMENDATION:

- A. Receive and discuss the Auditor Response to the Final Draft Management Response to Draft Contract Change Order Audit Report; and
- B. Approve the Final Draft Audit Report and Management Response for the Contract Change Order Audit and direct staff and TAP International, Inc. to present to the Full Board at a future Board meeting.

SUMMARY:

The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits. On May 23, 2017, the Board, approved an on-call consultant agreement with TAP International, Inc. (TAP) for Board independent auditing services.

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

On February 26, 2019, the Board approved the Board Audit Committee's recommendation for TAP to conduct three performance audits recommended by the Board Audit Committee. The three audits include performance audits of the District Counsel's office, contract change order management processes (Contract Change Order Audit), and real estate services. An amendment to the Board independent auditing services agreement was completed on June 7, 2019, to increase the not-to-exceed amount from \$405,000 to \$1,005,000 to complete all three proposed audits and approximately three additional future audits.

Following Board approval of the amendment, TAP initiated the audit of contract change order management processes and discussed the audit scope with the BAC Chair. On October 23, 2019,

Management Response to the contract change order audit draft report was submitted to TAP, for later discussion by the Committee at the following Board Audit Committee meeting in November 2019.

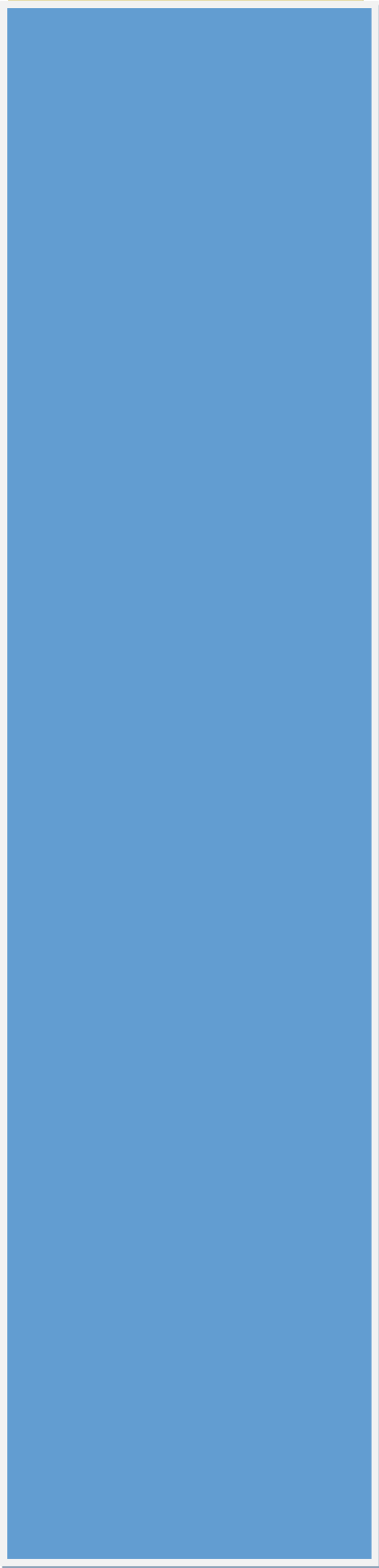
At the November 18, 2019, Staff presented the Draft Management Response and the BAC requested for staff to correct, unify, and simplify analysis for the Contract Change Order Management Response. At the January 22, 2020, BAC meeting, the Contract Change Order Audit Management Response to Draft Report was provided. At the February BAC meeting, TAP will present the Auditor Response to the Management Response for the Contract Change Order Audit Report (Attachment 1). Upon Committee review of the Auditor Response, the Committee shall direct staff to present the approved final draft audit report and management response to the Board of Directors.

ATTACHMENTS:

Attachment 1: Auditor Response to CCO Audit Management Response

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



TAPInternational

Capital Construction Contract Change
Order Management and Administration:
Opportunities Identified to Strengthen
Processes and Oversight Structure

Final Report of the Independent Auditor
for the Santa Clara Valley Water District
Board of Directors

January 30, 2020



Date: January 30, 2020

Memorandum For: Board Audit Committee

From: Independent Auditor, TAP International, Inc.

Subject: Transmittal of TAP International Performance Audit Report

Attached for your information is our draft report, *Construction Contract Change Order Management and Administration: Opportunities Identified to Strengthen Processes and Oversight Structure*. The audit objective was to determine if potential improvement opportunities are present in the construction change order process.

The audit report describes opportunities to strengthen change order management and administration for large-scale capital construction projects. These opportunities include enhancing constructability reviews, requesting third party and independent cost estimates, and utilizing an advisory body to review and approve change orders. Valley Water can also centralize change order management and administration by establishing a Resources Services Office that would provide comprehensive administrative, project design, and construction management support for large-scale capital improvement projects, including information sharing and other services on other smaller construction projects. This audit report contains seven recommendations. See Appendix I of this report for management's response to each of the recommendations.

TAP International, Inc.

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Section I: Results in Brief

Why the Audit Was Conducted

Efficient and effective service and delivery are key priorities for the Santa Clara Valley Water District (Valley Water) to accomplish the goals of providing safe and clean water, environmental stewardship, and flood protection. Valley Water plans to contract with construction companies to complete 67 capital improvement projects over the next 15 years for about \$5.158B.¹ These projects include large construction projects involving the Anderson Dam seismic retrofit and the Pacheco Reservoir expansion. Any changes to these contracted capital projects present a risk of cost overruns and schedule delays.

With the approval of the Valley Water’s Board of Directors (Board), a performance audit was conducted by the Independent Auditor for the Board of Valley Water’s capital construction contract change order process to identify, if any, the presence of potential improvements.

How the Audit Was Conducted

The capital construction contract change order performance audit included an examination of organizational structures, division, unit and employee roles and responsibilities, information collection and sharing, and policies and procedures. The completed audit work included: (1) analysis of 12 completed capital construction projects between 2017 and 2018, with detailed file review of six of these contracts to examine how the change order process was administered by Valley Water management and staff; (2) comparison of Valley Water change order policies and procedures to leading practices; (3) interviews of Valley Water management and staff from the Water Utility Capital and Watersheds Design and Construction Divisions, Purchasing and Consultant Contracts Services Unit, Capital Program Planning and Analysis Unit, Valley Water Counsel, Capital Improvement Program (CIP) Committee officials, Valley Water contractors, and former Dispute Resolution Board (DRB) officials; and (4) implementation of root cause analysis to identify the primary reason(s) for change order initiation.

What the Audit Found

This audit report describes that, while Valley Water capital construction policies and procedures address many leading practices, opportunities are present to enhance change order management and administration activities for extremely large capital construction projects. Potential business process improvement opportunities include:

- enhancing existing change order policies and procedures to better align with leading practices,
- enhancing constructability reviews with third party experts,
- updating how contingency budgets are established, and
- ensuring uniform implementation of change order preparation and processing.

¹ Per the Fiscal Year 2020-2024 Capital Improvement Program. https://www.valleywater.org/sites/default/files/2019-05/CHAPTER%2001%20Overview_optimized.pdf.

These enhancements are necessary because the existing capital construction processes, which were generally established for smaller capital projects, do not fully mitigate the potential risks for change orders on large capital projects applicable to their need, frequency, and magnitude. Other concerns could also occur on large capital construction projects, such as implementing preliminary change orders on a time and material basis, allowing work to begin on change orders without the approval of a formal change order, and other activities that were implemented non-uniformly. These activities included documenting the causes of change orders and showing the results of pricing reviews.

Although the 32 change orders that we reviewed do not reflect the actual magnitude of changes occurring on projects, key stakeholders identified project planning and design activities as the leading factor driving change orders. TAP International's analysis on this issue further determined that the decentralized design of Valley Water's change order management and administration process does not routinely prevent the occurrence of gaps in project planning and design activities or ensure uniform implementation of change management policies and procedures.

TAP International also found that when project and construction management are performed internally, Valley Water delegates nearly all the responsibility for change order management and administration to individual employees to provide flexibility in meeting project schedules. These employees have varying levels of experience and knowledge in project management and execute other primary roles and responsibilities. With this type of model, key support structures are necessary to aid project and construction managers in carrying out change order management and administration.

TAP International determined that added support structures should include a separate advisory body to review and recommend the approval of change orders for large-scale projects. This body can include legal, procurement, capital construction experts, and management to monitor progress, including reviewing and recommending change order approval/non-approval. A new Resources Services Office (RSO) could also address the gaps with project and construction management knowledge among existing staff assigned to serve as managers. An RSO could allow project and construction managers more time to ensure project delivery by assuming responsibility for change order negotiation, pricing analysis, ensuring uniform implementation of the Quality Environment Management System (QEMS), and better reporting. Without additional support structures and better change order management and administration, Valley Water can expect to experience a high volume of change orders and inconsistent management of these change orders on large-scale capital construction projects.

Recommendations

To mitigate the potential service and financial risks created by the issuance of change orders on large-scale capital construction projects, we recommend that the Chief Executive Officer (CEO):

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1. Update capital construction change order policies and procedures applicable to large-scale projects to:
 - a. Require an Independent Cost Estimate (ICE) for capital construction change orders.
 - b. Use a separate advisory body to review and recommend the approval of change orders.
 - c. Prohibit commencement of work until after formal approval of the change order.
 2. Enhance constructability reviews as part of the construction project design phase with the addition of independent subject matter experts to the review team to help mitigate the occurrence of change orders on large-scale capital projects.
 3. Enhance the review and approval process for change orders (including potential change orders, contract change orders, and directed change orders) on capital construction projects that are new to Valley Water and/or whose project costs exceed a specific level established by the CEO (i.e., \$100M) to add and enhance support structures to aid project and construction managers in capital project delivery. An option could include:
 - a. Create a Capital Project Steering Committee for each new project to review project progress and provide authority to review and approve change orders. The Committee should include Valley Water management, project, and construction manager, external subject matter experts, outsourced legal construction contract counsel, and a representative from the Purchasing and Consulting Contracts Services Unit.
 4. Create a Resources Services Office (RSO) or restructure the current Capital Program Planning and Analysis Unit and develop RSO roles and responsibilities, including the business processes and information systems needed to support large-scale capital construction projects and to serve as a resource for project and construction managers on smaller projects. Examples of expected RSO roles and responsibilities for large-scale capital construction projects include:
 - Integrate project design and construction management activities;
 - Develop large-scale construction management policies and procedures;
 - Ensure consistent and uniform implementation of capital project management and construction management standards;
 - Manage and administer the contract management and change order process;
 - Consolidate, analyze, and disseminate lessons learned activities and historical project information for future project planning;
 - Coordinate project and construction project activities;
 - Establish and manage project and construction management standardization;
 - Implement a centralized project management information system;
 - Enhance QEMS activities, including the preparation and updating of guidelines and checklists to be used by project and construction managers;

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- Prepare information about the reality of existing projects and corrective action plan development;
 - Promote continuous process improvement;
 - Establish a performance-based management system to track effective change order management, project completion, and project financial performance.

Examples of RSO roles and responsibilities for smaller capital construction projects would be to share historical project information to support design activities and to assist project and construction managers on change order negotiation.

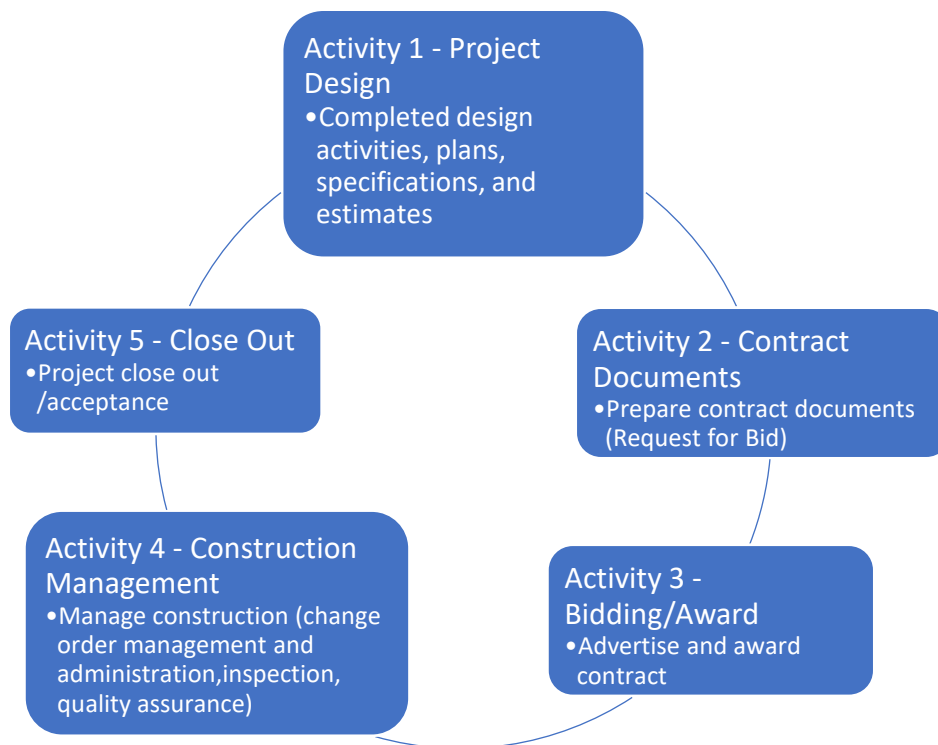
5. Transfer the responsibility to administer procurement activities on capital projects (e.g., request for bid preparation and bid processing) from the Capital Program Planning and Analysis Unit to Valley Water's Purchasing and Consultant Contracts Services Unit to centralize procurement activities. The RSO should assume responsibility for contract administration and change order management on all capital projects upon execution of the contract by the Purchasing and Consultant Contracts Services Unit. For example, the Purchasing and Consultant Contracts Services Unit can embed an employee into the RSO. This employee could oversee change order management, administer an oversight role in coordinating updated change order policies and procedures, and/or conduct spot audits to ensure change orders comply with contractual terms and conditions.
6. Promote the uniform implementation of change order management and administration for all capital projects by:
 - a. Developing and establishing specific criteria for establishing contingency budgets for change orders that consider project complexity and size (Example: \$0 contingency for capital projects less than \$100,000 ranging to an amount over \$1M for projects over \$500M) eliminating the need for the Board of Directors to approve contingency budgets for each capital construction contract separately.
 - b. Updating the Quality and Environmental Management System (QEMS) forms to:
 - Develop templates within the Capital Improvement Program Planning document to provide clarification on how Quality Records should be completed.
 - Add a step in the Close-Out Checklist for the review of open change orders and potential change orders.
 - Enhance the Risk Management Process document to include a review of similar projects in the Capital Improvement Program Historical Information Retrieval (CIPHIR) tool to identify additional project risks and corrective actions that may not have been previously identified.
 - c. Enhance project management training to address change order management and administration, including negotiation, pricing analysis, and contract closeout activities.

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7. Develop, track, and report on performance metrics that monitor the timeliness, costs, and cost savings on large scale capital projects. Metrics established for monitoring the final capital project closeout costs against the original base contract amount should exclude contingency budget amounts.

Section II: Background

Over the next 15 years, the total estimate for construction contracts to be awarded is approximately \$5.158 billion for capital improvement projects that improve, repair, replace, or construct infrastructure. Valley Water has 28 Water Supply projects, 19 projects to increase flood protection, 10 projects for environmental restoration, enhancement and mitigation projects, two projects to repair or maintain Valley Water buildings and grounds, and eight projects to upgrade or expand existing information technology.² To complete these capital improvement projects, Valley Water generally administers a capital project development to acceptance process. Figure 1 illustrates a commonly used capital project design and construction management cycle.

Figure 1. Capital Construction Project Development to Acceptance Process³



What is a Change Order?

Capital project design and construction management processes include change order management and administration. A construction contract change order, according to established industry definitions, is a written alteration that is issued to modify or amend a contract or purchase order. It can be a bilateral request (agreed to by all parties) or a unilateral request (the public agency orders a contract change without the consent of the contractor). For construction contracts, the primary

² Per the Fiscal Year 2020-2024 Capital Improvement Program.
https://www.valleywater.org/sites/default/files/2019-05/CHAPTER%2001%20Overview_optimized.pdf

³ Illustrates key leading practices and not Valley Water's processes.

reason for a change order is the unanticipated conditions encountered during construction that were not covered by the drawings, plans, or specifications of the project. Change orders at Valley Water can result in modifications to the established project specifications, schedule, cost, or scope of work, among other things.

Valley Water has three distinct types of construction-related change orders that can modify the original contract, which will be referred to as change orders throughout this report. The various change orders include:

- potential change orders (PCO) (project issues that can lead to a contract change order),
- directed change orders (unilateral change directed to the contractor by Valley Water),
- contract change orders (changes agreed to by all parties).

Who Can Initiate a Construction Contract Change Order?

Change orders can be initiated by Valley Water or at the request of contractors. In some cases, potential project issues can be prevented and disagreement over contractual terms or change orders resolved by using a Dispute Resolution Board (DRB). Each construction contract specifies whether a DRB will be used for the project and how the costs of the DRB will be shared between Valley Water and the contractor.

What is the Difference Between a Construction Contract Change Order and a Professional Services Agreement Amendment at Valley Water?

Contract change orders refer to changes that take place on construction contracts between Valley Water and companies involved in the construction of the capital project. These changes, such as schedule updates, costs, specification changes, the scope of work expansions, and unanticipated changes, are reflected in separate change order forms. Modification to the original base contract does not generally take place except for modifications to certain terms and/or conditions. Valley Water Counsel and the Purchasing and Consultant Contracts Services Unit do not have a formal role in the review of change orders.

Similarly, amendments to a Professional Services Agreement refer to changes that take place on base contracts for services provided to Valley Water. These services include project management services, engineering design services, staffing services, media services, and more. Amendments made directly on professional services contracts address all types of changes, such as modifications to completion dates, price, and scope of work as well as changes to staffing and terms and conditions. Valley Water Counsel and the Purchasing and Consultant Contracts Services Unit have a formal role in the review of amendments to professional service agreements.

Audit Objective

In 2018, Valley Water's Independent Auditor (TAP International, Inc.) conducted an enterprise-wide audit risk assessment and identified construction contract change orders as an area that needed a further review to ensure that the capital construction change order process (change order process) is administered efficiently and effectively.

Our specific audit objective for this audit was to determine if potential improvement opportunities are present in the change order process.

Scope of Work

The scope of this audit included an evaluation of the change order process for construction contracts completed between 2017 and 2018. The work focused on the Watersheds Design and Construction Division as well as the Water Utility Capital Division.

Project Approach

To assess whether potential improvement opportunities are present in the change order process, TAP International performed the following activities:

- Examined change order policies and procedures against leading practices for construction contract management applicable to change orders. Leading practices were gathered from the following sources:
 - Capital construction subject matter experts (Water and general construction contractors).
 - Federal Transit Administration's Best Practices Procurement Manual.
 - Washington State Department of Transportation - Construction Contract Order Process Guide.
 - Oregon Department of Transportation - Construction Manual.
 - Federal Acquisition Regulations (FAR 43.1 - General, subpart 43.2 Change Orders).
 - TAP International experience in examining capital construction programs in other public agencies.

The change order practices selected apply to general construction management business processes regardless of the type of industry, such as water, transportation or general construction. These business processes include preparation of, review and approval, and close-out of change orders.

- Reviewed all construction contracts completed between 2017 and 2018 (12) and related change orders to determine the frequency of change orders issued and the financial impact on the original contract. These 12 completed projects were:
 - Boardroom Audiovisual Modernization Project;
 - Installation of Cathodic Protection Rectifiers and Deep Well Anodes on Santa Clara Conduit;
 - Installation of Cathodic Protection Rectifies and Deep-Well Anodes on the Pacheco Conduit;
 - Matadero Creek Sediment Removal & Erosion Repair and San Tomas Aquino Creek Erosion Repair Project;
 - Almaden Valley Pipeline Carbon Fiber Reinforced Polymer Structural Repair Project;

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- El Camino Storm Drain Erosion Repair Project;
 - John D. Morgan Park Monitoring Wells Project;
 - Pacheco Conduit & Rehabilitation Project;
 - Fluoridation at WTP's;
 - IRP2 Water Treatment Plant Operations Buildings Seismic Retrofit Project - PWTP and the PWTP Clearwell Recoat and Repair Project;
 - Lower Berryessa Creek Project Phase 1;
 - Penitencia Delivery Main and Penitencia Force Main Seismic Retrofit Project.

➤ Examined six construction contracts for:

- Change order review and authorization activities. For the six contracts, we examined the two formal documents used in the change order approval process identified by staff: the change order form (FC 207) and the Board Agenda Memorandum for Completion and Acceptance of each contract. We examined the Change Order form (FC 207) because it is used to obtain approvals from the project engineer up to the CEO for change orders that do not exceed the dollar value of the project contingency (and would require Board approval). The Board Agenda Memorandum for Completion and Acceptance was also used because it is a key approval document for the Board of Directors.
- Pricing review and approval.
- Nature of the change orders.
- The time required to process the change order.

The six contracts subject to this review were:

- Installation of Cathodic Protection Rectifiers and Deep Well Anodes on Santa Clara Conduit;
- Installation of Cathodic Protection Rectifiers and Deep-Well Anodes on the Pacheco Conduit;
- IRP2 Water Treatment Plant Operations Buildings Seismic Retrofit Project - PWTP and the PWTP Clearwell Recoat and Repair Project;
- Penitencia Delivery Main and Penitencia Force Main Seismic Retrofit;
- Matadero Creek Sediment Removal & Erosion Repair and San Tomas Aquino Creek Erosion Repair Project;
- Lower Berryessa Creek Project Phase 1.

➤ Interviewed Valley Water management and staff involved with procurement, project design and implementation of the construction contracts, project support, and financial management to discuss how change orders are processed, reviewed, approved, and monitored. Staff from the Dam Safety and Capital Delivery Division participated in these interviews.

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- Examined Quality and Environmental Management System (QEMS) use in the capital construction change order management process.
 - Evaluated review and approval activities for capital construction change orders based on interviews with members of the Capital Improvement Project (CIP) Committee, Valley Water management and staff, and former DRB members.
 - Performed a root cause analysis focused on the initiation of change orders. For this, we completed a qualitative analysis because documentation was not consistently prepared to conduct a quantitative analysis of root causes. TAP International interviewed Valley Water management, construction and project managers, contractors, former Dispute Resolution Board (DRB) members, and considered the results of our evaluation of Valley Water’s capital construction change order management and administration.

This audit was conducted as a performance audit. A performance audit evaluates the economy, efficiency, and effectiveness of programs, services, and operations. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. TAP International believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. A draft report was provided to Valley Water for review. Comments were incorporated as applicable throughout the report. See Appendix 1 for formal agency comments to the recommendations included in this report.

Section III: Key Findings

Finding 1: Opportunities are Present to Better Align Valley Water Change Order Management and Administration to Leading Practices

Policies and Procedures Help Mitigate the Risks Presented by Change Orders

Large-scale capital construction projects generally have a higher inherent risk because of their size and complexity. Key risks include implementing unnecessary change orders, unauthorized change orders, or over-priced change orders. Other risks include significantly changing the nature of the project, changing the original scope of work specifications without appropriate justification, and not ensuring change order requirements were properly monitored through completion. These risks can significantly impact the cost, quality, or time to complete the project. For agencies to mitigate the risks associated with change orders, their policies and procedures play a critical role.

Leading practices are industry-accepted practices and procedures recommended as most effective to enhance service delivery and to mitigate risks. TAP International identified that Valley Water’s policies and procedures for the construction management change order process address many (22) leading practices, as shown in Table 1. Policies and procedures address change order pricing, contract modifications, pricing requirements, written justification, excluding from base contract contingency amounts, use of change order forms, description of change, use of unit pricing when appropriate, price review, storing of change order records, use of checklists, funds availability checking, review of contractor submitted change orders, price and schedule agreement, cost & technical proposal, contract scope review, use of delegated authority, use of contractor estimate, description of specification changes, timeframes for negotiation, excluding contingency budget from contract, and change order pricing stipulations.

Table 1: Leading Change Order Management Practices Administered by Valley Water

	Total Number (30)
Leading Practices Addressed or Partially Addressed in Policies and Procedures	22
Leading Practices Not Addressed in Policies and Procedures	8

Valley Water’s change order policies and procedures do not address eight other leading practices. Policies and procedures do not address detailed documentation of negotiation, prohibit commencement of work prior to approval, use of a third-party advisory body, use of root cause analysis, use of Independent Cost Estimates (ICEs), documentation of cost analysis, written record of explanation of differences between negotiated price and ICE, and verification of assumptions supporting ICEs. Because Valley Water is transitioning into larger, more complex capital construction projects, some of these leading practices are needed to mitigate the potential risks that could result from implementing change orders. (e.g., unnecessary specifications, cost overruns, project delivery delays).

Potential to Add the Use of Independent Cost Estimates

Leading practices suggest the need for reviewing change orders with large cost adjustments against ICEs. The practice serves to determine if there are differences between the ICE and the contractor estimate. If a difference is present, then the basis for each estimate is discussed, which could prevent the overpricing of work. Although Valley Water's change order policies and procedures call for the review of contractor cost estimates, staff explained that ICEs were not needed because Valley Water has sufficient expertise from prior comparable projects to determine the appropriateness of cost estimates. Without ICEs, Valley Water must rely on the expertise and experience of the project manager or construction manager to discuss and negotiate differences in pricing. TAP International determined that some managers may not challenge contractor cost estimates because they do not have the depth of knowledge in comparison to more experienced project and construction managers.

Prohibit Commencement of Work Until Approval of Change Orders

As another example, leading practices suggest that construction work should not begin until change orders have been reviewed and approved. Valley Water's construction policies and procedures do not explicitly address this practice and expose Valley Water at higher financial risk. TAP International determined that on four of the six contracts, Valley Water allowed work to begin on multiple potential change orders (PCO), including beginning work on a time and materials basis until completion whereby Valley Water converts the PCO or combines multiple PCO(s) into a change order for formal review and approval. Table 2 below shows the formal approval of change orders after the final inspection, but before project completion. Project and construction managers explained that much of the capital project work is driven by seasonality that requires the opening of change orders as negotiations take place concurrently. Contractors reported that the process for developing project schedules should be reviewed as some project work is known to be delayed and should not have commenced until the following year. The known delays, if not addressed in the project schedules, create seasonal pressures that lead to change orders.

Table 2. Timing of Change Order Approval (Six Contracts Reviewed)

Project Name	Contract No. & Submittals	Division	Total Number of Change Orders	When Change Orders were Approved			
				After Contract Award, Before Final Inspection	After Final Inspection, Before Project Completion	After Project Completion, Before Completion & Acceptance	After Completion & Acceptance
Installation of Cathodic Protection Rectifiers and Deep Well Anodes on the Santa Clara Conduit	C0632	Water Utility	2	2	0	0	0
Installation of Cathodic Protection Rectifiers and Deep-Well Anodes on the Pacheco Conduit	C0623	Water Utility	2	0	0	1	1*
IRP2 Water Treatment Plant Operations Buildings Seismic Retrofit Project- PWTP and the PWTP Clearwell Recoat and Repair Project	C0609	Water Utility	9	6	2	1	0
Penitencia Delivery Main and Penitencia Force Main Seismic Retrofit	C0611	Water Utility	18	13	5	0	0
Matadero Creek Sediment Removal & Erosion Repair and San Tomas Aquino Creek Erosion Repair Project	C0642	Watersheds	0	NA	NA	NA	NA
Lower Berryessa Creek Project Phase 1	C0604	Watersheds	3	1	0	2	0
Totals	All		34	22	7	4	1

* One change order was processed after the Board approved the Notice of Completion and Acceptance for the contract because the Board had to increase the contract amount to pay for the change in work. This is contract 623, also discussed in another section of this analysis.

Establish Advisory Body to Support Change Order Management and Administration

Leading practices suggest that a headquarters construction office (or Change Control Board) review all construction change orders and (if appropriate) recommend for approval, which would enhance project oversight and accountability. Valley Water’s construction policies and procedures do not address the use of a central body to oversee change orders. Instead, Valley Water implements delegated review and approval authority for change orders for both small and large-scale projects.

TAP International determined that the change order review and approval process can benefit from a different oversight process because the current process is not fully effective at mitigating potential risks, especially on large-scale projects. Presently, Valley Water relies on various individuals delegated to review and approve change orders from project and construction managers to the CEO, including requesting Board of Directors approval on some of them depending on the price of the change. However, Valley Water has not assigned responsibility and authority to one single body or unit within Valley Water to:

- conduct uniform review of change orders for compliance to contract terms and conditions;
- ensure the change order adheres to contractual terms and conditions as well as other procurement requirements;
- determine whether the proposed change is not within the scope of the statement of work;
- determine if the proposed change is within the scope of the statement of work in the base construction contract but has been modified already by a previously approved change order.

These compliance responsibilities fall on the project or construction manager. Counsel staff does not have a formal role in the review or approval of change orders, including those that change the specifications, cost, and/or schedule of the contract, but informal discussions do occur. District Counsel staff explained that change orders generally include technical specifications, which are best handled by the project or construction management staff although TAP International determined that change orders address a variety of circumstances that are discussed later in this report. The Purchasing and Consultant Contracts Services Unit does not have an informal or formal role.

In contrast, Valley Water has established a more formalized review process for amendments to the professional services agreement, which provide consulting services that include project management services, engineering design services, staffing services, media services, and more. Counsel staff reviews all prepared amendments resulting in suggested modifications and then returns the document to the Purchasing and Consultant Contracts Unit for updates. This process is cyclical, repeating multiple times spanning months before approval of the final draft of the amendment. The types of amendments that require CEO approval include schedule changes and other minor adjustments.

With some staff taking exception, project and construction managers agreed that changes to the authorization process might be needed for large capital projects and projects with scopes of work that are new to the District. These projects pose a greater potential financial and project delivery risk because Valley Water does not have prior project or construction management experience to anticipate project needs. For example, staff explained that even with a very small capital project that built a public restroom facility, it generated multiple change orders and additional costs because the agency had no prior experience with that type of project. Board officials and other construction experts also reported a need to implement stronger oversight for Valley Water's planned large-scale projects, explaining that by the time the change orders reach the Board of

Directors for approval, the project may be in completion phase, thus preventing any in-depth review or challenge of the change order.

Oversight mechanisms, such as an advisory body, could be able to closely review change orders for Valley Water’s planned large-scale capital construction projects. The existing CIP Committee, comprised of Board members, can potentially provide change order reviews and recommend approval or denial by the full Board for high-risk capital improvement projects.⁴ Key advantages of establishing a greater role of the CIP Committee in the review and approval of change orders include providing greater oversight of high-risk capital projects and streamlining the approval process for the Board of Directors. However, key disadvantages include ensuring that CIP members have sufficient knowledge of change order requirements, cost estimates, contract specifications, and capital construction project activities to provide effective oversight. While the current composition of the CIP Committee has elected Board Directors with requisite capital construction contract and legal experience, the composition of the Committee can change as future Board of Director elections are held, leaving the CIP Committee with gaps in knowledge and expertise. In addition, the CIP Committee would have to modify its meeting schedule to meet more frequently as well as determining whether to have a 3-day or 10-day agenda posting to ensure timely review and approval of construction change orders. Further, risks in politicizing change order decisions may be present without established decision-making criteria in place. Finally, having elected officials participate in the day to day operations may interfere with its oversight and monitoring responsibilities.

For these reasons, a new standing or a project-specific steering committee can be comprised of a Valley Water management and staff, outsourced legal counsel with expertise in capital construction, Purchasing and Consultant Contracts Services Unit staff, and independent construction industry experts to vet the change order and recommend approval to the Chief Operating Officer. Key advantages include providing third party oversight to evaluate and challenge construction contract change orders, more timely review and approval, and the capability of offering advisory services to project and construction management staff to help prevent issues that could require DRB resolution. While the DRB presently offers advisory services on some contracts, the Board composition includes only construction contract experts, and its use is not routine. A key disadvantage with implementing a project steering committee is the consulting costs involved with implementing a standing committee or ad-hoc committees for each high-risk capital construction project, but there could be a return on this investment if costly change orders can be prevented.

Centralization of Some Support Service Activities

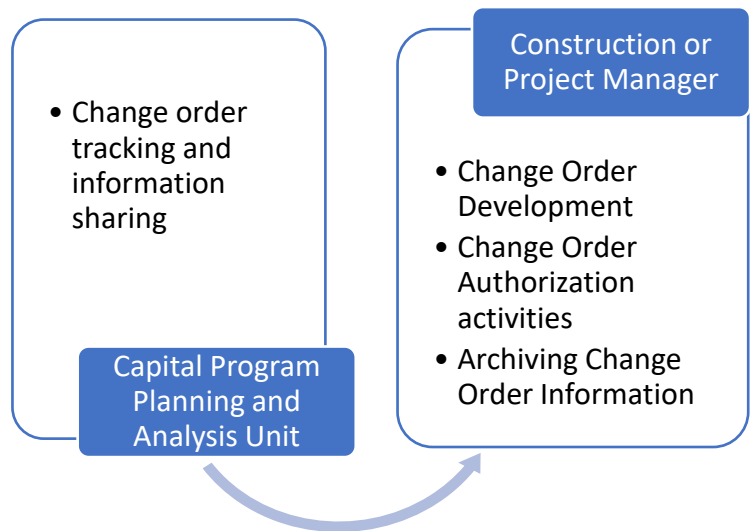
Other public agencies with large capital construction programs utilize their procurement departments in preparing a request for proposals and requests for bid, including their issuance, receipt, bid evaluation, and award. Valley Water’s Purchasing and Consultant Contracts Services Unit

⁴ The CIP does not currently have the authority to approve and recommend approval of change orders by the Board of Directors.

does not have a role in Valley Water’s construction procurement activities because another unit has long administered this role within the Water Utility Capital Division – the Capital Program Planning and Analysis Unit. Without a role by Purchasing and Consultant Contracts Services, Valley Water primarily relies on the Counsel’s office to review the Notice to Bidders, which is attached to the Board Agenda Memorandum authorizing the bid; advertisement for bids; and the bid submittals. These activities should be the primary responsibility of the Purchasing and Consultant Contracts Services to ensure that staff is complying with state and federal procurement requirements. Valley Water staff further explained that the Capital Program Planning and Analysis Unit supports procurement activities because these activities are completed on a timelier basis in comparison to having the Purchasing and Consultant Contracts Services Unit assume responsibility. A Valley Water management official responsible for general administration explained that given the current changes within the Purchasing and Consultant Contracts Services Unit, timeliness risks can be mitigated and that capital construction procurement activities could be centralized to ensure proper adherence to contractual and other procurement requirements.

Leading practices describe the use of central management and administration of change orders on capital construction projects. The current Capital Program Planning and Analysis Unit serves more of a support role than a compliance role as it does not fully oversee the processing of change orders, which is the responsibility of the project manager and construction manager. Capital Program Planning and Analysis Unit staff capture information from change orders to track on worksheets, but it is not formally responsible for ensuring that change orders have all required documentation or ensuring that open preliminary change orders have been formally prepared. In addition, the Capital Program Planning and Analysis Unit are responsible for Request for Bid preparation, issuance, processing, and contract award; preparing information for the CIP Committee; tracking capital construction contracts; and collecting QEMS reports, among other things.

Current Primary Organizational Roles and Responsibilities – Construction Contract Change Orders



While project managers and construction managers did not report any significant concerns with the current structure of the Unit, TAP International identified areas for enhancement. The enhancements needed for better management of large-scale capital construction projects include:

- Establishment of a performance-based management system. While the Unit has the capability to monitor cost overruns, it includes the contingency budget amount in the

analysis, and it combines the contingency budget with the original contract amount to compute whether costs exceeded the total construction amount. Other public agencies with large construction programs exclude the contingency amount from the total construction budget to determine the level of cost overruns in comparison to the original budget. These agencies use the information to target potential changes in the change order process to prevent excess costs over the original contract amount. Analyzing the magnitude of cost overruns by comparing the total value of the change orders to the base contract amount allows public agencies to better assess overall financial performance on capital projects. For example, TAP International determined that of the 12 capital projects completed between 2017 and 2018, nine had cost overruns averaging \$337,000, excluding contract contingency budget amounts. When factoring in the contingency budget, one of the 12 projects incurred a cost overrun.

- Development of analytics program to support design activities. The Capital Program Planning and Analysis Unit does not provide robust data analysis on the capital projects that would help project managers identify needed design changes on future projects. The Capital Program and Planning Analysis Unit generally use Excel databases to capture project history, but the data includes basic contract data that cannot be used to identify trends and patterns to prevent future issues on capital projects.

As an alternative to the Capital Program Planning and Analysis Unit or a hybrid version of it, public agencies that implement large-scale capital projects have an office that provides comprehensive support for project design and construction management activities, which this report refers to as a Resources Services Office (RSO). An RSO assumes responsibility for implementing capital projects in a standardized way by providing information to support decision-making and ensures that policies and procedures are consistently followed. The range of functions, which are not currently performed by the current Capital Program Planning and Analysis Unit can include:

- conducting analytics on historical projects to identify areas that need attention in planning future projects;
- consolidation and reporting of lessons learned information;
- ensuring uniformity and consistency in business processes over construction contracts; and,
- ensuring the accuracy of information and data reported to executive management.

Other activities that an RSO can assume responsibility for on large scale projects include:

- Establishing and managing project management and standardization through a centralized project management information system. Valley Water utilizes three separate systems;
- Enhancing QEMS activities;
- Development and updating of Valley Water’s Construction Manual;
- Preparation of information about the reality of existing projects and corrective action plan development;
- Preparation and updating of guidelines and checklists to be used by project and construction managers;

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- Promoting continuous process improvement;
 - Establishing a performance-based management system to track effective change order management, project completion, and project financial performance;
 - Establishing and implementing risk management principles for identifying capital construction project risks, performing risk analysis, and developing response plans; and,
 - Implementing change order management and administration.

Presently, Valley Water decentralizes many of the above activities to the project manager or construction manager level for large scale projects. Establishing a centralized RSO will promote consistency among projects and the sharing of project information. At a very basic level, the RSO supports the project and construction management teams by facilitating information sharing, conducting analytics, seeking funding, and resourcing. Leading practices show that RSOs can offer:

- **Governance** - The RSO ensures that decisions are made by the right people, based on accurate information. The governance role can also include audits or peer reviews, developing project and program structures, and ensuring accountability at all levels.
- **Transparency** - The RSO is responsible for providing information and being the single source of data. Information needs to be relevant and accurate to support effective decision-making and provided to people in a way they can understand.
- **Reusability** - The RSO facilitates the sharing of knowledge for the purpose of preventing project teams from reinventing the wheel, making the RSO the central point for lessons learned, templates, and best practice.

Finding 2: Change Order Management and Administration Needs Uniform Implementation or Other Enhancements

Official Forms Should Capture Reasons for the Changes

Of the six contracts reviewed, Valley Water processed 34 change orders across the six contracts completed between 2017 and 2018. These 34 change orders do not reflect the actual quantity of changes implemented on the contracts because TAP International identified another 110 individual change orders in the form of authorized PCO's that took place across the six projects.

Although Valley Water maintains information on the specific nature of the change in individual project files or across three different information systems, TAP International could not quantify the reasons for the change orders because formal documentation required for change order initiation, review and approval did not consistently or clearly document the reason for the requested change or related justification. The form used by staff for initiating a change order (form FC 207) does not require the reason for a change to be documented. Form FC 207 is the official form used by the project and construction manager to obtain approval for change orders.

TAP International examined the documentation presented to the Board at the completion of a construction contract for review of the staff-approved change orders. In the six contracts we reviewed, we found that the Board Agenda Memorandums seeking authorization of a Notice of Completion of Contract and Acceptance of Work and Recommendation of Construction Contract Acceptance did not consistently or clearly describe the reasons for change orders approved by staff. For example, four contracts (632, 623, 609, 611) cited "unforeseen" site circumstances or conditions as one of the reasons for changes in the work across the change orders to each respective contract. Valley Water staff differentiated between Valley Water-requested changes and post-design clarifications in the Board Memo for one contract (609), but in another contract (611) grouped these two categories as the reason for the changes. Another contract (604) grouped Valley Water-requested and Contractor-requested changes as the reason. Finally, one contract (604) stated that "issues" were the reason for the change orders. Another category used in two contracts (611, 642) cited "unused supplemental bid items" as the reason for the changes but did not explain why these items went unused. A Valley Water management official explained that while project files or information systems capture the specific reason for the change, the information is not consolidated for reporting purposes. Without having information about the reason(s) and justification for the change documented on the change order itself or informal documentation provided to the Board, it raises transparency concerns about the status of the capital project, how available funds were spent, if cost reductions occurred, and how well Board of Director expectations for project and service delivery were met.

Final and Balancing Change Orders Need Consistent Preparation

Valley Water’s Construction Manual (Section 9, Change Orders) requires the Construction Manager to prepare a “final and balancing” change order designed to reconcile all change orders for the contract, and that this final change order accompanies the “Notice of Completion and Acceptance” of the contract to the Valley Water Board for approval. TAP International determined that although staff may implement this policy on other contracts, this practice was not implemented on the six contracts that we reviewed. Instead, Valley Water staff appear to use the Board Agenda Memorandum to transmit this information, instead of a required formal change order, to accompany the “Notice of Completion of Contract and Acceptance of Work” and “Recommendation of Construction Contract Acceptance” to the Valley Water Board for approval. This information helps the Board of Directors determine if the project was delivered in accordance with the financial terms of the contract, which takes on greater importance for large scale capital projects. Valley Water staff confirmed that its current practice is to prepare a summary of all changes and their amounts and their final contract amount at the time of Notice of Contract Completion and Acceptance of Work. Valley Water staff also acknowledged that the Construction Manual requires an update.

Contingency Budget Development Should Consider Potential Risks

Valley Water establishes contingency budgets on most construction contracts to fund the cost of change orders. Although Valley Water does not have written policies and procedures in place that guide contingency budget development, project managers commonly apply 10 percent or 15 percent of the contract value (see Table 3) with limited consideration of risk factors. Based on our sample of contracts, TAP International determined that Valley Water establishes contingency budgets that are 10 percent of the contract amount for higher dollar value projects and 15 percent of the contract value for lower dollar value projects. Staff stated that where additional construction risks and complexities are known, higher contingency budgets are established.

Other public agencies have taken different approaches that consider capital project size and complexity risk factors. For example, some agencies establish a range of contingency budgets in that capital contracts valued up to \$25M have contingency budgets of \$500,000, and capital contracts valued over \$500M have contingency budgets of up to \$1.2M.

Table 3. Award and Contingency Amounts for the Six Contracts Reviewed*

Project Name	Contract No.	Division	Award Amount	Contingency Amount	Contingency %
Installation of Cathodic Protection Rectifiers and Deep Well Anodes on the Santa Clara Conduit	C0632	Water Utility	\$ 244,400	\$ 36,600	15%
Installation of Cathodic Protection Rectifiers and Deep-Well Anodes on the Pacheco Conduit	C0623	Water Utility	\$ 291,740	\$ 43,761	15%
IRP2 Water Treatment Plant Operations Buildings Seismic Retrofit Project- PWTP and the PWTP Clearwell Recoat and Repair Project	C0609	Water Utility	\$ 6,072,500	\$ 910,875	15%
Penitencia Delivery Main and Penitencia Force Main Seismic Retrofit	C0611	Water Utility	\$ 21,535,025	\$ 2,153,500	10%
Matadero Creek Sediment Removal & Erosion Repair and San Tomas Aquino Creek Erosion Repair Project	C0642	Watersheds**	\$ 1,650,750	\$ 165,075	10%
Lower Berryessa Creek Project Phase 1	C0604	Watersheds**	\$ 12,186,600	\$ 1,219,000	10%

*Valley Water does not have a written policy that establishes the basis to use in establishing a contingency budget.

**Construction management was outsourced.

While contingency budgets are disclosed separately in Board memos and approved by the Board of Directors for each capital construction contract, this practice allows Contractors to know early on the amount of potential revenue that could be earned on the contract from change orders. When this occurs, Contractors may be more prone to propose activities that could increase project costs – a potential financial risk to Valley Water. Valley Water executives explained that disclosure of the contingency budget allows the Board of Directors to know the level of funding dedicated within their representational zone. Other agencies do not establish contingency budgets and instead require governing body review and approval of each change or allow the contingency budgets for unforeseen circumstances only.

Delegation of Review and Approval Authority of Change Orders Needs Consistency

Each capital contract has a financial threshold established that delegates review and approval authority of change orders. These authorization thresholds can vary from project to project. Valley Water’s CEO (or designee) can approve change orders up to the dollar amount of the contingency budget. Valley Water used dollar amounts as thresholds, rather than percentages, to set staff-

delegated approval authorities for change orders, which adds greater complexity to change order management, as shown in Table 4. For two Water Utility Capital Division contracts, the Engineering Unit Manager and Deputy Operating Officer had approval authority for changes valued up to \$5,000 and \$10,000, respectively. For two other Water Utility Capital Division contracts, the Engineering Unit Manager and Deputy Operating Officer were authorized to approve changes up to \$100,000 and \$250,000, respectively. For two Watersheds Design and Construction Division contracts, with construction management outsourced, for example, the Board authorized Deputy Operating Officer approval of contract changes for one contract up to \$50,000, while on the other contract, authorized changes up to the contingency amount of \$165,000. Streamlining the financial thresholds for delegated review and authorization facilitates the effectiveness of service delivery.

Table 4. Comparison of Change Order Approval Thresholds for the Six Contracts Reviewed

Contact Name	Contract No. & Submittals	Division	Contract Award Amount	Contingency Amount	Contingency %	Approval Thresholds
Installation of Cathodic Protection Rectifiers and Deep Well Anodes on the Santa Clara Conduit	C0632	Water Utility Capital	\$244,400	\$36,600	15%	EUM* \$5K and DOO* \$10K
Installation of Cathodic Protection Rectifiers and Deep-Well Anodes on the Pacheco Conduit	C0623	Water Utility Capital	\$291,740	\$43,761	15%	EUM \$5K and DOO \$10K
IRP2 Water Treatment Plant Operations Buildings Seismic Retrofit Project-PWTP and the PWTP Clearwell Recoat and Repair Project	C0609	Water Utility Capital	\$6,072,500	\$910,875	15%	EUM \$100K and DOO \$250K

Contact Name	Contract No. & Submittals	Division	Contract Award Amount	Contingency Amount	Contingency %	Approval Thresholds
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Penitencia Delivery Main and Penitencia Force Main Seismic Retrofit	C0611	Water Utility Capital	\$21,535,025	\$2,153,500	10%	EUM \$100K and DOO \$250K
Matadero Creek Sediment Removal & Erosion Repair and San Tomas Aquino Creek Erosion Repair Project	C0642	Watersheds Design & Construction	\$1,650,750	\$165,075	10%	EUM \$50K and DOO up to contingency amount
Lower Berryessa Creek Project Phase 1	C0604	Watersheds Design & Construction	\$12,186,600	\$1,219,000	10%	EUM \$30K and DOO \$50K

*EUM – Engineering Unit Manager; DOO -Deputy Operating Officer.

Cost Reductions on Capital Projects Should be Consistently Processed Through Change Orders

Valley Water change order procedures require the issuance of change orders to reflect cost reductions in the capital project. These change orders can then be used by Valley Water’s Budget & Financial Analysis Unit to modify the budget information in the financial management system.

TAP International determined that Valley Water uses change orders inconsistently to document changes that resulted in cost reductions/savings. On three of the six construction contracts (604, 611, 642), five change orders were processed with cost savings for these three contracts, including both Water Utility Capital and Watersheds Design and Construction Division contracts. For contract 604 (Lower Berryessa Creek, Phase 1), the Watersheds Design and Construction Division project management staff reported about \$1.2 million in cost savings across the three change orders⁵. Further, in change order #15 for Water Utility Capital Division contract 611 (Penitencia Force Main Seismic Retrofit), a change order documented a cost reduction of \$135,025 from the deletion of Supplemental Bid Items in their entirety because naturally occurring asbestos was not encountered on the project.

In contrast, Valley Water did not issue a change order for cost reductions on Watersheds Design and Construction Division contract for Matadero Creek Sediment Removal & Erosion Repair and San Tomas Aquino Creek Erosion Repair Project (contract 642). It is unclear how Valley Water staff otherwise formally documented changes in the project files given that Valley Water outsourced construction management for this contract. The Board Agenda Memorandum for the Notice of Completion and Acceptance for contract 642 states there were no change orders, but that there was a cost reduction to the contract in the amount of \$219,810, as shown in Table 5. The Board

⁵ Valley Water had outsourced construction management on this contract.

Memo for contract 642 stated that “Various cost reduction for quantity adjustments attributed by value engineering; non-implementation of supplemental bid items such as winterization, resulted in a net savings amount of \$219,810.00 less than the original contract award amount.” When change orders are not consistently issued for cost reductions, management cannot easily track the amount of funds available that could be expended for other purposes.

Table 5: Board Memo Showing Cost Reductions Without a Change Order (Board Agenda Memorandum, File #19-0208)

Description	Contract Amount	Contingency Amount
Original Contract (Board Approved)	\$1,650,750	\$1,650,750
Cost Reduction Net Savings	<\$219,810>	\$1,650,750
Final Contract Amount and Remaining Contingency	\$1,430,940	\$1,650,750

Separating Change Orders to Retain Staff Approval Authority Should be Avoided

Valley Water assumes financial risk when multiple change orders are issued to likely avoid triggering an additional layer of review. For Water Utility Capital contract #623, Valley Water staff used two separate change orders to reflect cost increases. The split allowed Valley Water staff to use the approval authorizations established when the Board of Directors approved the contract. The Board had initially authorized the CEO to approve up to \$43,761 in changes (a 15% contingency) for the almost \$292K project.

The first change order was approved for a \$40,000 “lump sum” for “hard rock drilling” at four well locations “to address an unforeseen condition.” The change order also states that:

“The additional cost of \$34,643.40 for disposal associated with the hard rock drilling requested” by the contractor “will be deferred and subject to action by the Valley Water’s Board of Directors. Valley Water staff will recommend the Board approve an increase in delegated change order authority for the requested amount of \$34,643.40 for disposal costs. If approved, a final change order will be submitted in that amount.”

Valley Water executed the second change order about one month after the Valley Water Board approved the Completion and Acceptance of the contract, with an increase of about \$31,000 to the contract’s contingency to pay for the second change order.⁶

While Valley Water management staff explained the change orders were prepared for two separate issues (increase in delegated approval authority and to approve a change order), the discussion

⁶ Approval of the first change order (6/11/2018) occurred after the Final Inspection (5/25/2018) and Projection Completion (6/5/2018) and Recommendation to the Board for Completion and Acceptance of the Contract (6/8/2018). The CEO approved the second change order on 7/18/18.

acknowledged that in hindsight, that the order and sequence in which the change orders were processed would have been managed differently if Construction Services Unit staff had performed the construction management on the project. TAP International determined that the two change orders should have been combined. When the second change order was issued, it was too late for the Board of Directors to perform an in-depth review of the change order, if needed.

QEMS System Can Be Expanded and Enhanced

Valley Water implements the Quality Environment Manager System (QEMS) with the goal of accomplishing organizational excellence and environmental stewardship. The QEMS conforms to International Organization for Standardization (ISO), allows Valley Water to support continual improvement activities through developing employee knowledge, establishing controls and activities for products, services, and good practices, and helping to make Valley Water more efficient and effective. To this end, Valley Water requires project and construction managers to complete standardized checklists and other forms to help ensure quality assurance over program and services.

TAP International identified the current QEMS forms used in the design and construction phases could be enhanced and better utilized. While the QEMS forms and other documents provide general procedures to mitigate capital projects risks, potential improvement to form enhancement include:

1. **Incorporate existing District practices onto QEMS project reports.** QEMS document titled, *Capital Improvement Program Planning (Q710D01)* establishes Valley Water's goal to instill a discipline of systematic planning for CIP projects. The procedure outlines the process steps for the CIP. For many of the steps, however, the Quality Records (Outputs from Process Steps) are not always defined and could be clarified by using links to templates or document examples.
2. **Enhance the Close-Out Checklist by including a review of open COs and PCOs.** QEMS document number *F-751-098* (Close-Out Checklist) is a form to create the Close-Out Report for each phase and final close-out of a project. With the coordination of the project owner, Capital Program Planning and Analysis Unit, and the General Accounting Unit, a review of all PCOs and COs that may still be open should be conducted so that the orders can be closed. This form can be updated to have an RSO type of office responsible for managing and processing open change orders.

The Close-Out Checklist also defines what information will be needed from the Capital Improvement Projects Historical Information Retrieval (CIPHIR) system to develop the CIPHIR report. The CIPHIR is a tool designed to provide critical information regarding previous and existing capital projects. The CIPHIR Project Status Report should include a section related to lessons learned on the project specifically related to project changes that resulted in change orders. Having this information systematically reported can institutionalize continuous improvement process activities. TAP International identified the inconsistent implementation of historical reviews of past projects to facilitate project planning because project files are not centrally collected and stored for easy access by staff.

In addition, TAP International determined that historical change order information that could be useful in planning comparable projects is not systematically collected or analyzed for project planning purposes because the Capital Program Planning and Analysis Unit is not fully set up to perform this activity. Lessons learned information is maintained by the project manager for individual capital projects. Although Water Utility Capital and Watersheds Design and Construction staff acknowledge the value of having lessons learned activities, the Divisions do not institutionalize outcomes for consistent adaptation on future projects.

3. **Consistently implement document Q-751-013 (Capital Project Delivery).** Capital project delivery forms provide instruction to unit managers, project managers, and project team members on how to manage the delivery of capital projects. Step 3 (Plan Planning Phase), Step 6 (Plan Design Phase), and Step 9 (Plan Construction Phase) requires the review of information in the CIPHIR tool. This step is important but TAP International identified that project management practices vary by person and that each project is managed differently based upon the knowledge and experience of the manager.
4. **Clarify Section 11, Appendix A, (Q-751-013, Capital Project Delivery).** Appendix A of Capital Project Delivery forms defines roles and responsibilities. TAP International identified that this section needs clarification because project managers are not always involved from project design to project completion, as stated. For some projects, project managers perform project planning, and upon completion of project design, another construction manager will assume responsibility for the project's implementation. For other projects, the project manager will remain assigned to the project from initiation to close-out.
5. **Enhance the Risk Management Process Document W-710-128.** This document provides instruction to unit managers, project managers, and project team members on how to identify, assess, and respond to risks in order to manage or reduce potential adverse effects on achieving project goals. Instructions address project risks, but do not require the identification of specific risks that reviewing the historical project documents of change orders may identify. Adding a step to have the project manager/risk owners review similar project information from the CIPHIR and describe specific corrective actions will also further enhance risk assessment in project planning.

Finding 3: Root Cause of Change Orders is Attributed to the Absence of Strong Support Systems

Root cause analysis (RCA) is a methodological technique designed to pinpoint the precise cause of an occurrence of a single or set of events or problems. When that cause is identified, solutions can be addressed to prevent re-occurrence. Root cause analysis for performance auditing relies on both quantitative and/or qualitative data collection and analysis methods. This method excludes the use of scientific investigation applied in other root cause analysis methods.

Although the information was not readily available on the reasons for change orders, Valley Water management and staff reported that change orders involve the:

- price of materials or labor;
- quantity of materials or labor;
- material specifications;
- project work schedule;
- scope of work;
- changes in environmental conditions;
- terms and conditions; and
- unforeseen circumstances.

Although TAP International could not perform a quantitative analysis of the root causes of change orders, our qualitative analysis determined that inconsistent implementation of project planning and design activities can be linked to change orders. For example, project and construction managers explained that one project planning activity includes reviewing past comparable projects for the types of challenges and other problems that occurred so that the issues could be resolved in the design phase of the new project. However, not all project managers said they perform this activity. Without anticipating the types of issues that occur when planning similar projects, change orders could likely result. Valley Water contractors reported that while some change orders result from unanticipated events, others result from permitting issues, jurisdiction coordination issues, and scheduling issues that could have been prevented had these issues been fully resolved in the planning phase. Finally, former DRB members for Valley Water identified ambiguities in the design of the project as the cause of change orders during their service as a representative on the DRB.

Project manager and construction managers further attributed the project planning and design activity concerns to different levels of expertise and experience by Valley Water staff. Project managers and construction managers who have experience working at other agencies said their greater level of experience and expertise empowers them to challenge contractors on requested project changes. Project managers and construction managers, who said they had less experience, cited the need for additional project management training to address gaps in their level of expertise, such as risk management, cost estimating, and negotiation. While Valley Water makes available project management training, management explained that it is staff responsibility to receive the training and staff, who have taken the training, said that more training is needed given that project and construction management is generally a secondary role and responsibility for Valley Water staff. TAP International determined that Valley Water does not require its capital construction staff to hold project management professional certifications, which may be needed on large scale projects. Possessing project management professional certification provides assurance that project and construction managers have received comprehensive project management training and have full knowledge of project management standards and practices.

TAP International determined that the likely root cause for change orders is the absence of strong support systems to aid project and construction managers. These support systems include:

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- Enhanced oversight of the design process. DRB members said constructability reviews, conducted by experts independent of the design process, are an effective method to prevent change orders for both projects designed by Valley Water staff and projects designed by consultants;
 - Robust project management training programs;
 - Enhanced change order policies and procedures;
 - Enhanced quality assurance forms; and,
 - Utilization of an advisory body that would support decision-making on change orders.

Without the development of new and enhanced support systems, Valley Water can likely expect an increase of change orders on future capital construction projects.

Section IV: Acknowledgements

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

- Watersheds Design and Construction Division
- Water Utility Capital Division
- Construction Services Unit
- Dam Safety and Capital Delivery Division
- Purchasing and Consultant Contracts Services Unit
- Financial Planning and Management Services Division

Section V: Agency (Valley Water) Response to Audit Recommendations

<p>RECOMMENDATION 1 - Update capital construction change order policies and procedures applicable to large-scale projects to:</p> <ul style="list-style-type: none"> a. Require an Independent Cost Estimate (ICE) for capital construction change orders. b. Use a separate advisory body to review and recommend the approval of change orders. c. Prohibit commencement of work until after formal approval of the change order. 	
<ul style="list-style-type: none"> a. AGENCY RESPONSE: Management agrees with this recommendation. Management will require an Independent Cost Estimate (ICE) for capital construction change orders on contracts greater than \$100M or on projects of lesser value when the Chiefs deem the project to be higher risk. In addition, the services of an on-call cost estimator will be required for complex cost estimates, as determined by the Capital Engineering Manager overseeing the project based on an evaluation of in-house experience relative to the scope of work. Target Implementation: December 2020. b. AGENCY RESPONSE: Management agrees with the recommendation. A Change Control Board (CCB) will be established as part of a systemic change order management approach. The CCB will review changes that have a significant cost or schedule impacts. For large-scale projects, the addition of a Project Steering Committee will be established with project oversight to keep a pulse on progress or to address major design or construction changes. The Steering Committee would not replace the functions of the CCB but will review items of substantial interest as determined by the Steering Committee. Staff will develop processes and procedures for the CCB. The make-up of the CCB and Project Steering Committee will include senior and executive staff. Additional resources will provide input depending on the project issue under consideration, including the Engineer of Record, subject matter experts, legal counsel, and claims management and scheduling consultants. Target Implementation: December 2020 c. AGENCY RESPONSE: Management agrees with the recommendation. To responsibly and efficiently deal with changes, the responsibility and authority for change approvals 	<p>INDEPENDENT AUDITOR'S RESPONSE:</p> <ul style="list-style-type: none"> a. Valley Water's response satisfies the recommendation. b. When staff develops procedures for the CCB, Valley Water should ensure that that the Change Control Board will review change orders on contracts valued at \$100M or on projects of lesser value that are deemed to be high risk, to be consistent with Valley Water's prior response. c. Valley Water could satisfy our recommendation and continue to provide autonomy to field personnel by allowing project managers/engineers the discretion to make changes to a project provided the changes can be implemented within the project's original budget. Delegating this

must be delegated to personnel at the level most knowledgeable and most closely aligned with the project issue. However, certain field changes that must be performed immediately to mitigate an emergency or to avoid critical, immediate delays to the project may necessitate force-account work to address the immediate need. Force account work (i.e., time and materials work) constitutes an approved change order of variable cost and duration while the scope of the change is finalized.
Target Implementation: December 2020

authority then eliminates the need for a change order. Second, emergencies do happen, but even under the circumstances described by management, an expected budget for the work today’s technology makes it possible for that budget to be quickly proposed, communicated, and approved in a very short period. A process for emergency work should be established.

RECOMMENDATION 2 - 2. Enhance constructability reviews as part of the construction project design phase with the addition of independent subject matter experts to the review team to help mitigate the occurrence of change orders on large-scale capital projects.

AGENCY RESPONSE: Management agrees with the recommendation.
 Third-party and/or peer review processes will continue to be required for all large-scale projects to address constructability and identify risks and develop approaches to mitigate those risks. Staff will consider securing consultant services to provide third-party constructability reviews.
Target Implementation: December 2020

INDEPENDENT AUDITOR’S RESPONSE: Our report affirmed that constructability reviews are being performed in-house by VW staff. However, CRB members said constructability reviews performed by independent third parties could further mitigate the need for change orders. We commend VW in their future efforts to consider consultant services for these constructability reviews. To ensure project transparency and predictability, staff should develop policies and procedures to identify the circumstances and other criteria that would trigger third-party constructability reviews, including the anticipated timelines and impacts on project design and delivery planning.

RECOMMENDATION 3 - Enhance the review and approval process for change orders (including potential change orders, contract change orders, and directed change orders) on capital construction projects that are new to Valley Water and/or whose project costs exceed a specific level established by the CEO (i.e., \$100M) to add and enhance support structures to aid project and construction managers in capital project delivery. An option could include:

- a. Create a Capital Project Steering Committee for each new project to review project progress and provide authority to review and approve change orders. The Committee should include Valley Water management, project, and construction manager, external subject matter experts, outsourced legal construction contract counsel, and a representative from the Purchasing and Consulting Contracts Services Unit.**

AGENCY RESPONSE: Management agrees with the recommendation.

The change-order approval process requires a review to ensure both processes and roles/responsibilities are clearly defined along with authority levels, which will be clarified in the revised process. The role of review and approval of change orders would be delegated to the CCB, with defined governance and procedures, including defined authority levels. Due to the unique and unexpected issues encountered by large projects, a Project Steering Committee would be established for projects greater than \$100M. The Project Steering Committee will be established with project oversight to keep a pulse on progress or to address major design or construction changes. The Steering Committee would not replace the functions of the CCB but will review items of substantial interest as determined by the Steering Committee. Executive management will define the make-up and role of the Project Steering Committee.

Target Implementation: July 2021.

INDEPENDENT AUDITOR'S RESPONSE: Valley Water's response satisfies the recommendation. The Independent Auditor continues to suggest that the Steering Committee includes external and outsourced personnel, which could help minimize financial and project delivery risks on large scale construction projects.

RECOMMENDATION 4 - Create a Resources Services Office (RSO) or restructure the current Capital Program Planning and Analysis Unit and develop RSO roles and responsibilities, including the business processes and information systems needed to support large-scale capital construction projects and to serve as a resource for project and construction managers on smaller projects. Examples of expected RSO roles and responsibilities for large-scale capital construction projects include:

- Integrate project design and construction management activities;
- Develop large-scale construction management policies and procedures;
- Ensure consistent and uniform implementation of capital project management and construction management standards;
- Manage and administer the contract management and change order process;
- Consolidate, analyze, and disseminate lessons learned activities and historical project information for future project planning;
- Coordinate project and construction project activities;
- Establish and manage project and construction management standardization;
- Implement a centralized project management information system;
- Enhance QEMS activities, including the preparation and updating of guidelines and checklists to be used by project and construction managers;
- Prepare information about the reality of existing projects and corrective action plan development;
- Promote continuous process improvement;
- Establish a performance-based management system to track effective change order management, project completion, and project financial performance.

Examples of RSO roles and responsibilities for smaller capital construction projects would be to share historical project information to support design activities and to assist project and construction managers on change order negotiation

AGENCY RESPONSE: Management agrees with the recommendation with the following exceptions. *All responses below will use the term "Project Controls Office", which is a more common term in project and construction management instead of "Resources Services Office".*

Management agrees with the recommendation. The addition of the Project Controls Office will enhance Valley Water’s ability to manage capital projects in a consistent manner, track and analyze historic change order trends, administer a robust lessons-learned program, and help develop a project management training program for capital project staff. Additionally, a Project Controls Office will provide project management staff the ability to focus on the details of the project.

Target Implementation: July 2021

Management does not agree with the recommendation that the Project Controls Office also be given certain design and construction management activities. Project delivery and construction management activities should functionally be separate from the Project Controls

INDEPENDENT AUDITOR’S RESPONSE: The Independent Auditor commends Valley Water for its internal discussions to determine how better to deliver capital construction projects. Management raised two concerns about the recommendation that our response may be beneficial to these ongoing discussions. First, in the development of the recommendation by the Independent Auditor, stakeholders participating in the audit raised concern about the potential risk that use of the traditional name, “Project Controls Office (PCO)” will likely create a “silo” effect, meaning that the PCO would serve only the Capital Construction Division when there was need for an office to serve both Watershed and the Capital Construction Divisions. The Independent Auditor understands through subsequent discussions with VW staff that the agency has moved away from centralizing project

Office, yet monitoring of the project schedule, costs, and scope would be done for the lifetime (design and construction) of the project by the Project Controls Office. The Project Manager, assigned as the responsible person for the project, is tasked to integrate design and construction management activities from start to completion of the project – it is management’s recommendation that this role should not be delegated to others, including the Project Controls Office.

Management does not agree with the recommendation that the Project Controls Office be given the responsibility to manage contract management and change order process.

The Project Manager is responsible for managing all aspects of the project. It is management’s recommendation that the responsibility should not be assigned to a separate entity. Expected roles in the change management process are as follows:

- The Project Manager and Construction Management staff manage contract change action and issue change orders, analyze and negotiate change orders, and prepare recommendations for contract changes to the Change Control Board.
- The Project Controls Office reviews scope, schedule or budget changes as identified in the change order and interprets impact to the project, and coordinates change control functions (prep ERP, budget docs, schedule verification and impact analysis, etc.)
- Construction management staff reviews preparation and negotiation of the change order to ensure compliance with contractual requirements, and reviews engineer's cost estimates and work statements to confirm the appropriate contract action. Staff will define the roles of project controls staff and define staffing levels for a new Project Controls Office.

support activities. While creating a PCO only within the Capital Construction Division will likely have a positive impact on Valley Water, the reach of this impact could be greater if the office could be shared by other Divisions that also manage projects like Watersheds.

Second, as stated in the recommendation, the role of the Resources Services Office (RSO) is to help Valley Water “coordinate” and “standardize” project management activities across the District. As a unit providing only support services to project managers, the RSO would not assume any design or construction management activities. Our audit report described gaps in the support systems for VW project managers. Similarly, VW disagrees with having the RSO manage the contract and change management processes. The audit report described the need for a better contract and change order management because the processes, as currently implemented by project managers, create a high project and financial risks on large capital construction projects. The RSO could provide the support project managers need – and reduce the workload of project managers – by helping project managers to prepare change orders, track change orders ensure necessary approvals have been sought, and help to coordinate contract changes with the Procurement and Contracts Division.

RECOMMENDATION 5 - Transfer the responsibility to administer procurement activities on capital projects (e.g., request for bid preparation and bid processing) from the Capital Program Planning and Analysis Unit to Valley Water’s Purchasing and Consultant Contracts Services Unit to centralize procurement activities. The RSO should assume responsibility for contract administration and change order management on all capital projects upon execution of the contract by the Purchasing and Consultant Contracts Services Unit. For example, the Purchasing and Consultant Contracts Services Unit can embed an employee into the RSO. This employee could oversee change order management, administer an oversight role in coordinating updated change order policies and procedures, and/or conduct spot audits to ensure change orders comply with contractual terms and conditions.

AGENCY RESPONSE: Management agrees with the recommendation with the following exceptions. *All responses below will use the term "Project Controls Office", which is a more common term in project and construction management instead of "Resources Services Office".*

Management agrees that procurement activities for capital construction contracts be transferred to the Purchasing and Contracts Unit. This recommendation has been executed.

Management does not agree that the Project Controls Office would take responsibility for contract administration and change order management on all capital projects. Refer to the Management Response to Recommendation R4.

Target Implementation: January 2020 transfer capital construction procurement activities to the Purchasing and Contracts Unit.

INDEPENDENT AUDITOR’S RESPONSE:

As stated in our response under Recommendation 4, the audit report describes the benefits to the District from improved contract and change order management. Our audit report described opportunities for more implementation of change order processing, consistent documentation of the need for the changes, better review of pricing, etc. Enhancements to contract management for multi-million contracts were also identified. The RSO could help provide support to project managers for these activities, such as helping to prepare change orders, tracking change orders to ensure necessary approvals have been obtained, and in coordinating contract changes with the Procurement and Contracts Division.

RECOMMENDATION 6 - Promote the uniform implementation of change order management and administration for all capital projects by:

- a) Developing and establishing specific criteria for establishing contingency budgets for change orders that consider project complexity and size (Example: \$0 contingency for capital projects less than \$100,000 ranging to an amount over \$1M for projects over \$500M) eliminating the need for the Board of Directors to approve contingency budgets for each capital construction contract separately.
- b) Updating the Quality and Environmental Management System (QEMS) forms to:
 - a. Develop templates within the Capital Improvement Program Planning document to provide clarification on how Quality Records should be completed.
 - b. Add a step in the Close-Out Checklist for the review of open change orders and potential change orders.
 - c. Enhance the Risk Management Process document to include a review of similar projects in the Capital Improvement Program Historical Information Retrieval (CIPHIR) tool to identify additional project risks and corrective actions that may not have been previously identified.
- c) Enhance project management training to address change order management and administration, including negotiation, pricing analysis, and contract closeout activities.

AGENCY RESPONSE: Management disagrees with the recommendation.
 In the interest of transparency, contingency will continue to be separately approved by the Board of Directors for each capital construction contract.
Target Implementation: N/A

AGENCY RESPONSE: Management agrees with the recommendation.
 Regarding the recommendation to enhance the Risk Management Process: Providing a risk register and methods to mitigate risks, with reference to past projects, would assist Risk Management in defining insurance requirements. Large-scale projects will require a robust Risk Register with identified costs and methods to mitigate risks.
 Staff will develop the following: 1) A work instruction that lists those quality records to be included in the "official" contract file. Furthermore, a defined standard electronic folder system with a checklist of contents would accompany the work instruction and serve as a template for contract administration.
 2) Staff will add additional details for the Close-out process that includes checklists and roles of the project manager, contract administration, and project controls.
 3) A risk management approach and procedures.
Target Implementation: December 2020

a. **AGENCY RESPONSE: Management agrees with the recommendation.**
 All Project Managers and Construction Management staff will be trained on essential project management skills to help ensure uniformity of practices on all projects.
Target Implementation: December 2021

INDEPENDENT AUDITOR RESPONSE:
 The Independent Auditor acknowledges the importance of transparency and accountability in government. The intent of the recommendation is to reduce the financial risk of exceeding the original contract budget, which arises from the approval of the contingency budget in an open forum. Alternative processes can be implemented to minimize financial risk and accomplish the principles of transparency. For example, transparency may be accomplished by establishing specific policies, approved by the Board, that define the criteria for setting contingency budgets, such as project size, complexity, and procurement method (design-bid-build, design-build, etc.). The contingency budgets would then be established for projects according to the criteria.

RECOMMENDATION 7 - Develop, track, and report on performance metrics that monitor the timeliness, costs, and cost savings on large scale capital projects. Metrics established for monitoring the final capital project closeout costs against the original base contract amount should exclude contingency budget amounts.

AGENCY RESPONSE: Management agrees with the recommendation.
Management concurs with the recommendation to develop, track and report on performance metrics for all projects that have been included within our CIP. Performance metrics and key performance indicators (KPI's) will be created for monitoring, reporting requirements, and reporting methodology.
Target Implementation: December 2021

INDEPENDENT AUDITOR RESPONSE:
Valley Water's response satisfies the recommendation. Management should consider reducing the two-year timeframe for implementation so that it can demonstrate sooner the effectiveness of its efforts to improve the construction contract change order process.



Santa Clara Valley Water District

File No.: 20-0210

Agenda Date: 2/19/2020

Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Discuss the Options to Extend, Allow to Expire, or Terminate the Board Independent Auditing Services Agreement, with TAP International, Inc., Set to Expire Effective May 8, 2020.

RECOMMENDATION:

- A. Discuss options to extend, allow to expire, or terminate Board Independent Auditing Services Agreement with TAP International, Inc. for Board Independent Auditing Services currently scheduled to expire effective May 8, 2020; and
- B. Approve recommendation to the full Board to:
 - i. Exercise option to extend Board Independent Auditing Services Agreement with TAP International, Inc. for one year and increase the not-to-exceed amount by \$600,000 from \$1,005,000 to \$1,605,000;
 - ii. Allow the expiration of the Board Independent Auditing Services Agreement with TAP International; or
 - iii. Exercise option to terminate the Board Independent Auditing Services Agreement with TAP International, Inc. prior to the expiration date of May 8, 2020.

SUMMARY:

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

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

On September 26, 2018, TAP presented the final Risk Assessment Model to the BAC assessing operational risks to the Santa Clara Valley Water District ("Valley Water"). The Risk Assessment Model developed heat maps of Valley Water operational areas based on risk impact (low, moderate, and high risk). The results of the risk assessment identified 41 potential audits which included input from Valley Water's Board of Directors, management and staff. The highest risk areas included procurement, contract change order management, succession planning, and fraud prevention.

On February 26, 2019, the Board approved the BAC's recommendation for TAP to conduct three performance audits and to direct staff amend the agreement to increase the not-to-exceed amount from \$405,000 to \$1,005,000 to complete all three proposed audits and approximately three additional future audits. The three audits include performance audits of Valley Water's Counsel's

office, contract change order management processes, and real estate services. On June 7, 2019, Amendment No. 1 to the Board independent auditing services agreement was fully executed.

Derived from the 41 potential audits identified in the Risk Assessment, the FY 2019-2021 Annual Audit Work Plan outlined 16 audits to be conducted. On June 25, 2019, the Board approved the Annual Audit Work Plan for FY 2019 through FY 2021.

On January 14, 2020, the Board approved the revised FY 2019-2021 Annual Audit Work Plan as recommended by the BAC. This Board-approved Annual Audit Work Plan extends the original scope of 16 audits to include: Grant Management Adhoc Desk Review; Hiring Practices Adhoc Desk Review; Board Agenda Preparation Adhoc Desk Review; and the Property Management Audit for implementing encroachment licensing program practices. The extended scope under the FY 2019-2021 Annual Audit Work Plan does not alter the scope of Amendment No. 1 to the Agreement (A4071A) with TAP.

At the February 19, 2020, BAC meeting, the BAC shall discuss the options to extend, allow the expiration of, or terminate the Board Independent Auditing Services Agreement with TAP prior to the expiration of the agreement. The Board Independent Auditing Services Agreement is set to expire on May 8, 2020. As the Board Independent Auditing Services Contract relates to the Purchasing and Consultant Agreement process, the 2020 Fiscal Year-End Procurement Deadlines are provided in Attachment 1 for reference with discussion of the contract.

If the BAC chooses to recommend expiration or the termination of the Board Independent Auditor contract, there will likely be a gap of several months until another independent auditor could be engaged to take over as the Board's independent auditor.

If the BAC chooses to recommend extending the Board Independent Auditor Contract with TAP International, staff recommends extending the contract for Board Independent Auditing Services for one year, increasing the not-to-exceed amount by \$600,000 from \$1,005,000 to \$1,605,000, and bringing a contract amendment for Board approval prior to the May 8, 2020 expiration.

ATTACHMENTS:





Attachment 1: FY 2020 Procurement Year-end Deadlines

UNCLASSIFIED MANAGER:





















Darin Taylor, 408-630-3068

2020 Fiscal Year-End Procurement Deadlines

VER C: 2/05/20

SYMBOL LEGEND:			
	Consultants		Training/Travel
	Purchasing		Single/Sole Source Procurements

IMPORTANT: If the Purchase Request requires other approvals such as IT or Facility items, allow an additional 2 weeks for review by those divisions. The due dates on this spreadsheet represents the date all approvals are required for submittal to be accepted.

Due Dates	Type and Amount	Board Information and Additional Notes
Feb. 7	 Consultant Agreements: Over \$ 225,000	Competitive consultant agreements require fully developed scopes, tasks and deliverables to be submitted in order to make Board approval by June.
Feb. 7	 Non-Prof'l Consultant Agreements: \$ 50,000 to \$ 225,000  Prof'l Consultant Agreements: < \$ 225,000	Competitive consultant agreements require fully developed scopes, tasks and deliverables to be submitted by this date to ensure CEO awarded by June.
Feb. 7	 Consultant Agreement Amendments: Over \$ 225,000	Amendments requiring Board Approval must be initiated and a completed draft amendment provided by this date.
Feb. 7	  Single/Sole Source - Consultants: Over \$ 225,000	For a non-competitive consultant agreement to be executed by June, Board approval for the CEO to negotiate and execute the agreement must be obtained by this date.
Feb. 7	  Single/Sole Source - Goods/general services: Over \$ 50,000	For a non-competitive procurement over \$50K to be executed by June, Board approval for the CEO to negotiate and execute the agreement must be obtained by this date.
March 2	 Purchase Requests: Over \$ 100,000	
March 16	 Purchase Requests: \$ 50,000 to \$ 100,000	Complete scope and ePR form is sent to IT or Facilities or Ergonomics for approval first. See ePR instructions for additional information.
April 3	 Non-Prof'l Consultant Agreements: < \$ 50,000	
April 3	 Consultant Agreement Amendments: < \$ 225,000	Initiate request (provide completed draft amendment docs and approval request form) to Unit 820 by this date to have the amendment executed by June.
April 3	  Single/Sole Source: Goods/general services: < \$ 50,000	Reminder that Board approval is required for Single/Sole Source Procurements over \$50,000 for goods and general services.
April 3	  Single/Sole Source - Consultants: < \$ 225,000	Reminder that Board approval is required for Single/Sole Source Procurements over \$225,000 for consultants.
May 8	 Purchase Requests requiring IT and Facilities or Ergonomic approval and < \$ 50,000	Complete scope and ePR form is sent to IT or Facilities or Ergonomics for approval first. See ePR instructions for additional information.
May 29	 Off-site Training/Travel Requests	Please plan ahead. Staff dedicated to training are also needed to process year-end purchase requests.
May 29	 Purchase Requests: < \$ 50,000	Due to increased volume during this period, please consider submitting purchase requests in advance of this due date.
June 19	 Non-Consulting Agreements	Non-consulting agreements include MOU's, cost share, utility relocation, etc.

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Santa Clara Valley Water District

File No.: 20-0186

Agenda Date: 2/19/2020

Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Conduct Annual Self-Evaluation.

RECOMMENDATION:

- A. Conduct Annual Self-Evaluation; and
- B. Prepare Formal Report to Provide to the Full Board.

SUMMARY:

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

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

The BAC Charter states that 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.

At the January 22, 2020, BAC meeting, the Committee directed staff to revise the Self-Evaluation Framework for review at the February 2020 BAC meeting. Revisions made to the BAC Self-Evaluation Framework address the following line items: 13, 15, 17, 19, and 20. The Annual Board Audit Committee Self-Assessment (Attachment 1) is provided to serve as a framework for the BAC to conduct a self-evaluation.

ATTACHMENTS:

Attachment 1: BAC Self-Evaluation Framework.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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ANNUAL BOARD AUDIT COMMITTEE SELF-ASSESSMENT

This self-assessment to be completed by Board Audit Committee (BAC) members and BAC invited stakeholders provides a basis for evaluating the performance of the BAC. Follow-up action should be taken as appropriate.

This assessment evaluates BAC governance, composition, operations and relationships.

ASSESSMENT (PLEASE CHECK YES, NO, AND/OR NEEDS ENHANCED PERFORMANCE)

BAC Governance	Yes	No	Needs Enhanced Performance
1. BAC operates pursuant to a written charter and assesses its charter annually?			
2. BAC Members has a clear understanding of the roles and responsibilities of the BAC?			
3. BAC Members obtain the information required for decision-making?			
4. BAC operates openly and with trust among members to resolve issues fully and completely?			
5. BAC reports regularly to the Board of Directors on its activities?			
BAC Composition			
6. BAC acts independently of Valley Water executive management.			
7. BAC is the right size with adequate representation of diverse knowledge, skills and abilities?			
Meetings			
8. BAC holds an adequate number of meetings and scheduled appropriately to facilitate the audit process?			

9. BAC plans meetings of adequate length and all issues are discussed fully.			
10. BAC ensures the right individuals attend to provide input on agenda items.			
Interaction with Stakeholders (Commingled Responsibilities)			
11. BAC maintains open lines of communication with the Valley Water Board and the Independent Auditor?			
12. BAC reviews annual audit work plans, ensuring attention to Board priority areas.			
13. Board external financial auditors communicate routinely with the BAC.			
14. BAC does not provide management direction to Valley Water staff.			
15. BAC allows independent auditor and external auditors to raise sensitive issues in compliance with the Brown Act and the information is received constructively.			
16. BAC discusses the audit process, encouraging candid discussions for continuous process improvement.			
17. BAC reviews key decisions made by management that may impose material risk to Valley Water business areas.			
18. BAC discusses the audit results with the Independent Auditor and External Auditor and reviews management's response for proposed implementation of audit recommendations to ensure alignment to Board priorities, financial feasibility, strategic objectives, and efficiency and effectiveness of operations.			
19. BAC reviews the audit results with the independent auditor and external auditors.			

Continuous Monitoring			
20. BAC has enough resources and availability to carry out responsibilities defined by the BAC Charter.			
21. BAC determines whether audit recommendations have been implemented by Valley Water management.			

Comments

Suggestions:

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Santa Clara Valley Water District

File No.: 20-0187

Agenda Date: 2/19/2020

Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Review and Approve the Updated 2020 Board Audit Committee (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 2020 Board Audit Committee Work Plan.

SUMMARY:

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

At the January 22, 2020, BAC meeting, under direction of the Committee, the 2020 Board Audit Committee Work Plan was updated to include additional line items such as the Audit Charter and Property Management Audit (Encroachment). The updated 2020 Board Audit Committee Work Plan is included in Attachment 1. Upon review, the Committee shall approve the updated 2020 Board Audit Committee Work Plan and make changes, as determined by the Committee.

ATTACHMENTS:

Attachment 1: 2020 BAC Work Plan

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
Board Audit Committee Meeting Dates														
1	Meeting Dates	•	•	•	•	•	•	•	•	•	•	•	•	<u>Note:</u> The BAC approved a regular meeting schedule for 2020, to meet monthly, on the third Wednesdays at Noon, with the exception of January.
Board Audit Committee Management														
2	Election of 2020 BAC Chair and Vice Chair	•												<u>Recommendation:</u> Nominate and elect the 2020 Board Audit Committee Chair and Vice Chair.
3	Board Audit Committee Audit Charter										•			<u>Recommendation:</u> Propose modifications to the Board Audit Committee Audit Charter to be presented to the full Board.
4	Review and Update 2020 BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	<u>Recommendation:</u> A. Review and Discuss topics of interest raised at prior Board Audit Committee Meetings and make any necessary adjustments to the Board Audit Committee Work Plan; and B. Approve the updated 2020 Board Audit Committee Work Plan.
5	Discuss Scope of Annual Audit Training from Board Independent Auditor	•												<u>Recommendation:</u> Discuss scope of Annual Audit Training from Board Independent Auditor.
6	Receive Annual Audit Training from Board Independent Auditor			•										<u>Note:</u> Training will be given to the full Board on the audit process. Management to identify staff to attend the training. <u>Recommendation:</u> Receive Annual Audit Training from Board Independent Auditor on the Audit Process.
7	Conduct Annual Self-Evaluation	•	•											<u>Recommendation:</u> A. Conduct Annual Self-Evaluation; and B. Prepare Formal Report to provide to the full Board.
8	Receive and Discuss Board Auditor Activity Report to Evaluate Board Auditor Performance	•	•									•		<u>Recommendation:</u> Receive and discuss Board Auditor Activity Report from TAP International, Inc. to evaluate Board Auditor Performance.
9	Discuss Extension or Termination of Board Independent Auditor Contract for Board Independent Auditing Services Prior to Expiration of the Agreement Effective May 8, 2020.		•											<u>Recommendation:</u> A. Discuss option to extend Board Independent Auditor Contract with TAP International, Inc. for Board Independent Auditing Services currently scheduled to expire effective May 8, 2020; 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. for one year and increase the not-to-exceed amount by \$600,000 from \$1,005,000 to \$1,605,000.

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BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
Board Audit Committee Special Requests														
10	Discuss Potential Recommendation to Board to Authorize Release of Attorney-Client Privileged Documents to Board Independent Auditor		•											<u>Recommendation:</u> Discuss Potential Recommendation to Board to Authorize Release of Attorney-Client Privileged Documents to Board Independent Auditor.
11	External Financial Auditor Meeting with Individual Board members													<u>Note:</u> Schedule as needed.
12	Provide status report to full Board quarterly													<u>Note:</u> Report to be provided to Board in non-agenda the month after each BAC meeting.
13	Discuss the Scope and Approach of the Ad-hoc Desk Reviews	•												<u>Recommendation:</u> Discuss the scope and approach of the ad-hoc Desk Reviews.
14	Grant Management Ad-hoc Desk Review		•											<u>Recommendation:</u> Discuss the status of the on-going desk review.
15	Hiring Practices Ad-hoc Desk Review		•											<u>Recommendation:</u> Discuss the status of the on-going desk review.
16	Board Agenda Preparation Ad-hoc Desk Review		•											<u>Recommendation:</u> Discuss the status of the on-going desk review.
17	Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract	•	•											<u>Recommendation:</u> Receive and discuss Financial Analysis regarding the Board Independent Auditing Services Contract with TAP International, Inc.
18	Valley Water Comprehensive Annual Financial Report						•							<u>Recommendation:</u> Discuss and provide direction on the content and format of the financial statement for the Valley Water Comprehensive Annual Financial Report for the Fiscal Year ending on June 30, 2019, as needed.
19	QEMS & ISO Overview and Continuous Improvement Methodology Benchmarking Analysis			•										<u>Note:</u> At the Dec '19 BAC meeting, the BAC approved new PO for \$25K min for Tanner Pacific, Inc. to prepare QEMS Methodology Benchmarking Analysis. <u>Recommendation:</u> Review and discuss overview of QEMS Process Improvement post ISO de-certification, and Benchmarking Analysis for 2020.

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BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
Management and Third Party Audits														
20	Review Draft Audited Financial Statements					•								<u>Recommendation:</u> A. Receive and discuss update on research Valuing Water as an Asset; and B. Direct staff to have Financial Auditor to contact Board Members and present, if necessary.
21	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.
22	Receive QEMS Annual Internal Audit Report			•										<u>Recommendation:</u> Receive information regarding the Quality and Environmental Management System.
23	Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. and the Consultant Contracts Improvement Process.				•									<u>Note:</u> Staff CAS update every 6 months. <u>Recommendation:</u> Receive and discuss a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and on the Consultant Contracts Improvement Process.
24	Review Contract Change Order Audit Report													<u>Note:</u> Staff periodic update. <u>Recommendation:</u> Receive and discuss a status update on the implementation of the recommendations made by TAP International, Inc. in the Contract Change Order Audit Report.
25	Status Update on the Lower Silver Creek Watershed Project Audit				•									<u>Recommendation:</u> Receive and discuss a status update on the State Controller Office Audit of Flood Control Subventions Program for Claim Numbers 86 - 91, submitted during the audit period, 08/01/2012 - 05/12/2016.
26	Status Update on the Annual Federal Single Audit of Federal Grants Audit													<u>Recommendation:</u> Receive and discuss a status update on the audit of an entity that expends \$750,000 or more of federal assistance received for its operations. Once completed, the Single Audit must be submitted to the Federal Audit Clearinghouse.

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BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
Board Independent Auditor - TAP International, Inc. Items														
27	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	<u>Recommendation:</u> Discuss the Annual Audit Work Plan and update, if necessary.
Audit - Change Order														
28	Final Draft Management Response for the Contract Change Order Audit	•												<u>Recommendation:</u> Discuss the Final Draft Management Response to Draft Contract Change Order Audit Report.
29	Receive and Discuss Auditor Response to Final Draft Management Response for the Contract Change Order Audit		•											<u>Recommendation:</u> A. Receive and discuss the Auditor Response to the Final Draft Management Response to Draft Contract Change Order Audit Report; and B. Direct staff to have TAP International, Inc. to present the Final Draft Audit Report and Management Response to the Board of Directors.
Audit - District Counsel														
30	Review District Counsel Audit Progress Report	•	•											<u>Recommendation:</u> Receive an update on the status of the on-going audit.
31	Review District Counsel Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
32	Review Response to District Counsel Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Real Estate														
33	Review Real Estate Audit Progress Report	•	•											<u>Recommendation:</u> Receive an update on the status of the on-going audit.
34	Review Real Estate Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
35	Review Response to Real Estate Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.

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 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
Audit - Construction Project Management (Tentative)														
36	Receive notification of initiated Construction Project Management Audit													<u>Note:</u> Audit Objectives - What areas of Valley Water's capital project budgeting practices can benefit from adopting best practices?
37	Review Construction Project Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
38	Review Construction Project Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
39	Review Response to Construction Project Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Supervisory Control and Data Acquisition (Tentative)														
40	Receive notification of initiated Supervisory Control and Data Acquisition Audit													<u>Note:</u> Audit Objectives - Does Valley Water's Supervisory Control and Data Acquisition (SCADA) systems meet established SCADA security frameworks?
41	Review Supervisory Control and Data Acquisition Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
42	Review Supervisory Control and Data Acquisition Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
43	Review Response to Supervisory Control and Data Acquisition Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Permitting Best Practices (Tentative)														
44	Receive notification of initiated Permitting Best Practices Audit													<u>Note:</u> Audit Objectives - How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?
45	Review Permitting Best Practices Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
46	Review Permitting Best Practices Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
47	Review Response to Permitting Best Practices Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.

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BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
Audit - Risk Management (Tentative)														
48	Receive notification of initiated Risk Management Audit													<u>Note:</u> Audit Objectives - Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims).
49	Review Risk Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
50	Review Risk Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
51	Review Response to Risk Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Billing and Collections (Tentative)														
52	Receive notification of initiated Billing and Collections Audit													<u>Note:</u> Audit Objectives - Are there opportunities to enhance Valley Water's billing and collection processes?
53	Review Billing and Collections Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
54	Review Billing and Collections Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
55	Review Response to Billing and Collections Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Accountability (Tentative)														
56	Receive notification of initiated Accountability Audit													<u>Note:</u> Audit Objectives - Are there opportunities to enhance safe clean water audits?
57	Review Accountability Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
58	Review Accountability Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
59	Review Response to Accountability Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.

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BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
Audit - Community Engagement (Tentative)														
60	Receive notification of initiated Community Engagement Audit													<u>Note:</u> Audit Objectives - Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities?
61	Review Community Engagement Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
62	Review Community Engagement Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
63	Review Response to Community Engagement Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Property Management (Tentative)														
64	Receive notification of initiated Property Management Audit													<u>Note:</u> Audit Objectives - Is Valley Water implementing encroachment licensing program consistent with the Board's guiding principles?
65	Review Property Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
66	Review Property Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
67	Review Response to Property Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Homelessness Analysis (Tentative)														
68	Receive notification of initiated Homelessness Analysis Audit													<u>Note:</u> Audit Objectives - How can Valley Water enhance its homelessness encampment clean-up activities that protect health and safety?
69	Review Homelessness Analysis Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
70	Review Homelessness Analysis Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
71	Review Response to Homelessness Analysis Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.

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BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
Audit - Classified Information (Tentative)														
72	Receive notification of initiated Classified Information Audit													Note: Audit Objectives - To what extent does Valley Water's Counsel's Office appropriately classify confidential information?
73	Review Classified Information Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
74	Review Classified Information Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
75	Review Response to Classified Information Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Local Workforce Hiring (Tentative)														
76	Receive notification of initiated Local Workforce Hiring Audit													Note: Audit Objectives - What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?
77	Review Local Workforce Hiring Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
78	Review Local Workforce Hiring Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
79	Review Response to Local Workforce Hiring Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Equipment Maintenance (Tentative)														
80	Receive notification of initiated Equipment Maintenance Audit													Note: Audit Objectives - Is Valley Water adequately meeting the needs of equipment maintenance?
81	Review Equipment Maintenance Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
82	Review Equipment Maintenance Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
83	Review Response to Equipment Maintenance Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.

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BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		22-Jan	19-Feb	18-Mar	15-Apr	20-May	17-Jun	15-Jul	19-Aug	16-Sep	21-Oct	18-Nov	16-Dec	
Audit - Community Engagement (Tentative)														
84	Receive notification of initiated Community Engagement Audit													<u>Note:</u> Audit Objectives - What are the best practices in planning and facilitating community engagement?
85	Review Community Engagement Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
86	Review Community Engagement Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
87	Review Response to Community Engagement Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Delta Conveyance (Tentative)														
88	Receive notification of initiated Delta Conveyance Audit													<u>Note:</u> Audit Objectives - What potential financial risks could occur on the California Water Fix project?
89	Review Delta Conveyance Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
90	Review Delta Conveyance Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
91	Review Response to Delta Conveyance Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
BAC Work Plan Items Outside of the Current Term														
92	Prepare risk assessment tri-annually													<u>Note:</u> Next Risk Assessment scheduled to be completed in October 2021.
93	Participate in financial statement audit procurement process													<u>Note:</u> Next procurement scheduled for January 2022.

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Santa Clara Valley Water District

File No.: 20-0176

Agenda Date: 2/19/2020

Item No.: 5.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Receive and Discuss Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance. (Continued From January 22, 2020)

RECOMMENDATION:

Receive and Discuss Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance.

SUMMARY:

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

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

On February 26, 2019, after completion of a risk assessment exercise, the Board approved the Board Audit Committee's recommendation for TAP to conduct three performance audits recommended by the Board Audit Committee.

On June 25, 2019, the Board approved the Annual Audit Work Plan for FY 2018-2019 through FY 2020-2021.

Per the 2019 BAC Workplan, the BAC was tasked with evaluating Board Auditor performance. In December 2019, the BAC requested a Board Auditor Activity Report from TAP. The purpose of this agenda item is to receive and discuss the Board Auditor Activity Report from TAP to perform the evaluation. The Annual Performance Report will be provided as a supplemental agenda attachment for the January 2020 BAC meeting.

ATTACHMENTS:

Attachment 1: SCVWD Independent Auditor Annual Performance

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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TAPInternational

Report to the Audit Committee

INDEPENDENT AUDITOR
ANNUAL PERFORMANCE
REPORT - DRAFT

January 24, 2019

Santa Clara Valley
Water District



INDEPENDENT AUDITOR OVERVIEW

In 2017 the Santa Clara Valley Water District (Valley Water) Board of Directors approved the selection of its first independent auditor, TAP International. TAP International is an independent firm that reports to and is accountable to the Board Audit Committee and the full Board of Directors. The Board of Directors initiated an independent audit function to support their efforts to advance open and accountable government through accurate, independent, and objective audits and assessments that seek to improve the economy, efficiency, and effectiveness of Valley Water.

As described in Valley Water's Request for Proposal and subsequently required under the contract executed in 2018, the scope of services required of the Independent Auditor include:

- Provide advice and recommendations on audits of government programs
- Develop an annual audit program, calendar, and budget
- Conduct audits as directed by the Audit Committee
- Prepare and deliver formal and informal audit reports and presentations
- Attend Audit Committee and Board meetings
- Meet with District staff as needed
- Provide additional staff resources as determined by the Audit Committee
- Conduct certain audits as directed by the Board.

INDEPENDENT AUDITOR ACCOMPLISHMENTS

Below is a summary of accomplishments and highlights resulting from Independent Board Auditor activities for the calendar year 2019:

1. Supported and Implemented Efforts that Developed the Foundation for the Independent Auditor Function

A. Served as a Resource for Audit Charter Development (Support Services)

In 2018, the Independent Auditor worked with the Board Audit Committee and Valley Water staff to provide information and other support services for the development of an Audit Charter. An Audit Charter serves to provide a framework for providing Board Audit Committee oversight of the governance, risk management, and audit activities of Valley Water. The Audit Charter also describes the general responsibilities of the Independent Auditor.

To support the development of the Audit Charter, TAP International provided information on leading practices for audit charter development, practices of other audit committees, guidance about audit processes, and review of the draft audit charter document. The Board of Directors approved the Audit Charter in August 2019.

B. Implemented Valley Water's First Agency-Wide Audit Risk Assessment (Audit Services)

An agency-wide risk assessment serves as a tool for the Board Audit Committee to prioritize audits and to strategically manage available audit funding. In addition to the development of the Audit Charter, implementing a risk assessment is a critical activity for effective

implementation of the independent audit function. TAP International completed the risk assessment in September 2018 that led to the identification of four high-need areas for audits and seven other areas that needed continuous monitoring.

C. Developed Annual Audit Work Plan (Support Services)

The annual audit work plan serves as a tool for the Board Audit Committee to manage, monitor, and track the audit activities of the Independent Auditor and other audit activities directly implemented by Valley Water management. The annual audit work plan includes a section describing the proposed performance audits to be overseen by the Board Audit Committee.

The results of the risk assessment aided in the development of the annual audit work plan applicable to the Independent Auditor coupled with input on auditable areas from individual Directors of the Board, Valley Water employees, mid-level management, and executive management. The annual audit work plan covers audit activities, such as follow-up audits, ad-hoc reviews, and performance audits. The audit work plan also includes budgeted hours to perform these activities. The annual audit work plan, approved in June 2019, described 16 performance audits proposed to be completed over a three-year period through FY 20-21. The described performance audits may or may not be performed by the Independent Auditor because the Board Audit Committee may choose to outsource specific audits. The annual audit work plan is a living document that is subject to updates upon Board of Director approval.

2. Implemented Board Audit Committee Directed Audit Activities

A. Attended Board Meetings (Audit Support Services)

TAP International attended selected Board Meetings to meet Board Audit Committee expectations and to comply with both Request for Proposal and contractual requirements. Of the 30 Regular and Special Board Meetings (excluding joint meetings) held in 2019, the Independent Auditor attended 10 (33%) of them, as shown in Table 1 below. The primary purpose of Board meeting attendance was to continuously monitor risks to Valley Water, collect data applicable to ongoing or planned audits, and to address agenda items directly applicable to TAP International audit activities.

Table 1: Board Meeting Attendance*

Reason for Attendance	Number of Board Meetings
Agenda item(s) directly related to work performed by TAP International, or the agenda item(s) directly relevant to planning or current audits underway	7
Agenda item(s) was a high or moderate audit risk that required monitoring	3

*See Appendix A for meeting details.

Charges billed for attending Board meetings totaled \$5,686.

Attendance at Board meetings coupled with subsequent discussions with the Board Audit

Committee led to adding a performance audit of the Valley Water encroachment program to the Annual Audit Work Plan, subject to approval by the Board of Directors in 2020. Three preliminary reviews were also planned. TAP International discussed the purpose of these proposed preliminary reviews at the November 26, 2019, Board meeting. These reviews, designed to be short in duration and limited in scope, serve to determine if a comprehensive audit is needed. If a performance audit is needed, the preliminary results will aid in more effective planning of the performance audit (and thereby reduce audit costs). Should the results show that a performance audit is not needed, the Board Audit Committee proactively prevented the spending of resources on audits that upon their completion would not likely have led to audit findings. The four preliminary reviews and performance audits identified are:

- Grants preliminary review
 - Is there any risk to the District during the development of grant RFP's in the scope of work, information, and deliverables?
- Employee hiring preliminary review
 - Is Valley Water implementing proactive risk identification practices in its employee hiring process?
- Board agenda preliminary review
 - Do other agencies implement alternative strategies for agenda preparation and review?
- Encroachment Performance Audit (approved addition to the Annual Audit Work Plan)
 - Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?

When the Independent Auditor was not in attendance at Board Meetings, the Independent Auditor monitored the meetings through agenda review, documentation analysis, and video review across another eight meetings. Charges incurred for these activities totaling \$10,408 were not billed to Valley Water. TAP International believes these tasks are necessary to effectively perform its role as the Board's Independent Auditor and opted to incur charges in excess of the task order budget.

B. Participated in Board Audit Committee meetings (Audit Support)

TAP International attended all seven (7) scheduled Board Audit Committees and performed the following activities:

- Participated in Board Audit Committee planning meetings
- Reviewed and commented on external audit reports
- Provided audit process guidance
- Researched and provided information on ISO activities of other public agencies
- Researched and provided information on Audit Committee Self-evaluation frameworks
- Attended MLT meeting to provide training and knowledge transfer on the audit function
- Assisted with the development of Board Audit Committee performance measures

3. Completed and/or Initiated Performance Audits (Audit Services)

A. Completed one performance audit report and in the process of another two audits

TAP International completed one performance audit and initiated two other performance audits as follows:

- Contract Change Order Processing (Audit work completed in July 2019 – pending agency response)
- District Counsel Office review – anticipated completion 2nd quarter 2020
- Real Estate Review – anticipated completion 2nd quarter 2020.

Performance Audit of Contract Change Order Processing

Our audit examined organizational structures, division, unit; employee roles and responsibilities; information collection and sharing; and policies and procedures. The audit work completed by the Independent Auditor included: (1) analysis of 12 completed capital construction projects between 2017 and 2018 with detailed file review of six of these contracts; (2) comparison of Valley Water change order policies and procedures to leading practices; (3) interviews of Valley Water management and staff from five divisions, Valley Water contractors and former Dispute Resolution Board (DRB) officials; and (4) implementation of root cause analysis to identify the primary reason(s) that drive change order initiation.

Our audit report (draft), *Construction Contract Change Order Management, and Administration: Opportunities Identified to Strengthen Processes and Oversight Structure, September 2019*, identified opportunities to strengthen change order management and administration for large-scale capital construction projects and made seven recommendations.

Performance Audit of the District Counsel Office Structure and Organizational Process

The performance audit of the District Counsel Office structure and organizational process is assessing the structural, organizational, and management processes of the District Counsel Office to identify opportunities for improvement within their operations. At year-end 2019, TAP International had interviewed all District Counsel staff and conducted over fifteen interviews with internal clients. TAP International has nearly completed the data collection and analysis phase, except for one outstanding area regarding the classification of information as confidential. The draft audit report is expected to be completed by March 2020.

Performance Audit of the Real Estate Financial and Service Delivery Performance

This performance audit is assessing the structural, organizational, business processes, best practices, and staff skill sets to identify opportunities that could potentially enhance the operations of the Real Estate Services Unit. At year-end 2019, TAP International has completed about 50 percent of the planned audit activities. The draft audit report is expected to be completed by March/April 2020.

TASK ORDER COMPLETION

As shown in Table 2, the Board Audit Committee activities have increased each year since 2017. Overall, TAP International has completed 24 of 34 approved task orders. Twelve of 24 completed task orders were completed under budget, leaving about \$12,875 to be returned to the Audit Budget.

Eighteen of the 34 task orders were issued in 2019, as shown in Table 2 below.

Table 2: Task Order History

Year	Task Order Issued	Completed	In Process	Cancelled
2017	5	5	0	0
2018	7	7	0	0
2019	22	12	9	1*

*Planned IT related audit was cancelled due to new initiatives implemented by VW.

FINANCIAL OVERVIEW

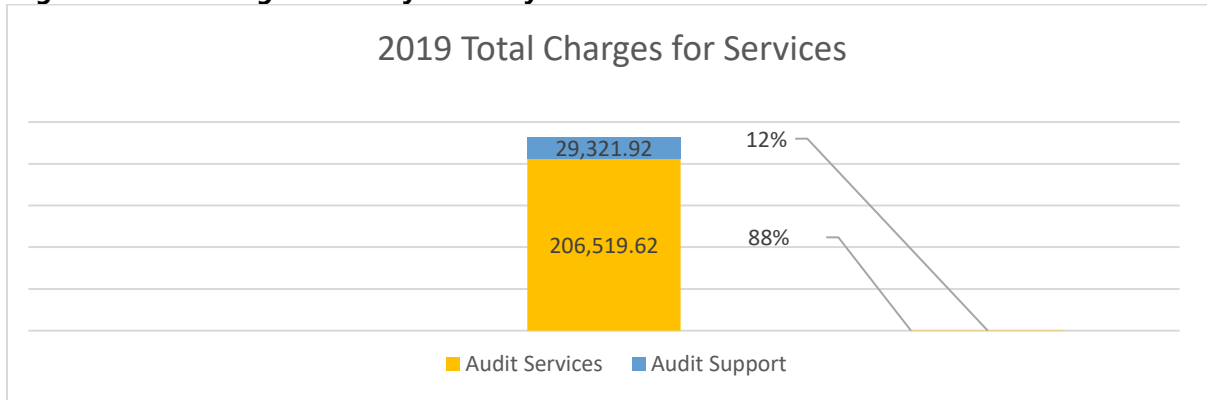
In 2019, TAP International charged Valley Water \$235,841.54 for audit and support services. The budget balance remaining at year-end is \$567,720.

Table 3: 2019 Independent Auditor Charges

Audit Services (audits)	\$206,519.62
Support Services (Board meeting attendance, Board Audit Committee requested activities)	\$29,321.92
Total	\$235,841.54
Services Not Charged	\$31,661.00

Figure 1 below illustrates the allocation of charges incurred. Audit services comprised 88 percent, or \$206,519.62, of the total charges. Audit support services, such as attendance to Board Audit Committee (BAC) meetings and Regular Board meetings, as well as BAC directed work comprised the remaining 12 percent or \$29,321.92.

Figure 1: 2019 Charges to Valley Water by TAP International



About \$31,661 were not charged to Valley Water by TAP International for services incurred. These “no charge” services included:

- Development of Board Audit Committee self-assessment framework - \$525.
- Review of Board Audit Committee performance monitoring report and development of suggested performance measures - \$480.
- Review of Board meeting agenda and documentation, video for eight meetings that TAP International did not directly attend - \$2,880
- Services performed that exceeded task order budgets 85 hours - \$17,575.
- Unbilled charges incurred to attend Board meetings - \$10,408.
- Time/expenses incurred to participate in Board Audit Committee meetings - \$1,793.

Other activities that are not tracked nor billed include ad-hoc meetings with BAC liaison staff, follow up phone calls to Valley Water staff, and updates to TAP International deliverables.

CONCLUSION

The calendar year 2019 covered by this report has been productive and rewarding. We are very grateful to the Board of Directors, the Board Audit Committee, and Valley Water management and staff for the support given to TAP International. We commend Valley Water for your continuous efforts to utilize the audit process to improve operations.

Respectfully submitted,

Denise Callahan
Principal, TAP International, Inc.

Appendix A: 2019 Board of Director Meeting Attendance by TAP International

Meeting Date	Agenda Item	Reason for Attendance	Billed Costs
1.22.19	<ul style="list-style-type: none"> Item 5.3 – Update on California Water Fix. Item 6.1: Real estate transaction – Exchange of property (real estate service was identified by the Board Audit Committee as a priority audit). 	<p>Known risk area regarding potential unfunded liabilities; risk monitoring.</p> <p>Subject matter related to the 2019 planned audit.</p>	\$380.00
2.26.19	<ul style="list-style-type: none"> Item 4.2: Recommendation from Board Audit Committee for the Board to Approve the Implementation of Three Performance Audits by the Board Independent Auditor, TAP International, Inc. 	Agenda item applicable to work to be performed by TAP International.	\$532.15
6.11.19	<ul style="list-style-type: none"> Item 6.2: Amendment No. 1 to Agreement No. A4088A with Ghirardelli Associates, Inc., to Increase the Not-to-Exceed Fee and Extend the Term of Agreement for Construction Management Services for the Watersheds Asset Rehabilitation Program, Project No. 62084001. 	Directly applicable to TAP International’s on-going audit.	\$285.00
6.25.19	<ul style="list-style-type: none"> Item 4.6: Approve Recommendation from Board Audit Committee to Approve the Fiscal Years 2018-2019 to 2020-2021 Annual Audit Work Plan Prepared by the Board Independent Auditor, TAP International, Inc. 	Directly applicable to work performed by TAP International.	\$570.00
8.27.19	<ul style="list-style-type: none"> Item 4.1: Approve the Board Audit Committee Audit Charter. 	Directly applicable to work performed by TAP International.	\$570.00

<p>10.22.19</p>	<ul style="list-style-type: none"> • Item 2.9: Approve Encroachment Remediation Program. (Item Previously Listed as 2.8) • Item 4.3: Receive Recommendations and Associated Staff Analyses from the Homeless Encampment Ad Hoc Committee, September 30, 2019 Meeting. • Item 7.3: Approve Amendment No. 1 to Agreement A3981R FY2016 Safe, Clean Water and Natural Flood Protection Program Project B3 Grant Agreement Between the Santa Clara Valley Water District and the West Valley-Mission Community College District (Saratoga) (District 5). • Item 7.4: Approve Amendment No. 2 to Agreement A3862R Santa Clara Valley Water District, Safe, Clean Water and Natural Flood Protection Program, FY 2015 Safe, Clean Water Priority D3 Trails Grant Program Between the Santa Clara Valley Water District and the West Valley-Mission Community College District (Saratoga) (District 5). • Item 7.5: Approve Amendment No. 3 to the Safe, Clean Water and Natural Flood Protection Program 2014 Safe, Clean Water Priority B Grant Program • Agreement No. A3761R Between the Santa Clara Valley Water District and West Valley-Mission Community College District (Saratoga) (District) • Item 8.1: Fiscal Year 2018-19 Updated Preliminary and Unaudited Financial Status Report and Approve Budget Adjustment in the Amount of \$200,000 to the Fiscal Year 2020 Budget of the Pollution Prevention Partnership and Grants Program in the Safe, Clean Water Fund, Project No. 26061006 	<p>Monitoring of operational risks to Valley Water programs and services. Attendance led to subsequent discussion with Board Audit Committee and tentative plans to perform preliminary work and follow up audit.</p>	<p>\$1,572.08</p>
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11.12.19	<ul style="list-style-type: none"> Item 3.3: Approve the Sale of Santa Clara Valley Water District Surplus Property Located at 110 South Sunset Avenue, San Jose, APN 481-21-055, File No. 4026-131.1 (District 6) (San Jose). 	Directly applicable to TAP International’s ongoing audit.	\$541.60
11.20.19	<ul style="list-style-type: none"> Item 2.3: Water supply master plan 	Monitoring of operational risk	\$380.00
11.26.19	<ul style="list-style-type: none"> Item 4.1: Board Committees (Summary or Meeting Agenda): Board Audit Committee (BAC) Handout 4.1.3-A: 111819 BAC Summary. 	Directly applicable to work to be performed by TAP International.	\$570.00
12.17.19	<ul style="list-style-type: none"> Item 2.2: Receive Watersheds Operations and Maintenance Program Overview and Review Draft 5-Year Plan Item 2.3: Receive Updates on Safe, Clean Water and Natural Flood Protection Program Flood Protection Projects and Funding Scenarios Item 2.4: Review the Draft Preliminary Fiscal Years 2021-2025 Capital Improvement Program for the Watersheds Stream Stewardship Fund. 	Directly applicable to TAP International’s ongoing audit.	\$285.00



Santa Clara Valley Water District

File No.: 20-0177

Agenda Date: 2/19/2020

Item No.: 5.2.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract with TAP International, Inc. (Continued from January 22, 2020)

RECOMMENDATION:

Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract with TAP International, Inc.

SUMMARY:

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

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

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

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

On June 7, 2019, an amendment to the Board independent auditing services agreement was completed to increase the not-to-exceed amount from \$405,000 to \$1,005,000 to complete all three proposed audits and approximately three additional future audits. Attachment 1 shows both the remaining contract balance as well as the remaining budget balance, and attempts to estimate how many additional audits could be done with those remaining balances.

File No.: 20-0177

Agenda Date: 2/19/2020
Item No.: 5.2.

ATTACHMENTS:

Attachment 1: Financial Analysis

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

FINANCIAL ANALYSIS

Regarding the Board Independent Auditing Services Contract with TAP International, Inc.

Contract Background

On June 7, 2019, an amendment to the Board Independent Auditing Services agreement (Contract) was completed to increase the not-to-exceed amount from \$405,000 to \$1,005,000 to complete all three proposed audits and approximately three additional future audits. The three proposed audits were (1) Contract Change Order Processing, (2) Real Estate Review, and (3) District Counsel Office Review. The three additional future audits have not been identified. However, as listed in chronological order on the Annual Audit Work Plan for FY 2019-2020, the next three audits are identified as Construction Project Management, SCADA Audit, and Permitting Best Practices. The Contract is set to expire on May 8, 2020.

For the Board Independent Auditor contract, awarded to TAP International, Inc., the overall remaining contract amount is \$407,828.95. Exactly \$443,472.67 has been spent to date, and \$153,698.38 remains to be paid on approved task orders.

Budget Background

For FY 2019-2020, \$500,000 was budgeted for the Audit Management Program. In addition, \$746,220.02 was carried forward as prior year encumbrances, for a total FY 2019-2020 budget of \$1,246,220.02. Of that, \$184,692.69 has been spent in FY 2020, and \$153,698.38 is remaining to be paid against existing task orders, leaving a remaining balance of \$907,828.95.

Financial Analysis

The Annual Audit Work Plan Balance Sheet shown below provides an estimated remaining contract amount and budget amount for minimum and maximum planned hours respectively for each audit listed in the Annual Audit Work Plan.

Staff estimated the cost for each individual audit by using the Lead Auditor's rate of \$195/hour multiplied by the minimum and maximum planned hours for each individual audit. The estimated cost for each individual audit is then subtracted from the overall remaining budget amount (\$907,828.95) and contract amount (\$407,828.95) in chronological order as listed in the Annual Audit Work Plan until the overall remaining contract amount is exhausted and exceeded as shown in red parentheses.

Based on the projected maximum overall remaining contract amount, the FY 2019-2020 Risk Management Audit would be the last audit under the contract, which is set to expire on May 8, 2020, if the audits are initiated in order as listed in the Annual Audit Work Plan.

Based on the projected maximum overall remaining budget amount, the FY 2020-2021 Water Fix Audit would be the last audit that could be paid for with the FY 2019-2020 budget, if the audits are initiated in order as listed in the Annual Audit Work Plan.

It should be noted that this analysis does not include the impact of non-audit related services, which staff estimates would cost about \$75,000 per year.

Annual Audit Work Plan Balance Sheet*										
Fiscal Year	Audit	Min. Planned Hours	Max. Planned Hours	Lead Auditor Rate/hr.	Est. Min. Audit Cost	Est. Max. Audit Cost	Est. Min. Remaining Contract Amount	Est. Max. Remaining Contract Amount	Est. Min. Remaining Budget Amount	Est. Max. Remaining Budget Amount
Current Remaining as of 12/31/2019							\$407,828.95		\$907,828.95	
2019-2020	Construction Project Management	314	371	\$195	\$61,230	\$72,345	\$346,598.95	\$335,483.95	\$846,598.95	\$835,483.95
2019-2020	SCADA Audit	714	857	\$195	\$139,230	\$167,115	\$207,368.95	\$168,368.95	\$707,368.95	\$668,368.95
2019-2020	Permitting Best Practices	171	229	\$195	\$33,345	\$44,655	\$174,023.95	\$123,713.95	\$674,023.95	\$623,713.95
2019-2020	Risk Management	143	260	\$195	\$27,885	\$50,700	\$146,138.95	\$73,013.95	\$646,138.95	\$573,013.95
2019-2020	Billing and Collections	343	429	\$195	\$66,885	\$83,655	\$79,253.95	(\$10,641.05)	\$579,253.95	\$489,358.95
2019-2020	Accountability	115	171	\$195	\$22,425	\$33,345	\$56,828.95	(\$43,986.05)	\$556,828.95	\$456,013.95
2020-2021	Community Engagement	371	457	\$195	\$72,345	\$89,115	(\$15,516.05)	(\$133,101.05)	\$484,483.95	\$366,898.95
2020-2021	Property Management	400	400	\$195	\$78,000	\$78,000	(\$93,516.05)	(\$211,101.05)	\$406,483.95	\$288,898.95
2020-2021	Homelessness Analysis	290	371	\$195	\$56,550	\$72,345	(\$150,066.05)	(\$283,446.05)	\$349,933.95	\$216,553.95
2020-2021	Local Workforce Hiring	200	229	\$195	\$39,000	\$44,655	(\$189,066.05)	(\$328,101.05)	\$310,933.95	\$171,898.95
2020-2021	Equipment Maintenance	143	229	\$195	\$27,885	\$44,655	(\$216,951.05)	(\$372,756.05)	\$283,048.95	\$127,243.95
2020-2021	Community Engagement	46	86	\$195	\$8,970	\$16,770	(\$225,921.05)	(\$389,526.05)	\$274,078.95	\$110,473.95
2020-2021	Water Fix	160	286	\$195	\$31,200	\$55,770	(\$257,121.05)	(\$445,296.05)	\$242,878.95	\$54,703.95

***Note: Non-Audit Related Services Estimated Yearly Cost**

BAC meeting attendance	\$	40,442.40
Board of Director/Audit Committee Requests for Information (15 hrs. at \$195/hr.)	\$	2,925.00
Audit Training (8 hrs. at \$195/hr.)	\$	1,560.00
Support Services (10 hrs. at \$195/hr.)	\$	1,950.00
Management Reviews (8 hrs. at \$195/hr.)	\$	1,560.00
Ad-hoc Board Audits (three ad-hoc board audits which could include desk reviews)	\$	10,350.00
Annual Independent Auditor Report	\$	1,560.00
Audit Follow-up (8 hrs. at \$195/hr.)	\$	1,560.00
Full Board meeting attendance	\$	12,550.00
		<hr/>
Total	\$	74,457.40

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Santa Clara Valley Water District

File No.: 20-0202

Agenda Date: 2/19/2020

Item No.: 5.3.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Board Independent Auditor Annual Audit Work Plan - TAP International, Inc.

RECOMMENDATION:

Discuss the Annual Audit Work Plan and update, if necessary.

SUMMARY:

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

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

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

On February 26, 2019, the Board approved the Board Audit Committee's recommendation for TAP to conduct three performance audits recommended by the Board Audit Committee. The three audits include performance audits of the District Counsel's office, contract change order management processes, and real estate services. On June 7, 2019, an amendment to the Board independent auditing services agreement was completed to increase the not-to-exceed amount from \$405,000 to \$1,005,000 to complete all three proposed audits and approximately three additional future audits.

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

As directed by the Board Audit Committee, TAP International updated the FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan to include the FY 2020-2021 Property Management Audit, to audit whether Valley Water is implementing the encroachment program consistent with the Board's guiding

principles. As part of the FY 2020-2021 Ad-hoc Board Audits included in the FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan, the Board Audit Committee also identified three desk reviews to be performed by TAP International including: key controls and financial management regarding the extension of grants; risk management review of Valley Water hiring practices; and review of the Board Agenda preparation process. These desk reviews are not full and formal audits, and they are designed to quickly identify the need, or lack of need, for a formal audit. To the extent formal audits are recommended as a result of the desk reviews, approval will be sought from the full Board before their initiation.

ATTACHMENTS:

Attachment 1: Annual Audit Work Plan.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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

DRAFT AUDIT WORK PLAN – NOVEMBER 7, 2019
SANTA CLARA VALLEY WATER DISTRICT BOARD OF DIRECTORS DRAFT
ANNUAL WORK PLAN, FY 18/19 TO FY 20/21

OVERVIEW

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

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

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

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

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

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

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

SECTION A

NON-AUDIT SERVICES AND SPECIAL PROJECTS

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

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

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

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

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

FY 2019-20

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

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

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

FY 2020-21

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

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits*	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Subtotal		620-800	
21	Community engagement	Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities?	371-457	Financial Improvement Operational Best practices
	Property Management	<u>Is Valley Water implementing encroachment licensing program consistent with the Board's guiding principles?</u>	400	Operational
20	Homelessness analysis	How can the Valley Water enhance its homelessness encampment clean-up activities that <u>protect health and safety?</u>	290-371	Health and Safety Relevance Financial Operational

8	Classified information**	To what extent does the Valley Water’s Counsel’s office appropriately classify confidential information?	143-200	Relevance Operational
26	Local workforce hiring	What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?	200-229	Operational
27	Equipment maintenance	Is Valley Water adequately meeting the needs of equipment maintenance?	143-229	Health and safety Operational Financial
30	Community engagement	What are the best practices in planning and facilitating community engagement?	46-86	Best practices Operational
33	Water Fix	What potential financial risks could occur on the California Water Fix project?	160-286	Financial Relevance
Sub Total	7		1,125 -1,661	

*Ad-Hoc Audits to be added to the Board performance plan upon identification and approval of review.

**This issue was included in the project plan for the performance audit of the District Counsel’s office.

AUDIT WORK PLAN – VALLEY WATER RESPONSIBILITY

FY 18/19 THRU FY 19-20

QEMS

AUDIT DESCRIPTION	Proposed Audit Schedule 2019											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
QUALITY ENVIRONMENTAL MANGEMENT SYSTEM INTERNAL AUDITS												
Treated Water O&M DOO: Customer Service Survey								x				
Laboratory Services Unit												x
North Treatment Operations Unit												x
South Water Treatment Operations Unit												x
Treatment Plant Maintenance Unit												x
Water Quality Unit											x	
Water Utility Capital Division												
Capital Program Planning and Analysis Unit												
Construction Services Unit												x
East Side Project Delivery Unit (merged with and renamed Pipelines Project Delivery Unit)				x								

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Santa Clara Valley Water District

File No.: 20-0189

Agenda Date: 2/19/2020
Item No.: 5.4.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

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

RECOMMENDATION:

Receive an update on the status of the on-going District Counsel Audit.

SUMMARY:

On February 26, 2019, the Board approved the recommendation by the Board Audit Committee (Committee) for TAP International, Inc. (TAP) to conduct three performance audits recommended by the Board Audit Committee. The three audits include performance audits of the District Counsel's office, Construction Contract Change Order management processes, and Real Estate services.

An amendment to the Board independent auditing services agreement was initiated to increase the not-to-exceed amount from \$405,000 to \$1,005,000 to complete all three proposed audits and approximately three additional future audits. On June 7, 2019, the amendment was completed, therefore, TAP initiated the performance audits of the District Counsel's office and Real Estate services.

Following initiation of the audits, the Committee shall discuss the status of on-going audits until the audits are completed. The Committee is to receive a District Counsel audit progress report (Attachment 1) from TAP on the status of the on-going District Counsel audit.

ATTACHMENTS:

Attachment 1: District Counsel Audit Progress Report

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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Project Progress

Overall Status: ● On Track

Project Name: Performance Audit of Valley Water District Counsel’s Office

Date: January 10, 2019 – February 15, 2020

Status Code Legend

- On Track: Project is on schedule
- At High Risk: Project at high risk of going off track
- At Risk: Project at risk of going off track
- Off Track: Date will be missed if action not taken

Summary narrative –

- On Track, adjusting scope

Key Activities Completed During the Period

- ◆ Coordinated and conducted three meetings to date with District Counsel and staff to review project methodology (e.g., positions interviewed, documentation collection, and analysis performed).
- ◆ Continued consolidation and summarization of collected data.
- ◆ Conducted remaining audit activities.

Key Activities Planned for February 15 to March 15, 2020

- ◆ Conduct the remaining meeting on the project plan with District management.
- ◆ Conduct one additional meeting with Counsel staff to discuss the project approach.
- ◆ Complete the summary of results.
- ◆ Have subject matter expert review the findings.
- ◆ Prepare results meeting material.
- ◆ Schedule results meeting with District Counsel staff.

Outstanding Item to Discuss with BAC

- ◆ Our approach to the District Counsel’s audit included asking Counsel staff to identify their customers. These customers were subsequently contacted to participate in this audit. During discussions with Counsel staff about our approach, District Counsel requested that we meet and include participation of additional stakeholders across the Divisions.
 - Audit impact: High risk of delays in completing the audit.
 - Financial impact: The task order for the performance audit is a fixed fee, so labor costs will be written off by TAP International.
 - Action item for the BAC: Authorize the additional work and request an updated timeline, or proceed with the current scope of work?

Updated Timeline – Performance Audit of District Counsel Office

Audit Activity	Estimated Due Date
Complete Data Collection and Analysis	February 14, 2020
Preliminary Results Meeting	Week of March 15, 2020
Technical Review of Preliminary Draft Report	April 7, 2020
Draft Report Submittal to Audit Committee	April, 2020
Draft Report Response by Valley Water Management	May, 2020
Final Report	May, 2020

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Santa Clara Valley Water District

File No.: 20-0190

Agenda Date: 2/19/2020
Item No.: 5.5.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Receive an Update on the Status of the Real Estate Audit.

RECOMMENDATION:

Receive an update on the status of the on-going Real Estate Audit.

SUMMARY:

On February 26, 2019, the Board approved the recommendation by the Board Audit Committee (Committee) for TAP International, Inc. (TAP) to conduct three performance audits recommended by the Board Audit Committee. The three audits include performance audits of the District Counsel's office, Construction Contract Change Order management processes, and Real Estate services.

An amendment to the Board independent auditing services agreement was initiated to increase the not-to-exceed amount from \$405,000 to \$1,005,000 to complete all three proposed audits and approximately three additional future audits. On June 7, 2019, the amendment was completed, therefore, TAP initiated the performance audits of the District Counsel's office and Real Estate services.

Following initiation of the audits, the Committee shall discuss the status of on-going audits until the audits are completed. The Committee is to receive a Real Estate audit progress report (Attachment 1) from TAP on the status of the on-going Real Estate audit.

ATTACHMENTS:

Attachment 1: Real Estate Audit Progress Report

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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Project Progress

Overall Status: ● On Track

Project Name: Performance Audit of Valley Water Real Estate Unit

Date: January 23, 2020 – February 15, 2020

Status Code Legend

- On Track: Project is on schedule
- At High Risk: Project at high risk of going off track
- At Risk: Project at risk of going off track
- Off Track: Date will be missed if action not taken

Summary narrative –

● On Track:

Key Activities Completed During the Period

- ◆ Conducted follow up meetings and data analysis.
- ◆ Met with Real Estate Unit Management to discuss RESU future organizational and strategic changes.
- ◆ Conducted group meeting with RESU to discuss in specific detail the project’s approach, information collected, positions interviewed, and how the data was analyzed.
- ◆ Completed data collection and analysis phase.
- ◆ Summarized preliminary findings.

Key Activities Planned for February 22 – March 22, 2020

- ◆ Conduct Results Meetings with RESU scheduled for 2/22/20.
- ◆ Prepare the draft report.
- ◆ Submit the preliminary draft report to RESU for technical review.

Updated Timeline – Performance Audit of Real Estate Services

Audit Activity

Audit Activity	Estimated Due Date
Complete Data Collection and Analysis	January 30, 2020
Real Estate Group Meeting	First week of February
Preliminary Results Meeting	Third week of February
Technical Review of Preliminary Draft Report	March 15, 2020
Draft Report Submittal to Audit Committee	First week of April
Draft Report Response Received from Valley Water Management	Early May 2020
Final Report	Mid May 2020

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Santa Clara Valley Water District

File No.: 20-0207

Agenda Date: 2/19/2020

Item No.: 5.6.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Receive an Update on the Status of the Grant Management Ad-hoc Desk Review.

RECOMMENDATION:

Receive an update on the status of the on-going Grant Management Ad-hoc Desk Review.

SUMMARY:

On January 14, 2020, the full Board approved, as recommended by the Board Audit Committee, TAP International's updated FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan. As part of the FY 2020-2021 Ad-hoc Board Audits included in the FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan, the Board Audit Committee also identified three desk reviews to be performed by TAP International including: key controls and financial management regarding the extension of grants; risk management review of Valley Water hiring practices; and review of the Board Agenda preparation process.

These desk reviews are not full and formal audits, and they are designed to quickly identify the need, or lack of need, for a formal audit. To the extent formal audits are recommended as a result of the desk reviews, approval will be sought from the full Board before their initiation.

The Committee shall discuss the status of the desk reviews until the desk reviews are complete. The Committee is to receive a progress report (Attachment 1) from TAP International on the status of the key controls and financial management regarding the extension of grants.

ATTACHMENTS:

Attachment 1: Grant Management Ad-hoc Desk Review

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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TAPInternational

Desk Review of Valley Water Grant Management

Draft Brief

February 13, 2020

INDEPENDENT AUDITOR OVERVIEW

In 2017, the Santa Clara Valley Water District (Valley Water) Board of Directors approved the selection of its first independent auditor, TAP International. TAP International reports and is accountable to the Board Audit Committee and the full Board of Directors. The Board of Directors initiated an independent audit function to support their efforts to advance open and accountable government through accurate and objective audits; and assessments that seek to improve the economy, efficiency, and effectiveness of Valley Water.

As described in Valley Water's Request for Proposal and subsequently required under the contract executed in 2018, the scope of services required of the Independent Auditor include:

- Provide advice and recommendations on audits of government programs.
- Develop an annual audit program, calendar, and budget.
- Conduct audits as directed by the Audit Committee.
- Prepare and deliver formal and informal audit reports and presentations.
- Attend Audit Committee and Board meetings.
- Meet with District staff as needed.
- Provide additional staff resources as determined by the Audit Committee.
- Conduct certain audits as directed by the Board.

WHY A DESK REVIEW WAS CONDUCTED

In October 2019, the Board of Directors discussed amendments with Valley Water staff to multiple grant agreements that would extend the time and/or add funding to existing agreements. In subsequent discussions between the Independent Auditor and the Board Audit Committee about the efficiency and effectiveness of the grant management process, the Board Audit Committee requested the Independent Auditor conduct a limited review that would assess the need to complete a comprehensive performance audit of Valley Water's grant management and administration. The Board Audit Committee specifically requested that the Independent Auditor contact and receive feedback from grantees about Valley Water's grant application, award, and reimbursement processes. This review did not examine sponsorship activities.

HOW THE WORK WAS CONDUCTED

To perform the limited review, the Independent Auditor conducted the following procedures:

- Randomly selected and contacted 10 grant recipients from Valley Water Safe Clean Water and Natural Protection Year 2018-2019, Appendix C: Cumulative Partnerships and Grants Information for Projects A2, B3, B7, and D3 (2014 to 2019). Six of the 10 grant recipients contacted agreed to provide feedback to the Independent Auditor about Valley Water's grant application, award, and payment processes.

- Randomly selected 19 of 50 grant agreements awarded to organizations by Valley Water other than to a public agency. These agreements were identified from Valley Water Safe Clean Water and Natural Protection Year 2018-2019, Appendix C: Cumulative Partnerships and Grants Information for Projects A2, B3, B7, and D3 (2014 to 2019). The review evaluated the frequency of awarding grants to the same organization to help identify any potential risks about the award process. The value of the 19 grant agreements totaled approximately \$3 million.

The work performed does not constitute a performance audit. Had a performance audit been performed, audit activities would have included procedures to develop sufficient evidence to draw conclusions regarding the efficiency, effectiveness, and economy of Valley Water grant management and administration. Examples of these procedures include:

- Assessment of internal controls,
- Examination of the reliability of the data received by Valley Water,
- Detailed review of grant management awards,
- Assessment of Valley Water grant management policies and procedures, and
- Review of compliance to grant agreements.

RESULTS

Grant Application

The grant recipients participating in this limited review reported different experiences with the grant application process. For example, one grant recipient reported having no recollection of having to respond to an RFP, while others reported that the grant application process was challenging and time-consuming, especially on applications with short submittal deadlines.

Grant Award

- The grant recipients participating in this limited review also reported different experiences with the grant award process as follows:
 - Almost all reported had a moderate to high satisfaction with the timeliness of the award process and the timeframes established for completing the deliverables.
 - A few of the grant recipients reported concerns about Valley Water cutting funding after the award, which adversely affected program implementation and program results.
- Our review of 19 grant agreements shown in Valley Water Safe Clean Water and Natural Protection Year 2018-2019, Appendix C: Cumulative Partnerships and Grants Information for Projects A2, B3, B7, and D3 (2014 to 2019) identified potential risks that may require further review.
 - One nonprofit organization received multiple awards in the same year. For this

- organization, four awards were granted, valued at about \$480,000.
- Further review of the grant application process may be needed regarding disclosures submitted by the applying organization.
 - Two organizations on the list of the 19 grants that we reviewed and named on the Valley Water’s list of “in-process” grants are incorrectly identified. Based on information reported by the original grant recipients, the current grant recipients assumed control of the grants in 2016 and 2017. Generally, changes in ownership applicable to a grant agreement or contract should be reported, reviewed, and approved by Valley Water so that grant agreement information can be updated.

Grant Reimbursement

Most of the grantees we interviewed were low to moderately satisfied with the timeliness of invoice payment. According to Valley Water practices, reimbursement to grantees should be issued after completion of a deliverable. When grantees submit invoices for approval even with supporting documentation, lengthy payment delays reportedly occurred, ranging from six months to up to 18 months. At Valley Water, invoices are approved by program staff before payment by Financial Planning and Management Services. Grantees had explained that little or no information was provided by Valley Water about the delays. When information was provided, Valley Water program staff attributed the delays to staffing or other structural changes.

NEXT STEPS

The Chair of the Board Audit Committee should consider placing on the next Board Audit Committee meeting agenda the following item:

1. Discussion and approval to forward a request to the Board of Directors to conduct a comprehensive performance audit to assess the efficiency and effectiveness of Valley Water’s grants management program. This performance audit should focus on the grant application, evaluation and award activities, scope of work development, and grant administration.



Santa Clara Valley Water District

File No.: 20-0208

Agenda Date: 2/19/2020

Item No.: 5.7.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Receive an Update on the Status of the Hiring Practices Ad-hoc Desk Review.

RECOMMENDATION:

Receive an update on the status of the on-going Hiring Practices Ad-hoc Desk Review.

SUMMARY:

On January 14, 2020, the full Board approved, as recommended by the Board Audit Committee, TAP International's updated FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan. As part of the FY 2020-2021 Ad-hoc Board Audits included in the FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan, the Board Audit Committee also identified three desk reviews to be performed by TAP International including: key controls and financial management regarding the extension of grants; risk management review of Valley Water hiring practices; and review of the Board Agenda preparation process.

These desk reviews are not full and formal audits, and they are designed to quickly identify the need, or lack of need, for a formal audit. To the extent formal audits are recommended as a result of the desk reviews, approval will be sought from the full Board before their initiation.

The Committee shall discuss the status of the desk reviews until the desk reviews are complete. The Committee is to receive a progress report (Attachment 1) from TAP International on the status of the risk management review of Valley Water hiring practices.

ATTACHMENTS:

Attachment 1: Hiring Practice Ad-hoc Desk Review

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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TAPInternational

Desk Review of Selected Valley Water Recruitment and Hiring Activities

Draft Brief

February 13, 2020

INDEPENDENT AUDITOR OVERVIEW

In 2017 the Santa Clara Valley Water District (Valley Water) Board of Directors approved the selection of its first independent auditor, TAP International. TAP International reports and is accountable to the Board Audit Committee and the full Board of Directors. The Board of Directors initiated an independent audit function to support their efforts to advance open and accountable government through accurate and objective audits; and assessments that seek to improve the economy, efficiency, and effectiveness of Valley Water.

As described in Valley Water's Request for Proposal and subsequently required under the contract executed in 2018, the scope of services required of the Independent Auditor include:

- Provide advice and recommendations on audits of government programs.
- Develop an annual audit program, calendar, and budget.
- Conduct audits as directed by the Audit Committee.
- Prepare and deliver formal and informal audit reports and presentations.
- Attend Audit Committee and Board meetings.
- Meet with District staff as needed.
- Provide additional staff resources as determined by the Audit Committee.
- Conduct certain audits as directed by the Board.

WHY A DESK REVIEW WAS CONDUCTED

In response to Committee member observations about executive-level employees separating from the agency, the Board Audit Committee requested that TAP International, serving as the Independent Auditor of the Board of Directors, to conduct a limited review that would assess the need to complete a comprehensive performance audit of human resources management.

HOW THE WORK WAS CONDUCTED

The Independent Auditor's review was limited to examining turnover rates, recruitment, and selected hiring activities implemented by Valley Water. To perform the work, the Independent Auditor conducted the following actions:

- Collected turnover benchmarks for local government from the U.S. Bureau of Labor Statistics.
- Collected employee separation information from Valley Water for Deputy Chief and Chief positions between 2017 and 2019.
- Computed turnover rates for Valley Water.
- Interviewed Valley Water human resources management staff.
- Compared Valley Water recruiting and hiring activities to activities implemented by other public agencies.

The work performed does not constitute a performance audit. Had a performance audit been performed, audit activities would have included procedures to develop sufficient evidence to draw conclusions regarding the efficiency, effectiveness, and economy of Valley Water recruitment and hiring activities. Examples of these procedures include:

- Assessment of internal controls,
- Testing of the reliability of the data received by Valley Water,
- Review of employee files,
- Review of Valley Water human resources management policies and procedures, and
- Review of consultant contracts.

RESULTS

Turnover Rates

Turnover is when an employee separates from their employer. Turnover rates, which show the percentage of all employees who have separated from their employer, are tracked by many public agencies to monitor how well organizations retain their employees.

In 2018, Valley Water's turnover rate among 30 Deputy Chief and above positions was seven percent. In contrast, the U.S. Bureau of Labor Statistics reported turnover rates of 1.8 percent for local government in the same year. In 2017 and 2019, Valley Water turnover rates were higher, averaging 13 percent. The higher the turnover rate, the higher the costs in recruiting and replacing employees.

Reasons for Employment Separation

Separation can be voluntary (the employee decides to leave) or involuntary (the employer decides the employee must leave). Valley Water executives have separated due to three factors: personal reasons, retirement, and non-probationary reasons. Six of the ten executive separations were attributed to personal reasons or non-probationary reasons. Without implementing a comprehensive performance audit, the Independent Auditor did not collect information from the separated employees to identify leading drivers behind their personal decisions. Current employees have suggested that organizational culture could have been a factor, explaining that Valley Water is a challenging work environment.

Recruitment

Public agencies generally do not actively look for employees. Instead, public agencies wait for potential employees to apply by posting announcements on agency websites and announcing open positions through selected publications. Prior to 2020, each Division was responsible for

conducting its recruitments and, if needed, hire a company to assist in them. Recently, Valley Water awarded contracts to three companies to support recruitment activities by actively seeking qualified candidates for open classified and unclassified positions. Valley Water's Office of Talent and Inclusion (HR Unit) will now oversee the work performed by these companies.

Recruiting well-qualified employees sometimes requires added employment incentives, especially in the high cost of living areas. These incentives include providing a housing stipend, telecommuting, and offering longer vacation periods. Of these three potential incentives, Valley Water offers one of them, providing longer vacation periods in its recruitment of unclassified positions. Valley Water allows telecommuting on a case by case basis, requiring the employee to apply for approval after joining the workforce.

Hiring

After a tentative employment offer has been made, a common practice across many California agencies, especially at the County level, is to hire an independent investigator to conduct a background check of potential executive-level hires. The investigator performs an extensive review that could date back as much as 15 to 20 years to verify the accuracy of the candidate's application, driving record, resume, social media activity, and prior experience reported as well as any past criminal or other questionable behavior that could potentially raise questions about the candidate's qualifications. Prior bankruptcies are also examined for applicable positions.

Presently, Valley Water relies on a basic background check that involves a review of the prior seven years of the candidate's history; it does not include a scan of social media activity by the potential candidate or fingerprinting to allow for a more a comprehensive criminal check.

Valley Water staff have reported no challenges or issues with conducting reference checks of potential candidates and have found participating parties to be forthcoming about a potential candidate.

NEXT STEPS

A performance audit is not recommended at this time, but in the next agency-wide audit risk assessment, an assessment of the contractors' recruitment performance and retention rates should be evaluated.

The Chair of the Board Audit Committee (BAC) should consider placing on a BAC meeting agenda the following item:

1. Discussion and potential consideration by the Board of Directors to authorize the CEO to further study the need for, or to develop policies on, conducting comprehensive background checks for selected positions by an independent investigator.



Santa Clara Valley Water District

File No.: 20-0209

Agenda Date: 2/19/2020

Item No.: 5.8.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Receive an Update on the Status of the Board Agenda Preparation Ad-hoc Desk Review.

RECOMMENDATION:

Receive an update on the status of the on-going Board Agenda Preparation Ad-hoc Desk Review.

SUMMARY:

On January 14, 2020, the full Board approved, as recommended by the Board Audit Committee, TAP International's updated FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan. As part of the FY 2020-2021 Ad-hoc Board Audits included in the FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan, the Board Audit Committee also identified three desk reviews to be performed by TAP International including: key controls and financial management regarding the extension of grants; risk management review of Valley Water hiring practices; and review of the Board Agenda preparation process.

These desk reviews are not full and formal audits, and they are designed to quickly identify the need, or lack of need, for a formal audit. To the extent formal audits are recommended as a result of the desk reviews, approval will be sought from the full Board before their initiation.

The Committee shall discuss the status of the desk reviews until the desk reviews are complete. The Committee is to receive a progress report (Attachment 1) from TAP International on the status of the review of the Board Agenda preparation process.

ATTACHMENTS:

Attachment 1: Board Agenda Preparation Ad-hoc Desk Review

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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Project Progress

Overall Status: ● On Track

Project Name: Desk Review – Committee Agenda Preparation and Review Process.

Date: February 10 – February 13, 2020

Status Code Legend

- On Track: Project is on schedule
- At High Risk: Project at high risk of going off track
- At Risk: Project at risk of going off track
- Off Track: Date will be missed if action not taken

Summary narrative –

- On Track, adjusting scope

Background:

This desk review was to begin after completion of the Grant Management and Human Resources management desk reviews. The start date of this review was Monday, February 10.

Key Activities Completed During the Period

- ◆ Contacted audit colleagues to identify public agencies known for effective Board agenda preparation process. These public agencies are:
 1. City of San Mateo
 2. County of San Mateo
 3. City of Sacramento
 4. Colusa County
 5. City of Santa Barbara
- ◆ Contacted each of the five public organizations to collect information on their Committee agenda preparation and review process.
- ◆ To date, the two organizations were interviewed – City of San Mateo and Colusa County. Information was collected on timeline, number of persons involved, staff roles and responsibilities, and contents of meeting minutes.

Key Activities Planned To Complete the Review

- ◆ Follow up with the remaining three organizations. We need information from at least two of the three organizations.
- ◆ Prepare the brief for the March BAC meeting.

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Santa Clara Valley Water District

File No.: 20-0224

Agenda Date: 2/19/2020

Item No.: 5.9.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Discuss Potential Recommendation to Board to Authorize Release of Attorney-Client Privileged Documents to Board Independent Auditor.

RECOMMENDATION:

Discuss Potential Recommendation to Board to Authorize Release of Attorney-Client Privileged Documents to Board Independent Auditor.

SUMMARY:

Santa Clara Valley Water District (Valley Water) retained TAP International, Inc. (TAP International) to perform auditing services of the District Counsel Office as identified in the Annual Audit Work Plan and recommended by the Board Audit Committee as a result of the Risk Assessment Model. The Board approved an audit entitled "Classified Information" which is intended to evaluate to what extent does the District Counsel's Office appropriately classify confidential information. At the January 22, 2020 Board Audit Committee meeting, it was decided to separate the Classified Information audit from the ongoing District Counsel Office Review audit.

For the Classified Information audit, TAP International preliminarily indicated that it will want access to review the following information from the District Counsel's Office:

- (1) Closed Session Memos;
- (2) Quarterly District Counsel Status Reports; and
- (3) Confidential Non-Agenda Memos.

Since the full Board would need to approve the release records protected by the attorney-client privilege to consultant TAP International, the Committee can discuss whether it should recommend that the Board issue such an approval.

ATTACHMENTS:

None.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

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