



# Santa Clara Valley Water District Board Audit Committee Meeting

Teleconference Zoom Meeting

## 2:00 PM REGULAR MEETING AGENDA

Wednesday, February 17, 2021  
2:00 PM

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

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

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

DARIN TAYLOR  
Committee Liaison

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

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

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

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Wednesday, February 17, 2021

2:00 PM

Teleconference Zoom Meeting

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**IMPORTANT NOTICES**

This meeting is being held in accordance with the Brown Act as currently in effect under the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20 issued on March 17, 2020 that allows attendance by members of the Committee, staff, and the public to participate and conduct the meeting by teleconference, videoconference, or both.

Members of the public wishing to address the Committee during a video conferenced meeting on an item not listed on the agenda, or any item listed on the agenda, should use the "Raise Hand" or "Chat" tools located in Zoom meeting link listed on the agenda. Speakers will be acknowledged by the Committee Chair in the order requests are received and granted speaking access to address the Committee.

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

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

**Join Zoom Meeting:**

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

**Meeting ID: 916 0807 9873**

**Join by Phone:**

**1 (669) 900-9128, 91608079873#**

**1. CALL TO ORDER:**

1.1. Roll Call.

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

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

**3. APPROVAL OF MINUTES:**

3.1. Approval of Minutes.

[20-1201](#)

Recommendation: Approve the minutes.

Manager: Michele King, 408-630-2711

Attachments: [Attachment 1: 121620 BAC Minutes](#)  
[Attachment 2: 011321 BAC Minutes](#)

Est. Staff Time: 5 Minutes

**4. ACTION ITEMS:**

- 4.1. Election of 2021 Board Audit Committee Chair and Vice Chair. [20-1205](#)
- Recommendation: Nominate and Elect the 2021 Board Audit Committee Chair and Vice Chair.
- Manager: Darin Taylor, 408-630-3068
- Est. Staff Time: 5 Minutes
- 4.2. Accept the Safe, Clean Water (SCW) Program Grant Management Audit Final Report; and Recommend that the Board Receive the Report at a Future Meeting, and Recommend Authorization from the Board to Allow the Subconsultants to Present the Report to the SCW Independent Monitoring Committee (IMC). [21-0116](#)
- Recommendation: A. Accept the Safe, Clean Water Program (SCW) Grant Management Audit Final Report;  
B. Recommend that the Board receive the report at a future Board meeting; and  
C. Recommend authorization from the Board to allow the subconsultants to present the report to the SCW Independent Monitoring Committee (IMC).
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: Grant Management Audit Final Report](#)
- Est. Staff Time: 15 Minutes
- 4.3. Board Audit Committee's 2020 Annual Self-Evaluation. [21-0154](#)
- Recommendation: A. Conduct the Annual Self-Evaluation; and  
B. Prepare a formal report to Provide to the Full Board.
- Manager: Darin Taylor, 408-630-3068
- Est. Staff Time: 10 Minutes
- 4.4. Scope of Work for the 2021 Risk Assessment. [21-0138](#)
- Recommendation: A. Discuss Scope of Work for the 2021 Risk Assessment; and  
B. Recommend Board approval of the Scope of Work for the 2021 Risk Assessment at a future Board meeting.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: Risk Assessment Planning Document](#)  
[Attachment 2: PowerPoint](#)
- Est. Staff Time: 5 Minutes

- 4.5. Discuss the Scope of the 2021 Annual Audit Training from the Board's Independent Auditor. [21-0120](#)  
Recommendation: Discuss the Scope of the 2021 Annual Audit Training from the Board's Independent Auditor.  
Manager: Darin Taylor, 408-630-3068  
Est. Staff Time: 5 Minutes
- 4.6. Review and Approve the Updated 2021 Board Audit Committee Work Plan. [21-0119](#)  
Recommendation: A. Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan; and  
B. Approve the updated 2021 BAC Work Plan.  
Manager: Darin Taylor, 408-630-3068  
  
Attachments: [Attachment 1: 2021 BAC Work Plan](#)  
Est. Staff Time: 5 Minutes
- 4.7. Recommended Considerations for and Updates to the Annual Audit Work Plan. [21-0118](#)  
Recommendation: Discuss recommended considerations for the Annual Audit Work Plan and approve any updates to recommend to the Board, if necessary.  
Manager: Darin Taylor, 408-630-3068  
  
Attachments: [Attachment 1: Annual Audit Work Plan](#)  
Est. Staff Time: 5 Minutes

**5. INFORMATION ITEMS:**

- 5.1. Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. (Navigant), the Fiscal Year 2017-2018 (FY18) status update Consultant Contracts Improvement Process and subsequent update for the Fiscal Year 2020-2021 (FY21) Consultant Contracts Improvement Process. [20-1019](#)
- Recommendation: Receive a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and the FY18 Consultant Contracts Improvement Process.
- Manager: Kenneth Wong, 408-630-2076  
Tina Yoke, 408-630-2385
- Attachments: [Attachment 1: Navigant Audit](#)  
[Attachment 2: PowerPoint](#)
- Est. Staff Time: 10 Minutes
- 5.2. Financial Analysis Regarding the Board Independent Auditing Services Contract with TAP International, Inc. [21-0113](#)
- 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: 5 Minutes
- 5.3. Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance. [21-0114](#)
- 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: Annual Performance Report](#)
- Est. Staff Time: 5 Minutes

5.4. Receive an Update on the Status of the Permitting Best Practices Audit. [21-0115](#)

Recommendation: Receive an update on the status of the on-going Permitting Best Practices Audit.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: CPRU Progress Report](#)

Est. Staff Time: 5 Minutes

**6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.**

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

**7. ADJOURN:**

7.1. Adjourn to Regular Meeting at 2:00 p.m., on March 17, 2021, to be called to order in compliance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20.





# Santa Clara Valley Water District

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**File No.:** 20-1201

**Agenda Date:** 2/17/2021  
**Item No.:** 3.1.

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## 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: 121620 BAC Minutes

Attachment 2: 011321 BAC Minutes

**UNCLASSIFIED MANAGER:**

Michele King, 408-630-2711

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BOARD AUDIT COMMITTEE MEETING

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# MINUTES

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**Wednesday, December 16, 2020  
2:00 PM**

(Paragraph numbers coincide with agenda item numbers)

**1. CALL TO ORDER:**

A regular meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee) was called to order in the District Headquarters Conference Room A-124, 5700 Almaden Expressway, San Jose, California, at 2:00 PM.

1.1 Roll Call.

Committee members in attendance were District 2 Director Barbara Keegan, Chairperson presiding. Committee members participating by teleconference were District 4 Director Linda J. LeZotte, and District 7 Director Gary Kremen, constituting a quorum of the Committee.

Staff in attendance were M. Overland. Staff members participating by teleconference were J. Aranda, A. Baker, D. Cahen, R. Chan, G. Del Rosario, A. Fulcher, A. Gordon, B. Hopper, M. Lugo, H. McMahon, A. Mendiola, C. Narayanan, L. Orta, M. Rosado, T. Sandhu, D. Taylor, S. Tran, K. Yasukawa, and T. Yoke.

Also, in attendance by teleconference were D. Callahan, D. Kahn, and G. Macdonald, TAP International, Inc. (TAP).

**2. 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 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, 2020, meeting. It was moved by Director LeZotte, seconded by Director Kremen, and unanimously carried that the minutes be approved.

### 4. ACTION ITEMS

#### 4.1 Receive and Discuss the District Counsel Audit Final Report and Management Response; and Approve the District Counsel Audit Final Report for Presentation to the Full Board.

Recommendation: A. Receive and discuss the District Counsel Audit Final Report and Management Response; and  
B. Approve the District Counsel Audit Final Report and direct staff and TAP International, Inc. to present to the full Board at a future Board meeting.

Ms. Denise Callahan, TAP International, Inc. (TAP), reviewed the information on this item, per the attached Committee Agenda Memorandum, and per the information contained in Attachment 1.

The Committee considered the attached District Counsel Audit Final Report, and it was moved by Director LeZotte, seconded by Director Kremen, and unanimously carried that the District Counsel Audit Final Report is approved, and that staff and TAP present the report to the full Board at a future Board meeting, by roll call vote.

#### 4.2 Discuss Options to Conduct the October 2021 Risk Assessment given that the Board Independent Auditing Services Agreement with TAP International Expires on June 30, 2021 and Provide Direction to Staff.

Recommendation: Discuss options to conduct the October 2021 Risk Assessment given that the Board Independent Auditing Services Agreement with TAP International expires on June 30, 2021 and provide direction to staff.

Mr. Darin Taylor, Chief Financial Officer, reviewed the options.

It was moved by Director LeZotte, seconded by Director Kremen, and unanimously carried that the Committee recommend to the full Board that:

- TAP to initiate the Risk Assessment such that it can be completed prior to TAP's agreement expiration on June 30, 2021; and
- Staff to initiate a procurement process for a "Chief Audit Executive" that would begin service on July 1, 2021.

4.3 Review and Approve the Updated 2020 Board Audit Committee Work Plan and Proposed 2021 Board Audit Committee Work Plan.

- Recommendation:
- A. Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan; and
  - B. Approve the updated 2020 BAC Work Plan and proposed 2021 BAC Work Plan.

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

The Committee considered the attached Updated 2020 BAC Work Plan and proposed 2021 BAC Work Plan, and it was moved by Director Kremen, seconded by Director LeZotte, and unanimously carried that the Committee approved the Updated 2020 BAC Work Plan and proposed 2021 BAC Work Plan, by roll call vote.

4.4 Recommended Updates to Annual Audit Work Plan.

- Recommendation: Discuss the Annual Audit Work Plan and approve any updates to the Board, if necessary

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.

**5. INFORMATION ITEMS**

5.1 Follow up Discussion on Valley Water Comprehensive Annual Financial Report Transparency Related to Recording the Allowance for Doubtful Accounts.

- Recommendation: Receive the information and discuss the process of recognizing allowance for Doubtful Accounts.

The Committee noted the information without formal action.

5.2 Receive an Update on the Status of the Safe, Clean Water Program Grant Management Audit.

- Recommendation: Receive an update on the status of the on-going Safe, Clean Water Program Grant Management Audit.

Mr. Drummond Kahn and Ms. Greta McDonald, 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 that staff bring this back to the Committee at a future meeting to discuss the payment policy processes.

5.3 Receive an Update on the Status of the Permitting Best Practices Audit.

Recommendation: Receive an update on the status of the on-going Permitting Best Practices Audit.

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 bring this item back to the Committee at the next meeting.

**6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.**

6.1 Clerk Review and Clarification of Committee Requests.

Mr. Max Overland, Assistant Deputy Clerk of the Board, read the new Committee Member Requests into the record.

**7. ADJOURN**

7.1 Adjourn to Regular Meeting at 2:00 p.m., on January 20, 2021, to be called to order in compliance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20.

Chairperson Keegan adjourned the meeting at 4:00 p.m., to the 2:00 p.m. Special Meeting on January 13, 2021, to be called to order in compliance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20.

Max Overland  
Assistant Deputy Clerk of the Board



BOARD AUDIT COMMITTEE MEETING

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# MINUTES

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**Wednesday, January 13, 2021  
3:00 PM**

(Paragraph numbers coincide with agenda item numbers)

**1. CALL TO ORDER:**

A regular meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee) was called to order in the District Headquarters Conference Room A-124, 5700 Almaden Expressway, San Jose, California, at 3:00 PM.

1.1 Roll Call.

Committee members in attendance were District 2 Director Barbara Keegan, Chairperson presiding. Committee members participating by teleconference were District 4 Director Linda J. LeZotte, and District 7 Director Gary Kremen, constituting a quorum of the Committee.

Director Estremera attended via teleconference.

Staff in attendance were M. Overland. Staff members participating by teleconference were A. Blackmon, D. Cahen, A. Fonseca, A. Gschwind, B. Hopper, M. Lugo, H. McMahon, A. Mendiola, N. Nguyen, L. Orta, S. Peters, D. Rocha, T. Sandhu, D. Taylor, S. Tippets, S. Tran, K. Wong, K. Yasukawa, B. Yerrapotu, and T. Yoke.

Also, in attendance by teleconference were D. Callahan, D. Kahn, and G. Macdonald, TAP International, Inc. (TAP); and Mr. David Alvey, Maze and Associates.

**2. 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 who wished to speak.

**3. APPROVAL OF MINUTES:**

None.

**4. ACTION ITEMS**

Chairperson Keegan moved the agenda to Item 5.3.

- 5.3 Valley Water Comprehensive Annual Financial Report for the Fiscal Year Ending on June 30, 2020.

Recommendation: Discuss the Valley Water Comprehensive Annual Financial Report (CAFR) for the Fiscal Year (FY) Ending on June 30, 2020, that staff will be recommending for Board acceptance and provide direction as needed.

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

The Committee noted the information, without formal action.

Chairperson Keegan moved the agenda to Item 4.4.

- 4.4 Receive and Discuss the Safe, Clean Water Program Grant Management Audit Draft Report and Management Response; and Approve the Safe, Clean Water Program Grant Management Audit Draft Report for Presentation to the Board.

Recommendation: A. Receive and discuss the Safe, Clean Water Program Grant Management Audit Draft Report and Management Response; and  
B. Approve the Safe, Clean Water Program Grant Management Audit Draft Report and direct staff and subconsultants to present to the Board at a future Board meeting.

Mr. Drummond Kahn and Ms. Greta McDonald, TAP International, Inc. (TAP), reviewed the information on this Item, per the attached Committee Agenda Memorandum, and per the information contained in Attachment 1.

Chairperson Keegan read into the record the following statement of Ms. Trish Mulvey, Palo Alto resident: *How can these questions and concerns posed to the Valley Water Board by a colleague regarding the next Safe, Clean Water Grants Program be addressed before the first Measure S grant cycle? What are the best practices for grants to individuals? Can a management response be included when this audit is presented to the full Board? "Grants for individuals will get really messy and will create a large load on the grant administration. There could be thousands of applications. Please limit the language for grants for individuals to state that there needs to be a public benefit or remove the word "individual." The way this is written the public will expect opportunity for grants for all these topics. Would this really fund someone's private well? I see several concerns with flood protection grants. How to differentiate between debris and habitat? Who [is] to decide if the debris is a flood risk? Who is liable should an area flood where Valley Water denied grant? Should the public pay for lack of*



*maintenance or illegal work by private residents? My neighbor dumped loads of brush cuttings in the creek, should the public pay to remove?"*

Mr. Steve Holmes, of undisclosed residency, expressed support for this audit and requested that the Committee consider delaying insurance requirements until the agreement and permits have been acquired. There is concern that the permitting process can take up to two years to acquire causing unwarranted insurance expense.

The Committee considered the attached Safe, Clean Water Program Grant Management Audit Draft Report, and it was moved by Director LeZotte, seconded by Director Kremen, and unanimously carried that the Committee approved the Safe, Clean Water Program Grant Management Audit Draft Report and directed staff and subconsultants to present to the full Board at a future Board meeting, by roll call vote.

Chairperson Keegan moved the agenda to Item 4.2.

4.2 Discuss Options to Evaluate Risk Management Organizational Alignment; and Direct Staff to Present the Recommended Option to the Full Board for Approval to Update the Annual Audit Work Plan.

Recommendation: A. Discuss the options to evaluate Risk Management Organization alignment; and  
B. Direct staff to present the recommended option to the full Board for approval to update the Annual Audit Work Plan.

Mr. Darin Taylor, Chief Financial Officer, reviewed the information on this Item, per the attached Committee Agenda Memorandum, and per the information contained in Attachment 1.

The Committee considered the attached Options to Evaluate Risk Management Organizational Alignment, and it was moved by Director Kremen, seconded by Director LeZotte, and unanimously carried that the Committee approved Option C contained in Attachment 1, Page 1, by roll call vote.

Chairperson Keegan returned the agenda to Item 4.1.

4.1 Board Audit Committee's 2020 Annual Self-Evaluation.

Recommendation: A. Conduct the Annual Self-Evaluation;  
B. Direct staff to prepare a formal report; and  
C. Direct staff to return to the Board Audit Committee for approval to present the report to the full Board.

Chairperson Keegan reviewed the information on this Item, per the attached Committee Agenda Memorandum.

The Committee noted the information and requested the following:

- The Committee requested staff to email the Annual Self-Evaluation to the Committee members to fill out and then email completed forms to the Clerk of the Board.

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.

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

Director LeZotte moved, and Chair Keegan seconded, and it unanimously carried that the Committee approved the request that TAP International provide the Committee a Board Auditor Activity Report to evaluate Board Auditor performance, by roll call vote. Director Kremen was absent.

4.5 Recommended Updates to Annual Audit Work Plan.

Recommendation: Discuss the Annual Audit Work Plan and approve any updates to recommend to the Board, if necessary.

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

The Committee noted the information, without formal action.

4.6 Review and Approve the Updated 2021 Board Audit Committee Work Plan.

Recommendation: A. Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan; and  
B. Approve the updated 2021 BAC Work Plan.

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

Chairperson Keegan read into the record the following statement of Ms. Mulvey: *Thank you for including this inquiry (Line 80): "Recommendation: Discuss the potential for a desk review or audit of the Sponsorship Program." I hope an audit is approved and will start soon.*

The Committee considered the attached updated 2021 Board Audit Committee Work Plan, and it was moved by Director LeZotte, seconded by Chairperson Keegan, and unanimously carried that the Committee approved the updated 2021 Board Audit Committee Work Plan, by roll call vote. Director Kremen was absent.

## 5. INFORMATION ITEMS

### 5.1 Valley Water Policy Discussion Related to Financial Auditor Responsibility.

- Recommendation:
- A. Discuss Valley Water Policy issues related to Financial Auditor responsibilities; and
  - B. Recommend to the full Board that this policy issue be referred to the Board Policy and Planning Committee for further discussion and refinement.

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

The Committee considered the Valley Water Policy related to Financial Auditor Responsibility, and it was moved by Director LeZotte, seconded by Chairperson Keegan, and unanimously carried that the Committee recommend to the full Board that this issue be referred to the Board Policy and Planning Committee for further discussion and refinement, by roll call vote. Director Kremen was absent.

### 5.2 Discuss 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:

- Continue this item to a future Committee meeting once the full Board has selected the new Board Audit Committee members.

### 5.4 Receive an Update on the Status of the Permitting Best Practices Audit.

- Recommendation: Receive an update on the status of the on-going Permitting Best Practices Audit.

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

The Committee noted the information, without formal action.

### 5.5 Receive and Discuss a Status Update on the Implementation of Audit Recommendations.

- Recommendation: Receive and discuss a status update on the implementation of audit recommendations.

Mr. Taylor 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.

Mr. Max Overland, Assistant Deputy Clerk of the Board, read the new Committee Member Requests into the record.

**7. ADJOURN**

7.1 Adjourn to Regular Meeting at 2:00 p.m., on February 17, 2021, to be called to order in compliance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20.

Chairperson Keegan adjourned the meeting at 5:00 p.m., to the 2:00 p.m. Regular Meeting on February 17, 2021, to be called to order in compliance with the State Emergency Services Act, the Governor's Emergency Declaration related to COVID-19, and the Governor's Executive Order N-29-20.

Max Overland  
Assistant Deputy Clerk of the Board



# Santa Clara Valley Water District

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**File No.:** 20-1205

**Agenda Date:** 2/17/2021  
**Item No.:** 4.1.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

#### **SUBJECT:**

Election of 2021 Board Audit Committee Chair and Vice Chair.

#### **RECOMMENDATION:**

Nominate and Elect the 2021 Board Audit Committee Chair and Vice Chair.

#### **SUMMARY:**

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

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

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

#### **ATTACHMENTS:**

None.

#### **UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068

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# Santa Clara Valley Water District

File No.: 21-0116

Agenda Date: 2/17/2021

Item No.: 4.2.

## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

#### SUBJECT:

Accept the Safe, Clean Water (SCW) Program Grant Management Audit Final Report; and Recommend that the Board Receive the Report at a Future Meeting, and Recommend Authorization from the Board to Allow the Subconsultants to Present the Report to the SCW Independent Monitoring Committee (IMC).

#### RECOMMENDATION:

- A. Accept the Safe, Clean Water Program (SCW) Grant Management Audit Final Report;
- B. Recommend that the Board receive the report at a future Board meeting; and
- C. Recommend authorization from the Board to allow the subconsultants to present the report to the SCW Independent Monitoring Committee (IMC).

#### SUMMARY:

On January 14, 2020, the Board of Directors approved TAP International's updated FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan, as recommended by the Board Audit Committee (BAC), to include a desk review on key controls and financial management regarding the extension of grants under the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program).

On February 19, 2020, the BAC discussed the status of the Safe, Clean Water Program Grant Management ad-hoc desk review. The Board's Independent Auditor, TAP International, recommended that an auditor with expertise on grant management, conduct a performance audit of the Safe, Clean Water Grant Program.

At its regular meeting on July 15, 2020, the Board Audit Committee voted to recommend that the Board approve a Board audit of the Grant Management Program and further recommended that the services be provided through the existing agreement with TAP - a sub-consultant with subject matter expertise in grants management would be utilized to provide this service. On July 21, 2020, the Board approved this performance audit to be placed on the Board Audit Committee's Annual Audit Work Plan. The BAC received additional information at its August 2020 BAC meeting to facilitate a discussion of audit objectives for a proposed scope of work based on the desk review.

On September 2, 2020, independent contractors, Greta MacDonald and Drummond Kahn, initiated the Grant Management Performance Audit to assess whether Valley Water can provide assurance

that risks are being managed appropriately and whether the department's internal control environment is operating effectively to ensure the safeguarding of public funds, with the focus on improving grant management operations and aligning current processes with best practices. Additionally, it would assess the timeliness of grant/contract approvals, and grant payments.

The Safe, Clean Water Program Grant Management Audit Preliminary Draft Report was formally issued to staff on December 14, 2020, for formal comment. Staff provided the management response to audit recommendations on December 30, 2020. The Safe, Clean Water Program Grant Management Audit Draft Report and Management Response was presented at the January BAC meeting. The Safe, Clean Water Program Grant Management Audit Final Report (Attachment 1) has been modified slightly relative to the version reviewed by the BAC in January and is attached for the Committee to review and discuss.

**ATTACHMENTS:**

Attachment 1: Safe, Clean Water Program Grant Management Audit Final Report

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068



# PERFORMANCE AUDIT OF VALLEY WATER – GRANTS MANAGEMENT AND ADMINISTRATION

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

FINAL REPORT

FEBRUARY 2, 2021

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**Submittal Letter**

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February 2, 2021

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

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

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

This report presents our findings and recommendations related to these objectives. We found that Valley Water's grants management and administration program has many opportunities to better match its level of oversight to the level of risks the program faces, while strengthening some internal control activities related to monitoring. These opportunities can better align Valley Water's efforts with best practices in grants management.

Valley Water may also wish to clarify disclosure requirements if appointees monitor grants to organizations they have interests in. Valley Water may wish to consider additional reviews and obtaining legal advice on mechanisms to document disclosures, as described on page 11.

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

Sincerely,

Drummond Kahn  
Greta MacDonald

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## Executive Summary

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### WHY WE CONDUCTED THIS AUDIT

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

Our audit objectives were to:

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

### WHAT WE FOUND

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

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

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

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

## WHAT WE RECOMMEND

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

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

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

5. In addition to right-sizing invoicing requirements based on the grant's risk level, Valley Water should right-size the level of progress reporting detail required for smaller dollar value standard grants, for example, under \$25,000.
6. Valley Water should explore where, within existing District policies, it can augment grant requirements for grant agreements and invoicing for certain grantees based on risk: partnerships, repeat grantees, establish grant value thresholds, and determine whether the number of approvals and signatures for payments are appropriate. At a minimum, for smaller, lower risk grants, Valley Water should re-assess its reporting and invoicing requirements based on risk, dollar value, and project complexity.
  - a. For example, Valley Water could treat grant agreements up to \$25,000 like mini-grants and expedite payment for low-risk grants and low dollar amount invoices from trusted long-term grantees. Valley Water could consider paying unquestioned amounts earlier, and focus more scrutiny on riskier, larger dollar amount invoices from new grantees.
  - b. Valley Water could also consider reimbursing expenses when invoiced and then using the closeout process to reconcile remaining amounts below a reasonable threshold. For example, if a grantee bills \$10,000 for its performance, and Valley Water questions \$500 of that amount, it could consider paying the unquestioned amount first, then resolve the questioned amount by project.
  - c. Staff should focus their review on whether grantee costs are reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines. Spot checks would be performed to ensure calculations are correct and that receipts match the totals. The level of scrutiny applied and depth of review would be based on the grant and grantee risk factors, as determined by management.
7. Should Valley Water decide to continue to require the same information for progress and invoice submission, they should:
  - a. Confirm the integrity of grantee financial management system data used for review before award.
  - b. Include language in the grant agreement such as, "Failure to submit an accurate financial invoice in a timely manner may result in payments being withheld, delayed, or denied, and will result in payment delays".
8. Valley Water should solicit grantee and partnership feedback regularly, conducted by an independent third party, as best practices suggest. In addition to assessing satisfaction with the program, inquiries should be made to determine the extent to which partial funding has impacted the grantee and the project.
9. Valley Water should determine a reasonable goal and timeline for final closeout and final payment, including the release of retention. The established dates and timelines should be monitored in the Grant Tracker and when possible, included in any automated flags and alerts that FLUXX can provide.
10. Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.
11. To ensure that staff understand and carry out their internal control responsibilities, and to promote accountability, Valley Water should consider reconfiguring job assignments to enhance the grants management function once the backlog has been addressed and policies and procedures are developed:

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

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

## Objectives, Scope and Methodology

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### Objectives

The objectives of our audit were to:

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

### Scope

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

### Methodology

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

#### Sampling Methodology:

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

#### Procedures and Tests Conducted:

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

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

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

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

Our work was conducted between September 1 and November 19, 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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

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

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



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

- A2: Water Conservation, Water to Go, and Pilot Mini-Grants
- B3: Pollution Prevention and Partnerships Grants
- B7: Support Volunteer Cleanup Efforts and Education Grants
- D3: Grants and Partnerships to Restore Wildlife Habitat, Grants and Partnerships to Access Trails & Open Space, and Mini-Grants

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

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

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

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## Principal Findings

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

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

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

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

### **1.1 PRE-AWARD**

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

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

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

based plan can be regarded as a due diligence exercise prior to award.<sup>3</sup> Once a grantee's overall risk has been assessed, Valley Water can then determine the level of scrutiny that should be applied for reporting purposes. For example, Valley Water could perform due diligence reviews of grantees to verify that they have the requisite financial management systems that will produce invoice detail required by the grant agreement, or collect information on the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement. If a grantee cannot, Valley Water could consider adjusting reporting requirements or to treat agreements below a dollar threshold similarly to a mini-grant.

Due diligence can protect the District's ratepayer funds as it advances its mission through this grant program. Valley Water performs due diligence activities in the grant application process by requesting financial information to assess capacity, but lacks a specific policy or formal list of documents to collect and a method for evaluation. Within the last year, to address risks related to grantees' financial capacity, Valley Water began requesting financial statements with applications for standard grants. Valley Water reviews assets and liabilities, but does not assess other fiscal health indicators or formalize their analysis in the grant file. Valley Water also checks GuideStar to verify the non-profit's current status and viewing the grantee's IRS Form 990, an important federal filing for many non-profit organizations, but does not yet memorialize this review in each grant file. Another risk-mitigation method at the federal grant level is a requirement that awarding agencies establish conflict of interest policies specifically related to grants to address conditions under which outside activities, relationships or financial interests are proper and improper; provide for advance notification of such activities; and outline how financial conflicts of interest may be addressed<sup>4</sup>. Such a policy at Valley Water could mitigate reputational risk to ensure that any relationships with Valley Water employees or officials, past or present, are disclosed and assessed prior to awarding a grant. Valley Water may wish to consider similar policies.

*Please see Recommendation 1 above.*

## 1.2 AWARD

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

In the immediate post-award phase, there may be substantial time lags between when the grant is awarded and when the agreement is executed, depending on the level of funding, type of project, and level of project complexity. Six grantees responded to our survey expressing concerns with delays between award and the grant agreement execution. The agreement and project scope negotiation process, requirements for CEQA, permits and number of signatures of Valley Water reviewers (up to nine signatures may be required), create significant time lags in the grant agreement execution process once the grant has been awarded. Based on grantees' feedback and our file review, the execution of agreements can take several months and as long as a year. In our file review sample of 29 competitive grants, we found that it took an average of 152 days from grantee award to contract execution, compared to Valley Water's goal of 60-90 days<sup>5</sup>. One grantee surveyed explained that it took 18 months to sign the contract after Valley Water had agreed in principle to the grant, after the grantee had confirmation on matching grants from other funding partners on the project, and that delays could impact the viability of a project.

These lags stem from both internal and external factors: First, for some grants, resolutions from governing bodies like city councils must be in place before contracts are executed, which could

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

<sup>4</sup> 2 CFR 200.112 Conflict of Interest.

<sup>5</sup> Per the RFP guidance for grant cycles, time between the projected District Board approvals and the execution of grant agreements ranges between two and three months, or 60-90 days.

also delay the process. Project complexity is also a factor; for projects where the grantee needs to secure permits to perform the work, that process can take several months, just as those projects requiring CEQA review can also take more time from award to execution. Finally, Valley Water's Agreement execution routing signatures include: Accounting, Risk Management, Legal, Chiefs (as applicable), Assistant CEO, CEO.

Community Resource Planning Unit (CRPU) must also review the agreements. While Valley Water has improved the signature routing process through the use of an electronic signature application, the process can still take weeks due to the review required, and the potential re-routing that must occur if the agreement changes during the review process. Also, not all grantees are awarded the full amount of funding they applied for. Valley Water funds projects based on evaluation criteria and may choose to partially fund multiple projects, which allows them to expand the number of grants in a priority area. For example, in 2018, among the twelve proposals submitted for priority area B7, supporting volunteer clean-up efforts and education, staff recommended funding nine grant proposals -- six at 70 percent, and three at 30 percent of their funding requests. Given the total funding available, the number of qualified projects, and concerns regarding some of the projects' scope, staff determined the funding formula provided the most equitable distribution of available grant dollars and extended Valley Water's ability to provide support to projects throughout the County<sup>6</sup>. Partial funding of a grant project can prolong the contract negotiation process because the grantee has to revise the project budget and workplan accordingly; or may need to secure additional funding to pursue the original project prior to contract execution.

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

*Please see Recommendation 2 above.*

## 1.3 POST-AWARD

### **Monitoring and Grantee Reimbursement**

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

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

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<sup>6</sup> File No.:18-0160, Agenda Date 3/13/18, Item No.:\*7.1.

perform general job duties. The tracker is updated during a weekly monitoring meeting and provides information on all grants in every stage.

As a grantor, Valley Water can make payments to grantees in two ways, either through advances or through reimbursement. Smaller non-profits told us that they can be adversely impacted if reimbursements are untimely. Valley Water pays its standard grantees and partnerships<sup>7</sup> through a reimbursement process, where grantees are required to submit the following documents to receive payment:

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

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

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

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

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

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

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

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

<sup>7</sup> Mini-grants are paid with an advance of \$2,500 and the remainder at close out.

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

- First, Valley Water staff explained, and we observed in the grant files, that grantees may not submit the required information completely, and there can be multiple back and forth conversations, emails, resubmissions and reviews over prolonged periods of time before the invoice is deemed responsive and complete in order to authorize for payment. One grantee interviewed explained that they submitted an invoice, and five months later, Valley Water called back to say something was missing from their invoice.
- Second, 10 of the 29 grantees responding to our survey expressed concerns with untimely invoice payments, explaining that in some cases, it took months to hear back from Valley Water on submitted invoices and reports, including requests for additional documentation. Grantees suggested, and Valley Water staff confirmed, that these delays were likely due to Valley Water staff turnover. Additionally, during the period of our audit, no tracking mechanism was in place to monitor when invoices were submitted by the grantee and when a response was required, nor did we find evidence that Valley Water responded to grantees within the 10 working days to request follow up information. However, we observed that once the invoice and supporting documentation in the files we reviewed were complete, and the program administrator approved the invoice for payment, the grantee was issued a check immediately, within the 45 days required in the grant agreement.

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

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

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

Most notably, staff are now monitoring the 10-calendar day response time required by the grant agreement on invoices and reports, but are not tracking the 45 calendar days to payment.<sup>8</sup> The grants management system, FLUXX, will be able to run reports regularly to track metrics such as payment cycle times, and ensure that insurance expirations or contract expirations are tracked to ensure that expirations do not impact Valley Water's ability to pay grantees.

*Please see Recommendation 3 above.*

### **Status Reports**

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

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

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

## **1.4 CLOSEOUT**

### **Final Payment**

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

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

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<sup>8</sup> Civic Engagement includes in their 2021 workplan within goal 2.1 (b) to complete invoice submittal reviews and request any follow-up items within ten days of receipt, and to process 100% of invoices within 45 days from when the invoice has been approved.

- Presentation to Board of Directors upon request

While no formalized goal or timeline for project closeout is currently documented for Valley Water, federal granting agencies require final reports within 90 calendar days after the end date of the performance period<sup>9</sup>. Of the seven grants in our sample with closed out status, we found two had not yet been paid. We found in our sample that closeouts and the subsequent final invoice payment take an average of 173 days, and final payments can occur beyond six months after the agreement ends. The closeout process involves not only final invoice review and approval but, as noted above, the review, approval and presentation upon request of a final report of the project before the Agreement Status Change Request (ASCR) is submitted to the contracts department, where the project is formally closed. Examples include:

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

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

*Please see Recommendation 8 above.*

### **Project Delivery Reporting**

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

### **Feedback from Grantees**

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

*Please see Recommendation 9 above.*

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

Valley Water oversees grants with positive community results, but its operating effectiveness during the past three fiscal years was hampered by a lack of formalized grants management

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<sup>9</sup> 2 CFR 200.343: Closeout - describes the actions that the non-Federal entity and the Federal awarding agency or pass-through entity must take in order to complete the closeout process at the end of the period of performance (codified 29 CFR Part 95.71 and 97).



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

Grant program management should be guided by written policies and procedures accessible to all staff. A good organizational structure includes a clear delineation of roles and responsibilities, as well as explicit timelines to accomplish key tasks necessary for effective program implementation. The lack of policies and procedures, coupled with inconsistent levels of dedicated staffing and turnover, contributed to the invoice payment backlog and other concerns voiced by grantees. A formalized policies and procedures manual can help ensure consistency in operations and can act as a training tool during transition due to turnover, as it helps an organization retain institutional knowledge, and navigate project and grantee issues, as well as provide guidance for the work flow – all of which were lacking during the audit period. New staff hired in FY 2020, although trained on the job, did not have a formal set of standard operating procedures or a manual for managing grants.

*Please see Recommendation 10 above.*

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

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

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

The Grants Manager’s Network, in their Staffing Grants Management Report, provides a description of staffing needs necessary for a grants management function – positions, competencies and duties, which aligns job descriptions with grant operations. Similar to what is described in the GMBok, programmatic functions are separated from the administrative and financial functions. This is also a key element of the control environment in the assignment of

authority and responsibility, necessary to ensure that staff understand their internal control responsibilities and promote accountability of staff. Based on our review and comparison with Valley Water Civic Engagement staff job specifications, with the exception of the Supervising Program Administrator position, current position descriptions do not adequately address the grants management functions, competencies and duties. All four staff members (whose time dedicated to grants management is 2.25 full-time equivalents) have a full-range of administrative and financial duties including managing active projects, and also comprise assisting applicants and preparing application materials, preparing reports for Board meetings and workshops, reviewing status reports and invoicing documentation, addressing compliance concerns, and closeouts. In addition to historical staff turnover, these tasks are compounded by the release of new grant cycles multiple times a year.

Funding for the Safe, Clean Water program continues to grow with Measure S's passage in November 2020. If current organization and staffing assignments remain the same, it is reasonable to expect that either additional grant management staff may be needed to assume the workload<sup>10</sup> generated by new projects, or that the workload of existing staff could be focused (or more fully dedicated in terms of FTE levels) to manage the increased responsibilities and grant volume. For Civic Engagement to maintain its current service levels and manage more grants, adequate staffing – and/or a clearer staff focus – will be critical. Whether Valley Water considers expanding or maintaining staffing levels, it should match expected workload with its capacity.

*Please see Recommendation 11 above.*

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<sup>10</sup> There is no benchmark or formula that we determined could be applied to set an appropriate grant manager workload due to variations in project complexity, grantee type, and level of staff experience. Best practices research showed a range of projects per grant manager due to differences in granting agencies and programs. Currently, Civic Engagement does not track the number of projects assigned to a grant manager.



## MEMORANDUM

FC 14 (08-21-19)

**TO:** Greta MacDonald and Drummond Kahn

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

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

**DATE:** December 30, 2020

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

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

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

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

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

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

## Recommendations and Management Response

### Auditor Recommendation:

1. Valley Water should consider developing clear guidelines for “right-sized” application and reporting processes, meaning that application and reporting requirements should be scaled to fit the size, risk, and complexity of each individual grant:
  - a. Valley Water should develop a formal due diligence policy and perform a due diligence review for high risk grant projects. A due diligence review of applicants determines the reasonableness of the grant and grantee’s ability to perform and assess the extent of the grantee’s reliance on grant funds. This would include analysis of managerial and fiscal capacity and past performance. For example, verify grantees have the requisite financial management systems that will produce invoice detail required by the grant agreement, or, gain an understanding of the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement.
  - b. For high-risk grants where financial statements are required, analyze fiscal health indicators of the entity and formalize the analysis within the grant file. For areas where Valley Water already implements a number of best practices such as checking GuideStar to verify the non-profits current status and to view the grantee’s IRS Form 990, staff should also memorialize its analysis in the grant file.
  - c. For smaller non-profits or community groups, based on risk, Valley Water should consider simplifying reporting requirements or developing alternative requirements for projects under a dollar threshold, like \$25,000, or establish a tiered structure and treat smaller projects similar to mini-grants.

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

Management agrees with the concept of “right-sizing” the application and reporting processes.

- a. Management agrees that assessing the risk for grant projects would increase the agency’s due diligence to prevent fraud and waste. An initial risk assessment would also help staff evaluate if any additional special provisions or tailored invoicing requirements and/or review are recommended in the agreement and during the grant monitoring.

Management recommends that the risk assessment be conducted after the grant is awarded and before grant agreement is executed, and reviewed with the grantee at the mandatory kick-off/orientation meeting. The development and implementation of a risk assessment review and financial reporting system compliance review could also lengthen the time between award and execution of the agreement. These processes would require collaboration with subject matter experts in Risk Management and Finance.

Staff will continue to review each invoice as it is submitted, in addition to conducting the risk assessment. Management also recommends that the grant agreement include a clause that grantees are still responsible and accountable for the proper use and management of public funds throughout the duration of the grant agreement. This agreement language would help assure that grantees understand and are held accountable for being responsible stewards of public funds, especially if they know staff is not reviewing invoices.

- b. Management agrees with requiring financial statements from applicants. Currently, all standard grant applicants are required to submit audited financial statements or Form 990 as part of the standard grant application. This is not required for mini-grants or partnerships. Applicants and grantees have expressed that audited financial statements are costly and not feasible for smaller non-profit organizations. Therefore, Valley Water accepts the Form 990 as an alternative to audited financial statements. The audited financial statements and Form 990 are memorialized in the grantee’s project application, which turns into the project file, in the Fluxx grants management system.

Staff will continue to review each invoice as it is submitted, in addition to requiring the audited financial statements. This financial review would be completed during the application process to serve as another due diligence check to ensure public funds are awarded to organizations with financial capacity and sustainability to carry out the requirements of the project. Invoice review levels would be determined during the risk assessment after the funding is approved by the Board.

- c. Management agrees with simplifying reporting requirements and recommends using the risk assessment to identify the tiered thresholds, instead of setting a dollar amount. While the dollar amount is identified per project, the collective number of projects within that dollar amount could add up to be a high dollar amount granted with minimal oversight.

**Target Implementation:** July 2021

**Auditor Recommendation:**

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

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

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

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

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

**Target Implementation:** January 2021

**Auditor Recommendation:**

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

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

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

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

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

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

**Target Implementation:** January 2021

**Auditor Recommendation:**

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

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

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

**Target Implementation:** January 2021

**Auditor Recommendation:**

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

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

Management agrees and staff will develop "right sized" reporting guidelines and criteria along with the development of the new grants program under Measure S, which will begin in FY22.

Currently, progress reporting is based on the scope and deliverables identified by the grantees and outlined in the executed grant agreement. Staff refers to the original grant agreement and ensures that what is in the grant agreement is being reported in the progress report. Staff does not request additional reporting outside of what is listed in the agreement.

**Target Implementation:** July 2021

**Auditor Recommendation:**

6. Valley Water should explore where, within existing District policies, it can augment grant requirements for grant agreements and invoicing for certain grantees based on risk: partnerships, repeat grantees, establish grant value thresholds, and determine whether the number of approvals and signatures for payments are appropriate. At a minimum, for smaller, lower risk grants, Valley Water should re-assess its reporting and invoicing requirements based on risk, dollar value, and project complexity.
  - a. For example, Valley Water could treat grant agreements up to \$25,000 like mini-grants and expedite payment for low-risk grants and low dollar amount invoices from trusted long-term grantees. Valley Water could consider paying unquestioned amounts earlier, and focus more scrutiny on riskier, larger dollar amount invoices from new grantees.
  - b. Valley Water could also consider reimbursing expenses when invoiced and then using the closeout process to reconcile remaining amounts below a reasonable threshold. For example, if a grantee bills \$10,000 for its performance, and Valley Water questions \$500 of that amount, it could consider paying the unquestioned amount first, then resolve the questioned amount by project.
  - c. Staff should focus their review on whether grantee costs are reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines. Spot checks would be performed to ensure calculations are correct and that receipts match the totals. The level of scrutiny applied and depth of review would be based on the grant and grantee risk factors, as determined by management.

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

Management agrees that assessing the risk for grant projects would increase the agency's due diligence to prevent fraud and waste. An initial risk assessment would also help staff evaluate if any additional special provisions or tailored invoicing requirements and/or review are recommended in the agreement and during the grant monitoring.

Staff recommend that the risk assessment be conducted after the grant is awarded and before the grant agreement is executed, and reviewed with the grantee at the mandatory kick-off/orientation meeting.

The development and implementation of a risk assessment review and financial reporting system compliance review could also lengthen the time between award and execution of the agreement. These processes would require collaboration with subject matter experts in Risk Management and Finance.

The risk assessment would supplement staff's review of each invoice. Management also recommends that the grant agreement include a clause that grantees are still responsible and accountable for the proper use and management of public funds throughout the duration of the grant agreement. This agreement language would help assure that grantees understand and are held accountable for being responsible stewards of public funds, especially if they know staff is not reviewing invoices.

Management recommends considering equity and inclusion in the development of the risk assessment guidelines and criteria. Applying varying standards for returning grantees would result in inequitable treatment and would disproportionately provide privilege to grantees who are already familiar with the grants program. The grants program continues to improve and be updated, so meeting the prior requirements may or may not mean that a returning grantee meets and understands the current program requirements. Additionally, varying guidelines and criteria per grantee agency could deter new agencies from applying if they feel that returning grantees have an advantage.

- a. While management agrees with the concept of streamlining the invoicing process, management feels that this approach may also expose Valley Water to potential complaints of disparate and inequitable treatment.

Management recommends the following alternative as a consideration to avoid being vulnerable to such complaints. Management recommends developing and implementing a spot check process to review and/or audit grantees using an outside consultant, if the Board adopts this recommendation.

While some grantee agencies are returning applicants and grantees, those agencies may have new staff managing the projects. Therefore, even though the grantee agency is not new, the agency staff changes does not guarantee that the projects are carried forward consistently.

Staff agrees with simplifying reporting requirements and recommends using the risk assessment to identify the tiered thresholds, instead of setting a dollar amount. While the dollar amount is identified per project, the collective number of projects within that dollar amount may add up to be a high dollar amount granted with minimal oversight.

- b. Management agrees with this recommendation and will formalize this process. Staff currently implements this practice informally, depending on the type of outstanding items are included in the invoice. Staff will develop “right sized” invoicing guidelines and criteria along with the development of the new grants program under Measure S, which will begin in FY22.
- c. Management agrees, and staff currently focuses their review on grantee costs that are not reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines, such as items that were not included in the budget; costs that are not related to any identifiable/reportable work in the grant scope; costs that have no supporting documentation; overspending on a specific task without prior approval; and submitting reimbursement requests for activities that have already been paid out. These improper payment requests are sometimes due simply to grantee staff turnover, among other factors.

**Target Implementation:** July 2021

**Auditor Recommendation:**

- 7. Should Valley Water decide to continue to require the same information for progress and invoice submission, they should:
  - a. Confirm the integrity of grantee financial management system data used for review before award.
  - b. Include language in the grant agreement such as, “Failure to submit an accurate financial invoice in a timely manner may result in payments being withheld, delayed, or denied, and will result in payment delays”.

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

Management will develop “right sized” invoicing guidelines and criteria along with the development of the new grants program under Measure S, which will begin in FY22. The items recommended below will be analyzed in the development of the new guidelines.

- a. Management agrees that confirming the integrity of the grantee financial management system data before award is warranted. One caveat is that these additional steps of both developing and implementing a risk assessment and financial reporting system compliance review could lengthen the time on the front end of the process, between the award period and the final execution of the agreement. The development and implementation of these processes would require collaboration with subject matter experts in Risk Management and Finance.
- b. Management agrees with this recommendation to clearly state that an accurate financial invoice is required to complete the payment request. Staff also recommends including language in the template grant agreement for grantees to consent to still being responsible and accountable for



the proper use and management of public funds throughout the duration of the grant agreement. This agreement language would help assure that grantees follow through with being responsible stewards of public funds, especially if they know staff is not reviewing invoices. These expectations would be reviewed with the grantee during the kick-off/orientation meeting after the agreement is executed.

**Target Implementation:** July 2021

**Auditor Recommendation:**

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

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

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

**Target Implementation:** January/February 2021

**Auditor Recommendation:**

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

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

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

**Target Implementation:** July 2021

**Auditor Recommendation:**

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

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

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

**Target Implementation:** March 2021

**Auditor Recommendation:**

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

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

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

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

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

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

**Target Implementation:** July 2021



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Marta Lugo, Assistant Officer  
Office of External Affairs

cc:

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

## Attachment B – Anonymized Survey Responses

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

### **Anonymized Survey Results:**

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

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

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

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

1. Admittedly, the repeated turnover mid-grant term was quite challenging. There was different information given to our organization at different times, which caused a lot of back and forth on both ends. Additionally, we had challenges receiving payments punctually which can be difficult for a non-profit organization. There was a lot of confusion with deadlines. We had deadlines outlined by the original grant representative, which conflicted with the contract that stated we had three years. This was eventually cleared up with the new grant team, which we appreciated! I understand that Valley Water needs detailed information about money spent. That said, it would be helpful to have the grant reimbursement request process somehow more streamlined, consistent, and concise.
2. Process to get final grant agreements in place is very cumbersome and lengthy, due to governance requirements
3. Communication about timeline for decisions.
4. None that I can think of. This is our first grant award from VW, so this has been a new learning process for us.
5. Communications greatly delayed. One of our grants was submitted in 2019, but still no result provided. Often it takes weeks to communicate with staff and 4-6+months for payment on invoices
6. The execution of agreements can take several months and sometimes over a year.
7. Delays, below average communication and high rate of staff turnover. From our experience it has been difficult to get a hold of grant managers and sometimes other personnel through email or phone, and when we do come in contact, it is often weeks later. Due to turn over of grant managers, some agreements have not held over to new staff, or have to be renegotiated or re-explained. Finally, the grants system doesn't seem to be being used to its full potential, at least for submitting reports (which we still are doing by email).
8. The tracking is disproportionate to the amount of money distributed and was not well-explained up front. Our agency manages grants from the state, several counties, the air district, DOE, NHLBI, and foundations, and this is the most tedious of them all. We have decided not to apply for another grant from Valley.
9. Four different Valley Water contact people were involved over a 3year period, follow-up contact was not very good, upon completion it took nearly three months before I heard back from someone from Valley Water and the issue is still not resolved.

- 
10. Constant staff turnover Overly administrative Only ever received partial funding. Difficult to find funding to complete projects.
  11. The process seems to be extremely rigid and bureaucratic. Staff are always very friendly and easy to talk to, but they don't seem to be empowered to make decisions. Processing of contracts and invoices takes forever; is it because of routing to various departments? Could this be streamlined? Also, the program could be more forgiving of applications that miss a technicality - we know of at least one instance where an application was not considered because it was missing some piece (I can't remember the details). In a program where you are not being overwhelmed by applications, it seems like it would be possible to be more flexible in these situations. We recently submitted a proposal to OSA and forgot an attachment -- the grant program staff caught this oversight and alerted us to it! Finally, the mini-grants were a great idea and did at first provide quick funding for small projects and accessible to a wider audience. Recently it seems this has become bogged down as well with things like insurance requirements and just an inordinate amount of review. These small projects will often move on without quicker decisions.
  12. None
  13. High staff turnover (4 grant contacts over 1-year grant) Grant system reflects incomplete information on my grant that was completed. Communications is through many people or non-existent Slow payment Slow to reply to application status Non-friendly format for application and for report submission in Flux
  14. It is painful to work thru Staff, slow turnaround on invoices up to 15 months, permits required to execute grants sourced thru District take 7-24 months to receive. Some of it may track back to turnover in these Depts but as a grantee this shouldn't be such a problem. our organization will not seek additional grants via Valley Water.
  15. Process to formalize grant agreements and process payments is way too long - to the point where it impacts organization finances long-term planning. The grant reimbursement requirements are unnecessarily specific and detailed, especially given the fund amounts. For long term partnerships - grant needs to consider general operating support for nonprofits with mission alignment
  16. When I applied for the grant, I thought it would be simple and easy. I started out fine, talked to interns, to contractor on list, and though I was doing everything right. Then communication stopped from Valley Water interns helping with grant program.
  17. during my grant contract, there were several staff changes acting as the grant manager and changes to reporting formats. That was a bit time consuming
  18. The process is overly burdensome both on the grant application side but mainly on the payment side. Payments are often delayed for over 6 months, and Valley Water does not live up to its own contractual commitments to point out any issues with the invoices within a few weeks of receiving the invoice. Furthermore, there is so much staff time wasted on very small costs. We also get paid through a PO process with other departments, and we can get paid within two weeks of submitting the invoices. The amounts are similar and the PO process does not require nearly the amount of proof that the grants process requires. It's like the grants program assumes non-profits are out to cheat them whereas the PO process assumes that private industry wouldn't do such a thing. On the grant application side of things, the mini grant idea has really been lost. Our first mini grant (~4 years ago) was approved within a month and paid out without a lot of documentation. Our last mini grant took over 6 months to get reimbursed, and new requirements were added after the project was completed. Our current mini grant application has been sitting in review mode for over a year. I can't help but think that the amount of staff time to review these \$5K grants exceed the cost of the grant.
  19. None that I observed.
  20. Once the grant was awarded, it took a very long time to draw up and finalize the get the agreement. Since we applied to a mini-grant, the awarded funds just narrowly exceeded the cost of administering the grant on our side. Part of the problem was that we were first time applicants, so I had a lot to learn about the process of grant receipt and administration with Valley Water. However, for small grants in particular, I think it would be appropriate to streamline the process of awarding grant funds in order to increase the impact of grant dollars.

- 
21. We have experienced very slow processing of grant invoices -- this imposed a significant financial hardship on our organization -- even though it is a relatively large national one.
  22. It took 18 months to sign the contract after Valley Water was agreed in principle to the grant. Valley Water's in principle agreement came in October 2018 after we had confirmation on matching grants from other cities. Delays like this can impact the very viability of a project.
  23. It could be helpful to have specific examples of ways to accomplish goals.
  24. Getting a contract processed takes a long time.
  25. They had a lot of turn over and grant invoices have gone unpaid for more than a year. As a nonprofit who runs on a small budget that puts us in a really difficult spot. The grants also require a lot of specific fulfillment details that can be quite involved for the size of the grant. If the grants were larger amounts the grant requirements would be relative but sometimes the grant is small and the amount of work we have spent trying to fulfill the requirements and get the invoices paid has surpassed the value of the grant. We have limited resources and capacity so having to spend a lot of time following up on unpaid grants is taxing for us.
  26. There is a very long lag time between submitting reports and hearing back about additional info that needs to be submitted; reimbursements took months longer than expected.
  27. We felt that there was quite a bit of documentation and reporting required for the mini grants. This can place a burden on smaller organizations who do not have dedicated development staff.
  28. Legacy issues have been a challenge for budgets and forms for existing Valley Water grants. Length of time for processing grant agreements to be executed has been a challenge.
    - a. Length of time for processing grant reimbursement requests of more than 6 months has been a significant issue.
    - b. Staff changes and/or capacity for work load may be impacting Valley Water effectiveness in grant management. This seems to be an issue Valley Water is actively trying to address.
    - c. When issues arise for natural resources (heavy rain years, drought, plant survival outcomes), there are needs for changes to original budgets that may be made more difficult with staff turn-over.
    - d. Staff changes resulted in delays and poor communication for some existing grants, this again may be a legacy issue.
    - e. 30-day review is not what our organization has seen. Delays cause difficulty for project team members involvement in the field and time to discussion for any questions months later on reimbursements.
  29. We totally understand current circumstances but even before, it would take a long time to get invoices paid from the time we submit all our paperwork and reports. Granted, we haven't had to submit anything in FLUXX yet, but that will hopefully help with keeping track of the status of reports and payments.

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# Santa Clara Valley Water District

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**File No.:** 21-0154

**Agenda Date:** 2/17/2021  
**Item No.:** 4.3.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

#### **SUBJECT:**

Board Audit Committee's 2020 Annual Self-Evaluation.

#### **RECOMMENDATION:**

- A. Conduct the Annual Self-Evaluation; and
- B. Prepare a 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.

According to Article 9, paragraph 4 of the BAC Audit Charter, the BAC shall conduct a self-evaluation of its performance annually. The Committee shall conduct the 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 13, 2021 Committee meeting, the BAC requested staff to e-mail the Annual Self-Evaluation to the BAC members to fill out and then e-mail their completed forms to the Clerk of the Board. The BAC will review their completed forms for self-evaluation at the February 17, 2021 Committee meeting.

#### **ATTACHMENTS:**

None.

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**File No.:** 21-0154

**Agenda Date:** 2/17/2021  
**Item No.:** 4.3.

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**UNCLASSIFIED MANAGER:**  
Darin Taylor, 408-630-3068



# Santa Clara Valley Water District

**File No.:** 21-0138

**Agenda Date:** 2/17/2021

**Item No.:** 4.4.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

#### **SUBJECT:**

Scope of Work for the 2021 Risk Assessment.

#### **RECOMMENDATION:**

- A. Discuss Scope of Work for the 2021 Risk Assessment; and
- B. Recommend Board approval of the Scope of Work for the 2021 Risk Assessment at a future Board meeting.

#### **SUMMARY:**

On May 23, 2017, the Board approved an on-call consultant agreement with TAP International, Inc. (TAP International) for Board Independent Auditing Services and on April 28, 2020, the Board approved extension of the agreement through June 30, 2021. The agreement requires TAP International to work with the Board and the Board Audit Committee (BAC) to develop an annual audit program, assess operational risks, advise on potential audits to ensure Santa Clara Valley Water District (Valley Water) is in full compliance with its policies, procedures, and regulations, and to conduct audits as directed by the Board and BAC.

On September 26, 2018, in accordance with the BAC charter, TAP International presented the final Risk Assessment Model to the BAC assessing operational risks to 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 included 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 included procurement, contract change order management, succession planning, and fraud prevention.

Per Article 3, subparagraph 7.4 of the BAC Charter, the BAC shall conduct a risk assessment every three years. At the January 26, 2021 regular Board meeting, the Board approved the assignment of TAP International to complete the next tri-annual Risk Assessment prior to the expiration of the Board Independent Auditing Services Agreement with TAP International on June 30, 2021, as recommended by the BAC.

Upon discussion of the scope of work for the 2021 Risk Assessment (Attachment 1), the Committee will recommend approval of the scope of work for the 2021 Risk Assessment at a future Board

meeting.

**ATTACHMENTS:**

Attachment 1: Risk Assessment Planning Document

Attachment 2: PowerPoint

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068

## Planning Document: 2021 Audit Risk Assessment Scope of Work Discussion

### Options for the scope of work:

1. Assess the 12 areas from the 2018 assessment to monitor changes in risk levels, identify any new risks, evaluate the continued need of audits not yet completed in the annual audit work plan.
2. Assess 2018 high risk areas only, identify any new risks, evaluate the continued need of audits not yet completed in the annual audit work plan.
3. Option 2 and other new areas to be determined by the BAC.
4. Option 1 and added new areas

### 2018 Risk Assessment: Areas Assessed

#	Business Area
1	Capital Improvement Planning and Budgeting
2	Performance Based Budgeting
3	Financial Management
4	Internal Control
5	Strategic Goals & Objectives
6	Fraud Prevention (2018 High Risk Area)
7	Human Resources Management
8	Purchasing/Contracting (2018 High Risk Area)
9	Change Order Applicable to Construction Management (2018 High Risk Area)
10	Succession Planning (2018 High Risk Area)
11	Business Continuity Planning
12	Environmental Sustainability

### Other Potential Areas to Assess:

1. Information Technology
2. Accounts Receivable
3. Accounts Payable
4. Capital project budgeting
5. Capital project permitting
6. Specific capital projects
7. Data Accuracy
8. Disaster planning
9. Training

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# VALLEY WATER 2021 RISK ASSESSMENT: PLANNING DISCUSSION

February 2021



**TAP**International

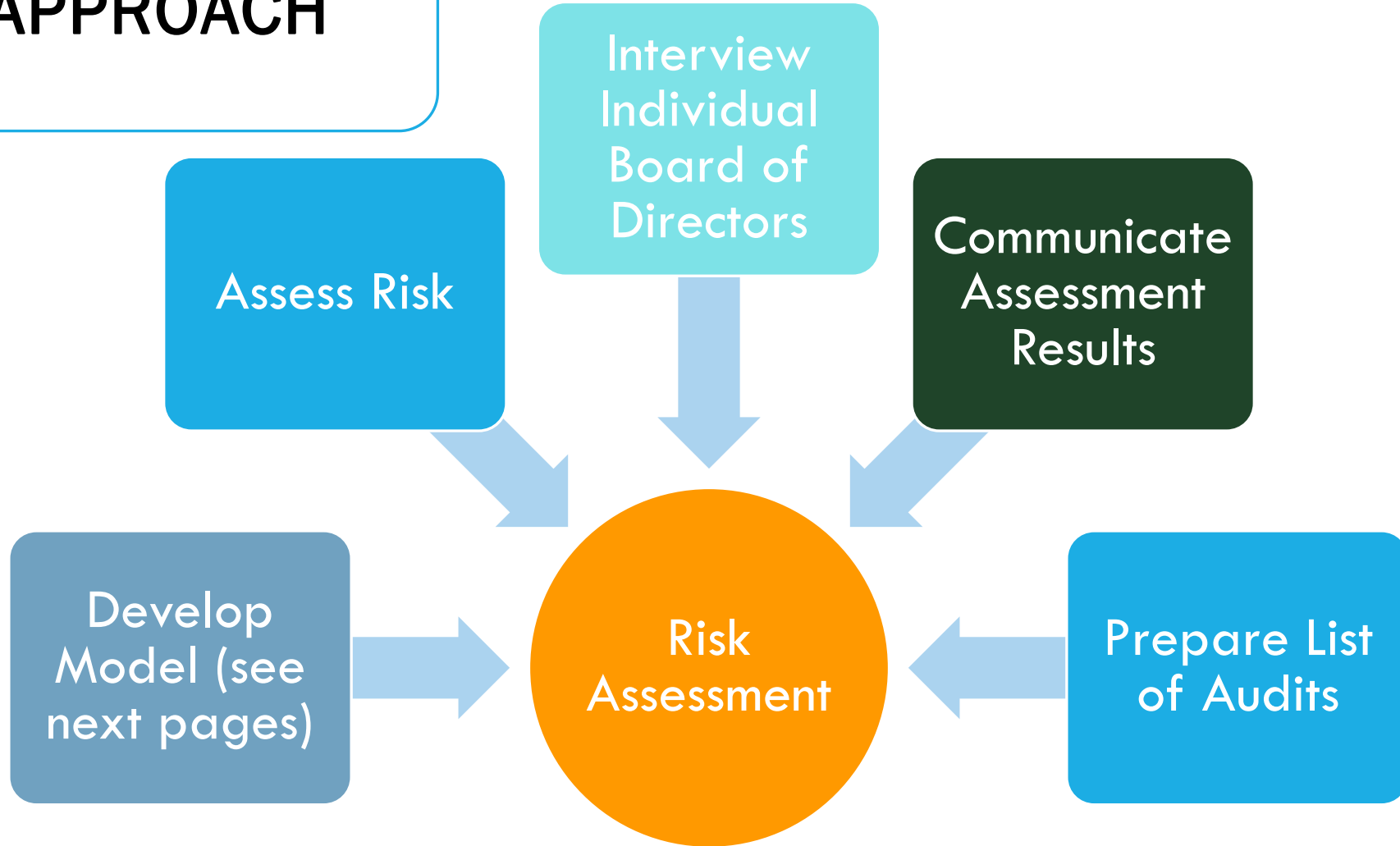
# What is a Risk Assessment



- ✓ Risk Assessments are required by auditing standards
- ✓ Risk Assessments help prioritize spending of audit resources.
- ✓ Risk Assessments are designed to audit what matters the most
- ✓ Risk Assessment are designed to identify the likelihood of risks occurring in organizations.
- ✓ The types of risks assessed are generally strategic goals and objectives



# OUR APPROACH



# 2018 Assessment - Risk Defined

1. Project Delivery

2. Service Delivery

3. Operating Effectiveness

## **2018 Areas Assessed**

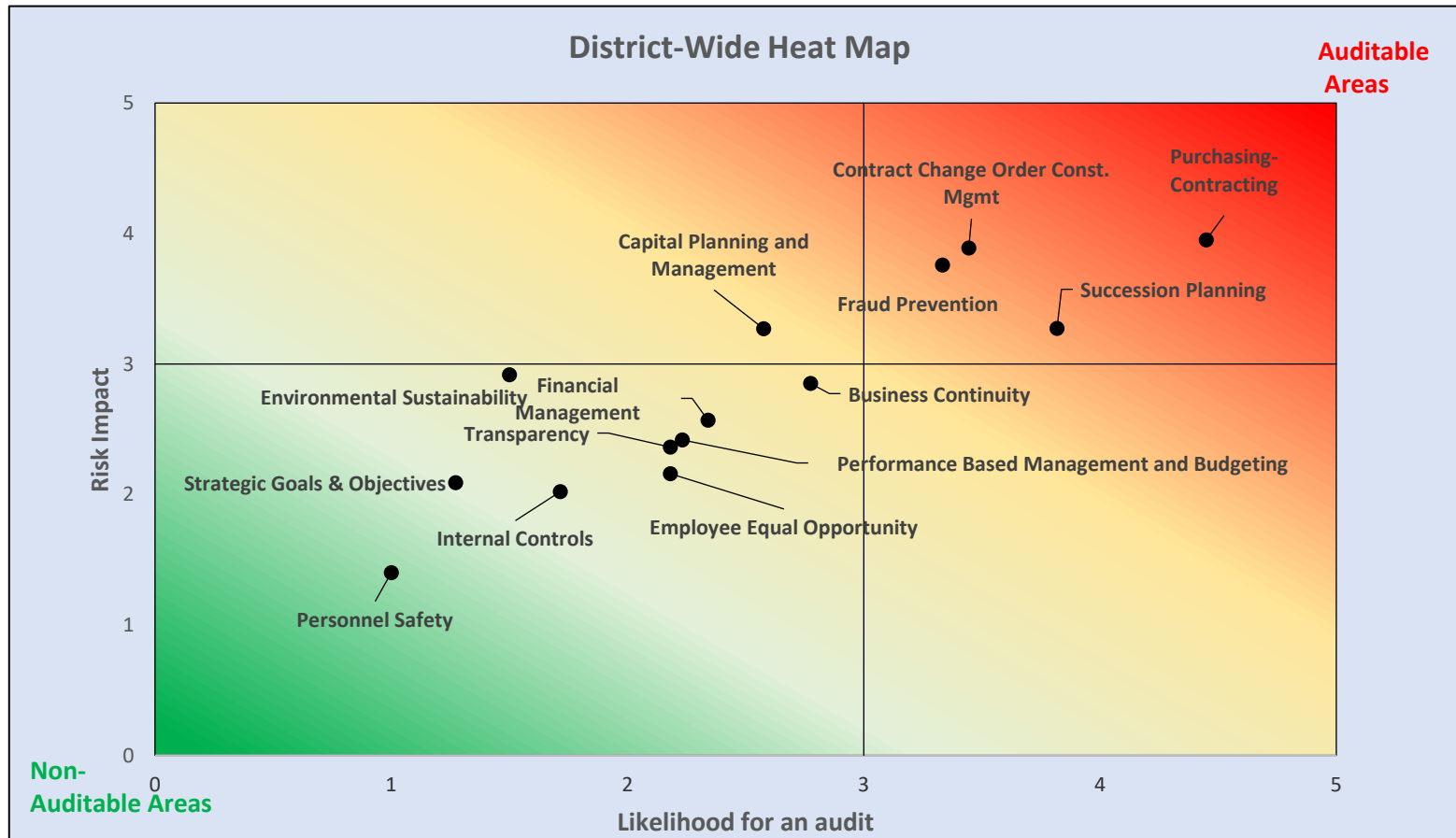
- 1.Capital Improvement Planning & Budgeting
- 2.Performance Based Budgeting
- 3.Financial Management
- 4.Internal Controls
- 5.Strategic Goals & Objectives
- 6.Fraud Prevention
- 7.Equal Employment Opportunity
- 8.Purchasing/Contracting
- 9.Contract Change Order Management
- 10.Succession Planning
- 11.Business Continuity Planning
- 12.Environmental Sustainability
- 13.Personnel Safety
- 14.Transparency

# 2018 Participating Divisions/Units

1. Water Utility Capital Division
2. Water Supply Division
3. Watershed Design & Construction Division
4. Treated Water Operations & Maintenance Division
5. Watershed Operations & Maintenance Division
6. Office of COO Water Utility
7. Office of the COO Watershed
8. Information Technology Division
9. General Services Division
10. Financial Planning and Management Division
11. Watershed Stewardship and Planning Division
12. Office of District Counsel
13. Human Resources

60 % of Budget

# 2018 Results



# 2021 RISK ASSESSMENT

BAC Decision:

## **Agreement on Risks to Assess**

Option A: Same as 2018: Project Delivery, Service Delivery, Effectiveness

Option B: Change to: Reputational risk, Financial Risk, Accountability Risk

Option C: Combination of A and B: Financial Risk, Reputational Risk, Effectiveness

Option D: Other

# 2021 RISK ASSESSMENT

BAC Decision:

## **Agreement on Areas to Assess**

Option A: Same as 2018: Capital Improvement Planning & Budgeting, Performance Based Budgeting, Financial Management, Internal Controls, Strategic Goals & Objectives, Fraud Prevention, Equal Employment Opportunity, Purchasing/Contracting, Contract Change Order Management, Succession Planning, Business Continuity Planning, Environmental Sustainability, Personnel Safety, Transparency (14)

Option B: Capital Construction Budgeting, Emergency Preparedness/Disaster planning, Succession Planning, Purchasing/Contracting, Fraud Prevention, Financial Management (AP, AR), Homelessness, Information Technology and Management, Information/Data Accuracy, Capital project permitting, Training, Accountability (12)

Option C: Other

# 2021 RISK ASSESSMENT

BAC Decision:

## **Agreement on VW Divisions/Units to Assess**

Option A: Same as 2018: Water Utility Capital Division, Water Supply Division, Watershed Design & Construction Division, Treated Water Operations & Maintenance Division, Watershed Operations & Maintenance Division, Office of COO Water Utility, Office of the COO Watershed, Information Technology Division, General Services Division, Financial Planning and Management Division, Watershed Stewardship and Planning Division, Office of District Counsel, Human Resources. (13)

Option B: External Affairs, Government Relations, Civic Engagement, Communication, Emergency Services and Security, Dam Safety, Business Planning and Analysis – Watersheds, Business Planning and Analysis – Water Supply, Financial Planning and Management Services, Risk Management, General Services, Watersheds Operations and Maintenance, Information Technology Division, Procurement/contracts. (13)

Option C: Other





# Santa Clara Valley Water District

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**File No.:** 21-0120

**Agenda Date:** 2/17/2021  
**Item No.:** 4.5.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

Discuss the Scope of the 2021 Annual Audit Training from the Board's Independent Auditor.

**RECOMMENDATION:**

Discuss the Scope of the 2021 Annual Audit Training from the Board's Independent Auditor.

**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.

Per Article 9, paragraph 3 of the BAC Audit Charter, the Board's Independent Auditor shall provide the Committee with annual training related to Audit Principles, Practices, or Standards.

The purpose of this item is to discuss the scope of the 2021 annual training to be provided by the Board's Independent Auditor. Audit Training may include training on auditing standards, the audit process, and financial statement audits.

It should be noted that the 2020 Annual Audit Training did not occur in 2020 due to the Pandemic, however it is currently scheduled to occur after the BAC elections have taken place at the February 2021 BAC meeting.

**ATTACHMENTS:**

None.

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068

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# Santa Clara Valley Water District

**File No.:** 21-0119

**Agenda Date:** 2/17/2021

**Item No.:** 4.6.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

#### **SUBJECT:**

Review and Approve the Updated 2021 Board Audit Committee Work Plan.

#### **RECOMMENDATION:**

- A. Review and Discuss topics of interest raised at prior Board Audit Committee (BAC) Meetings and make any necessary adjustments to the BAC Work Plan; and
- B. Approve the updated 2021 BAC Work Plan.

#### **SUMMARY:**

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

The following updates were applied to the Work Plan for review at the February 17, 2021 Board Audit Committee meeting:

- (1) Election of 2021 BAC Chair and Vice Chair (Line Item 1);
- (2) Discuss Scope of Annual Audit Training from Board Independent Auditor (Line Item 4) once the new Board Audit Committee members have been selected; and
- (3) Discuss Scope of Work for the 2021 Risk Assessment (Line Item 9).

Attachment 1 is the updated 2021 Board Audit Committee Work Plan. Upon review, the Committee may approve the updated 2021 Board Audit Committee Work Plan and/or make changes, as determined by the Committee.

#### **ATTACHMENTS:**

Attachment 1: 2021 BAC Work Plan

#### **UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068



BOARD AUDIT COMMITTEE 2021 WORKPLAN

January 1, 2021 to December 31, 2021

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
<b>Board Audit Committee Meeting Dates</b>														
	Number of Agenda Items per Meeting Date	10	11	3	2	3	2	4	3	2	2	4	3	<u>Note:</u> For informational purposes only.
	Meeting Dates	•	•	•	•	•	•	•	•	•	•	•	•	<u>Note:</u> The BAC approved a regular meeting schedule for 2021, to meet monthly, on the third Wednesdays at 2:00 p.m.
<b>Board Audit Committee Management</b>														
1	Election of 2021 BAC Chair and Vice Chair		•											<u>Recommendation:</u> Nominate and elect the 2021 Board Audit Committee Chair and Vice Chair.
2	Board Audit Committee Audit Charter													<u>Recommendation:</u> Propose modifications to the Board Audit Committee Audit Charter to be presented to the full Board.
3	Review and Update 2021 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 2021 Board Audit Committee Work Plan.
4	Discuss Scope of Annual Audit Training from Board Independent Auditor		•											<u>Recommendation:</u> Discuss scope of Annual Audit Training from Board Independent Auditor.
5	Receive Annual Audit Training from Board Independent Auditor													<u>Note:</u> Training will be given to the full Board. Management to identify staff to attend the training. <u>Recommendation:</u> Receive Annual Audit Training from Board Independent Auditor.
6	Conduct Annual Self-Evaluation	•	•											<u>Recommendation:</u> A. Conduct Annual Self-Evaluation; and B. Prepare Formal Report to provide to the full Board.
7	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.
8	Discuss Extension or Termination of Board Independent Auditor Contract for Board Independent Auditing Services Prior to Expiration of the Agreement Effective June 30, 2021.													<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 June 30, 2021; 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.
9	Tri-annual Risk Assessment		•											<u>Note:</u> Next Risk Assessment scheduled to be completed in October 2021. <u>Recommendation:</u> Discuss the scope of work for the 2021 Risk Assessment.
<b>Board Audit Committee Special Requests</b>														

*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 2021 WORKPLAN

January 1, 2021 to December 31, 2021

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS	
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec		
10	External Financial Auditor Meeting with Individual Board members													<u>Note:</u> Schedule as needed.	
11	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.	
12	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.	
13	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.	
14	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.	
15	Risk Management Organization	•												<u>Note:</u> At the Dec '20 BAC meeting, the BAC requested this item to be brought forth at the 1/13/2021 Committee meeting. <u>Recommendation:</u> Review and discuss Risk Management Organization.	
16	Valley Water Policies Related to Financial Auditor Responsibility	•												<u>Note:</u> At the Dec '20 BAC meeting, the BAC requested this item to be brought forth at the 1/13/2021 Committee meeting. <u>Recommendation:</u> Review and discuss Valley Water Policies Related to Financial Auditor Responsibility.	
<b>Management and Third Party Audits</b>															
17	Review Draft Audited Financial Statements	•											•		<u>Recommendation:</u> A. Review draft Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2021; and B. Direct staff to have Financial Auditor to contact Board Members and present, if necessary.
18	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.
19	Receive QEMS Annual Internal Audit Report									•					<u>Recommendation:</u> Receive information regarding the Quality and Environmental Management System.
20	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.

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21	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.
22	Audit Recommendations Implementation Status	•											•	<u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations.
<b>Board Independent Auditor - TAP International, Inc. Items</b>														
23	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	<u>Recommendation:</u> Discuss the Annual Audit Work Plan and update, if necessary.
<b>Audit - Grants Management</b>														
24	Receive notification of initiated Grants Management Audit													<u>Note:</u> Audit Objectives - Performance audit of the efficiency and effectiveness of grant management and administration.
25	Review Grants Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
26	Review Grants Management Audit Draft Report Presentation	•												<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
27	Review Response to Grants 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.
<b>Audit - Permitting Best Practices</b>														
28	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?
29	Review Permitting Best Practices Audit Progress Report	•	•											<u>Recommendation:</u> Receive an update on the status of the on-going audit.
30	Review Permitting Best Practices Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
31	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.
<b>Audit - Construction Project Management (Tentative)</b>														
32	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?
33	Review Construction Project Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
34	Review Construction Project Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.

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January 1, 2021 to December 31, 2021

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		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
35	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.
<b>Audit - Supervisory Control and Data Acquisition (Tentative)</b>														
36	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?
37	Review Supervisory Control and Data Acquisition Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
38	Review Supervisory Control and Data Acquisition Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
39	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.
<b>Audit - Risk Management (Tentative)</b>														
40	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).
41	Review Risk Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
42	Review Risk Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
43	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.
<b>Audit - Billing and Collections (Tentative)</b>														
44	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?
45	Review Billing and Collections Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
46	Review Billing and Collections Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

January 1, 2021 to December 31, 2021

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		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
47	Review Response to Billing and Collections Audit Final Draft Report													<p><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.</p>
<b>Audit - Accountability (Tentative)</b>														
48	Receive notification of initiated Accountability Audit													<p><u>Note:</u> Audit Objectives - Are there opportunities to enhance safe clean water audits?</p>
49	Review Accountability Audit Progress Report													<p><u>Recommendation:</u>                      Receive an update on the status of the on-going audit.</p>
50	Review Accountability Audit Draft Report Presentation													<p><u>Recommendation:</u>                      Receive and discuss the Final Draft Audit Report.</p>
51	Review Response to Accountability Audit Final Draft Report													<p><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.</p>
<b>Audit - Community Engagement (Tentative)</b>														
52	Receive notification of initiated Community Engagement Audit													<p><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?                      What are the best practices in planning and facilitating community engagement?</p>
53	Review Community Engagement Audit Progress Report													<p><u>Recommendation:</u>                      Receive an update on the status of the on-going audit.</p>
54	Review Community Engagement Audit Draft Report Presentation													<p><u>Recommendation:</u>                      Receive and discuss the Final Draft Audit Report.</p>
55	Review Response to Community Engagement Audit Final Draft Report													<p><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.</p>
<b>Audit - Property Management (Tentative)</b>														
56	Receive notification of initiated Property Management Audit													<p><u>Note:</u> Audit Objectives - Is Valley Water implementing encroachment licensing program consistent with the Board's guiding principles?</p>
57	Review Property Management Audit Progress Report													<p><u>Recommendation:</u>                      Receive an update on the status of the on-going audit.</p>
58	Review Property Management Audit Draft Report Presentation													<p><u>Recommendation:</u>                      Receive and discuss the Final Draft Audit Report.</p>

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

January 1, 2021 to December 31, 2021

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
59	Review Response to Property Management Audit Final Draft Report													<p><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.</p>
<b>Audit - Homelessness Analysis (Tentative)</b>														
60	Receive notification of initiated Homelessness Analysis Audit													<p><u>Note:</u> Audit Objectives - How can Valley Water enhance its homelessness encampment clean-up activities that protect health and safety?</p>
61	Review Homelessness Analysis Audit Progress Report													<p><u>Recommendation:</u>                      Receive an update on the status of the on-going audit.</p>
62	Review Homelessness Analysis Audit Draft Report Presentation													<p><u>Recommendation:</u>                      Receive and discuss the Final Draft Audit Report.</p>
63	Review Response to Homelessness Analysis Audit Final Draft Report													<p><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.</p>
<b>Audit - Classified Information (Tentative)</b>														
64	Receive notification of initiated Classified Information Audit			•										<p><u>Note:</u> Audit Objectives - To what extent does Valley Water's Counsel's Office appropriately classify confidential information?</p>
65	Review Classified Information Audit Progress Report													<p><u>Recommendation:</u>                      Receive an update on the status of the on-going audit.</p>
66	Review Classified Information Audit Draft Report Presentation													<p><u>Recommendation:</u>                      Receive and discuss the Final Draft Audit Report.</p>
67	Review Response to Classified Information Audit Final Draft Report													<p><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.</p>
<b>Audit - Local Workforce Hiring (Tentative)</b>														
68	Receive notification of initiated Local Workforce Hiring Audit													<p><u>Note:</u> Audit Objectives - What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?</p>
69	Review Local Workforce Hiring Audit Progress Report													<p><u>Recommendation:</u>                      Receive an update on the status of the on-going audit.</p>
70	Review Local Workforce Hiring Audit Draft Report Presentation													<p><u>Recommendation:</u>                      Receive and discuss the Final Draft Audit Report.</p>
71	Review Response to Local Workforce Hiring Audit Final Draft Report													<p><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.</p>
<b>Audit - Equipment Maintenance (Tentative)</b>														

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January 1, 2021 to December 31, 2021

#	ACTIVITY/SUBJECT	Q1			Q2			Q3			Q4			NOTES/RECOMMENDATIONS
		13-Jan	17-Feb	17-Mar	21-Apr	19-May	16-Jun	21-Jul	18-Aug	15-Sep	20-Oct	17-Nov	15-Dec	
72	Receive notification of initiated Equipment Maintenance Audit													Note: Audit Objectives - Is Valley Water adequately meeting the needs of equipment maintenance?
73	Review Equipment Maintenance Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
74	Review Equipment Maintenance Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
75	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.
<b>Audit - Delta Conveyance (Tentative)</b>														
76	Receive notification of initiated Delta Conveyance Audit													<u>Note:</u> Audit Objectives - What potential financial risks could occur on the California Water Fix project?
77	Review Delta Conveyance Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
78	Review Delta Conveyance Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
79	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.
<b>BAC Work Plan Items Outside of the Current Term</b>														
80	BAC Self-Evaluation Report													<u>Note:</u> Per the February 19, 2020 BAC meeting, the 2019 BAC Self-Evaluation form is to be completed and a formal report provided to the full Board at a future meeting. At the January 13, 2021 BAC meeting, the 2020 BAC Self-Evaluation form is to be completed by the Committee and a formal report provided to the full Board at a future meeting.
81	Sponsorship Program													<u>Recommendation:</u> Discuss the potential for a desk review or audit of the Sponsorship Program.
82	Establishment of Additional Board Auditors													<u>Recommendation:</u> Discuss the potential master services agreement to recommend to the full Board for the establishment of additional Board Auditors.
83	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.: 21-0118

Agenda Date: 2/17/2021

Item No.: 4.7.

## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

#### **SUBJECT:**

Recommended Considerations for and Updates to the Annual Audit Work Plan.

#### **RECOMMENDATION:**

Discuss recommended considerations for the Annual Audit Work Plan and approve any updates to recommend to the Board, if necessary.

#### **SUMMARY:**

On January 14, 2020, the Board approved updates to the 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, and to include three desk reviews to be performed by TAP International, Inc. (TAP): 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.

On July 21, 2020, the Board approved an update to the Annual Audit Work Plan to include the FY 2020-2021 Grants Management Audit, for a performance audit of the efficiency and effectiveness of grant management and administration.

On October 13, 2020, the Board approved the following updates to the Annual Audit Work Plan as recommended by the Board Audit Committee (BAC):

1. Approve the Permitting Best Practices Audit as the next audit to be undertaken by TAP;
2. Approve modifying the Annual Audit Work Plan such that the two community engagement audits (ID 21 and ID 30) are combined into one audit (ID 21); and
3. Approve modifying the Annual Audit Work Plan to note that the SCADA audit (ID 2) will be deferred and reconsidered during the next Risk Assessment given the master planning efforts underway for Valley Water's SCADA systems.

As briefly discussed during the December 16, 2020 Committee meeting, the Board Chairperson is interested in knowing how well the lease agreement option that was put in place for homeowners encroaching on Valley Water property near Saratoga Creek was working and how other cities have

dealt with homeowners encroaching on public parks. To address Board Chairperson interests, TAP has developed the following options for the BAC to consider related to the FY 2020-2021 Property Management Audit:

1. Initiate the Property Management audit which was designed to evaluate if the program's implementation was consistent with the guiding principles established by the Board, but add to the audit objectives to assess effectiveness of the lease agreement solution implemented for Saratoga Creek encroachment issues;
2. Implement a desk review that focuses on whether the lease agreement solution is working as intended;
3. Add a desk review to the audit work plan to be completed at a later date; or
4. Elect not to evaluate the issue.

As briefly discussed during the January 13, 2021 Committee meeting, the Board at its January 12, 2021 Board meeting, recommended that an audit be performed by the BAC to determine the timeline associated with cost increases for the Pacheco Reservoir Expansion Project. The cost increases result in a construction cost increase of approximately \$1 Billion. With inflation considered, the CIP cost for the project increased from \$1.3 Billion to \$2.5 Billion. The BAC agreed to discuss the potential scope associated with this effort at its February 2021 meeting.

The BAC is requested to identify any potential changes to the Annual Audit Work Plan (Attachment 1) to recommend to the Board for approval.

**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 – OCTOBER 13, 2020  
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
<b>Board of Director/Audit Committee Requests for Information</b>	<b>Ongoing.</b> 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
<b>Audit Training</b>	<b>Annual.</b> The Board Audit Committee Charter describes a requirement to provide audit training to BAC committee members at least annually.	2
<b>Support services</b>	<b>Ongoing.</b> 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
<b>QEMS – Independent Auditor</b>	<b>Ongoing.</b> Provide services to ensure proper oversight and accountability.	As needed
<b>Management reviews</b>	<b>Ongoing.</b> 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.

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

**FY 2019-20**

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

<b>ID</b>	<b>Audit Name</b>	<b>Audit Objectives</b>	<b>Planned Hours</b>	<b>Factors Considered</b>
	Ad-hoc Board Audits	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	<b>Sub Total</b>		<b>620-800</b>	
<b>13</b>	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
<b>2</b>	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
<b>7</b>	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

<b>4</b>	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
<b>3</b>	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
<b>11</b>	Accountability audit	Are there opportunities to enhance safe clean water audits?	115-171	Health and Safety Relevance Improvement
<b>Sub Total</b>	<b>5</b>		<b>1,800-2,317</b>	

\*The SCADA audit (ID 2) will be deferred and reconsidered during the next Risk Assessment given the master planning efforts underway for Valley Water's SCADA systems.

**FY 2020-21**

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

<b>ID</b>	<b>Audit Name</b>	<b>Audit Objectives</b>	<b>Planned Hours</b>	<b>Factors Considered</b>
	Ad-hoc Board Audits**	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	<b>Subtotal</b>		<b>620-800</b>	
	<u>Grants Management</u>	<u>Performance audit of the efficiency and effectiveness of grant management and administration</u>	<u>Outsourced-TBD</u>	<u>Financial improvement</u> <u>Operational Best practices</u>
<b>21</b>	Community engagement	Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities? What are the best practices in planning and facilitating community engagement?	417-543	Financial Improvement Operational Best practices

	Property Management	<u>Is Valley Water implementing its encroachment licensing program consistent with the Board's guiding principles?</u>	400	Operational
<b>20</b>	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
<b>8</b>	Classified information***	To what extent does the Valley Water's Counsel's office appropriately classify confidential information?	143-200	Relevance Operational
<b>26</b>	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
<b>27</b>	Equipment maintenance	Is Valley Water adequately meeting the needs of equipment maintenance?	143-229	Health and safety Operational Financial
<b>33</b>	Water Fix	What potential financial risks could occur on the California Water Fix project?	160-286	Financial Relevance
<b>Sub Total</b>	<b>8</b>		<b>1,125 -1,661</b>	

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

\*\*\*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

QUALITY ENVIRONMENTAL MANGEMENT SYSTEM INTERNAL AUDITS	
AUDIT DESCRIPTION AND UNIT #	
<b>Treated Water O&amp;M DOO: TW Survey (customer service w/ WS DOO)</b>	#515
Laboratory Services Unit	#535
North Water Treatment Operations Unit	#565
South Water Treatment Operations Unit	#566
Treatment Plant Maintenance Unit (North & South WTP)	#555
Water Quality Unit	#525
<b>Water Utility Capital Division</b>	
Capital Program Planning and Analysis Unit	#335
Construction Services Unit	#351
Pipelines Project Delivery Unit	#385
East Side Project Delivery Unit	#375
West Side Project Delivery Unit	#376
<b>Dam Safety &amp; Capital Delivery Division</b>	
CADD Services Unit	#366
Dam Safety Program & Project Delivery Unit	#595
Design and Construction Unit #3	#333
Pacheco Project Delivery Unit	#377
<b>Water Supply Division DOO: TW Survey (customer service w/ TW O&amp;M DOO)</b>	#415
Wells & Water Measurement Unit	#475
<b>Watersheds Design and Construction Division</b>	
Design and Construction Unit #1	#331
Design and Construction Unit #2	#332
Design and Construction Unit #4	#334
Design and Construction Unit #5	#336
Land Surveying and Mapping Unit	#367
Real Estate Services Unit	#369
<b>Associated Business Support Areas</b>	
Facilities Management Unit	#887
Infrastructure Services Unit/IT	#735
Equipment Management Unit	#885
Business Support & Warehouse Unit	#775
Purchasing & Consultant Contracts Services Unit	#820

Emergency Services & Security	#219
Environmental, Health & Safety Unit	#916
Workforce Development (Training)	#915
Core ISO Procedures: Continual Improvement Unit	#116
Office of Communications (Customer Service)	#172
Office of the Clerk of the Board (Customer Service)	#604

## COMPLIANCE AND FINANCIAL AUDITS

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



# Santa Clara Valley Water District

File No.: 20-1019

Agenda Date: 2/17/2021

Item No.: 5.1.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

#### **SUBJECT:**

Status Update on the Implementation of Recommendations from the 2015 Consultant Contracts Management Process Audit Conducted by Navigant Consulting, Inc. (Navigant), the Fiscal Year 2017-2018 (FY18) status update Consultant Contracts Improvement Process and subsequent update for the Fiscal Year 2020-2021 (FY21) Consultant Contracts Improvement Process.

#### **RECOMMENDATION:**

Receive a status update on the implementation of the recommendations made by Navigant in the 2015 Consultant Contracts Management Process Audit and the FY18 Consultant Contracts Improvement Process.

#### **SUMMARY:**

Valley Water staff has prepared the second status update on the implementation of the 2015 Navigant Audit recommendations and the Consultant Contract Improvement Plan. The previous status update to the Board was provided on February 13, 2018.

#### *2015 Consultant Contracts Management Process Audit*

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

#### *Audit Findings*

Results of the Audit noted key findings and recommendations which included pre-award and post-award activities, as follows: 1) inconsistent pre-award and post-award contract management processes and decentralize recordkeeping; 2) the lack of standard processes for post-award contract management functions; 3) proper staff resources necessary to manage work load; 4) the need to improve policies, procedures and processes to provide post award to achieve excellence; 5) the need for an integrated system for cohesive information and documentation; 6) CAS is not optimal system to ensure contract compliance; 7) the need to establish a standard for post award compliance; 8) the need to develop a process for consultant evaluation and compliance; and 9) improve performance management and reporting programs. Other factors included; 10) improve cycle time, boilerplates, and the development of scope of services including the assignment of roles and responsibilities for

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pre-award and post-award i.e., scope of services and contract management; 11) improve standards in the development of scope of services and assign the responsibility to PM and manager to review and evaluate scope based on established metrics.

#### *Consultant Contract Management Process*

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

#### *Staff Resources*

The recommendation to increase staff has been addressed as reported to the Board on February 13, 2018. The additional staff have been beneficial in many ways; first, the benefits of distributing workload and providing improved customer service; and second, the hiring of highly qualified procurement personnel brought the experience and expertise in contract administration needed for the high value, complex capital programs. They have greatly influenced the process improvement effort, as well as the staff's proficiency to manage complex solicitations and contracts through on-going training.

#### *Policies and Procedures*

The Purchasing and Contracts Unit's policies and procedures, including the Admin policy AD-6.3 are under review and in development to address the finding in the audit and process improvement plan. Updated policies and procedures will provide clarity to the roles and responsibilities of the contract staff and update with the new processes and nomenclature associated the implementation of the INFOR ERP system and the new software that will replace the CAS system. Also, a gap analysis identified several areas that did not align with new regulations or provide the guidance needed to standardize current contract practices that were not previously included in the procedures.

#### *Technology Upgrades*

The audit identified a lack of cohesive technology functions that limit the ability for quality record-keeping, reporting key performance metrics, locating documents, and establishing a consistent records management system. The implementation of the new INFOR ERP system and the new software system designed to manage procurement solicitations, bids, vendors, produce reports, and improve record keeping and record management will establish the cohesive functions recommended by the audit. These systems will replace PeopleSoft and CAS and greatly improve the process improvement effort. Another technical improvement was implemented in 2020 is DocuSign and noticeably improved the processing time for contract execution by removing the hard copy routing of multiple copies of a document for signatures.

#### *Roles and Responsibilities*

Staff are developing a Procurement Manual that will be made available online and will provide the information, guidance, sample forms, requirements and regulations that govern procurement practices at Valley Water. This manual will serve to guide requestors through the requisitioning



phase, post award responsibilities including contract completion, and contract close-out. Information to manage vendor performance, discrepancies, and challenges will also be included. This manual will address many of the audit findings, specifically the pre-award and post-award assignment of roles and responsibilities, vendor evaluation, and compliance. It is anticipated that this manual will provide the information requestors need to improve the quality of their submittals which will impact overall procurement processing timelines.

*Key Performance Improvements*

Key performance indicators include the number of contracts completed and the respective values. A total of 40 contracts were processed in FY19 for a value of \$182M. In FY20 a total of 55 contracts were completed (or in process) for a total value of \$59M. Additional indicators include the completion of 45 amendments for a total value of \$94M. Amendments can be as time consuming as an original award in many cases.

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

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

**ATTACHMENTS:**

Attachment 1: Navigant Audit

Attachment 2: PowerPoint Presentation 2021

**UNCLASSIFIED MANAGER:**

Kenneth Wong, 408-630-2076

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## Consultant Contracts Management Process Audit

Prepared for:  
Santa Clara Valley Water District



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

March 10, 2015



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## Executive Summary

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

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

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

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

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

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

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

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

## 1. Introduction and Approach

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

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

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

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

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

### 1.1 Introduction

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

#### 1.1.1 Background on the Audit

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

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

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

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



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

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

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

### **1.1.2 Objectives of the Audit**

The objective of the Audit is to:

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

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

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

## ***1.2 Approach to the Audit***

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

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

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

### 1.2.1 Consultant Contracts Post-Award Compliance Audit

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

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

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

**Figure 1. Approach to Compliance Audit**



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

### 1.2.2 “Blueprint” Assessment and Gap Assessment

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

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

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

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

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

## 2. Contract Management Mission and Roles & Responsibilities

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

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

Further, the Vision of the District is to be:

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

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

**Figure 2. District Procurement and Contracting Objectives**

District Procurement Objectives	Consulting Contracts Objectives
<p><i>The mission of the District is to manage the procurement of goods and services with the highest level of integrity, ethics, and accountability. The District will solicit information and award contracts through a fair, open, transparent, and competitive process. The District has a strong policy of promoting Small Business Enterprises through preference credits.</i></p>	<p><i>The Consultant Contracts Program provides centralized consulting contracts processing services on behalf of all District operating units. The information presented here<sup>1</sup> is designed to help you understand how the District conducts business with consultants, including, but not limited to, those providing engineering, environmental, architectural, financial, auditing, management consulting, and other professional and non-professional services.</i></p>

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

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

<sup>1</sup> The Consultant Contracts webpage at: [www.valleywater.org/Business/DoingBusiness/ConsultantContracts.aspx](http://www.valleywater.org/Business/DoingBusiness/ConsultantContracts.aspx).

**Table 1. Contracting Roles and Responsibilities**

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

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

### 3. Consultant Contracts Post-Award Compliance Audit

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

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

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

#### 3.1 Scope and Approach

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

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

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

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

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

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

### 3.1.1 Task 1: Identify Contracts to Be Reviewed

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

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

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

**Table 2. Sampling Scenarios**

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

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

**Table 3. Final Contract Sample**

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

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

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

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

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

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

### **3.1.3 Task 3: Conduct Audit**

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

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

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

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



**Table 4. Consultant Contract Audit Checklist**

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

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

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

### 3.2 Summary of Findings

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

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

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

#### 3.2.1 Summary of the 15 Pre-Identified Contracts

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

**Table 5. List of Contracts Not Found on CAS**

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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>2</sup> [www.irs.gov/pub/irs-pdf/fw9.pdf](http://www.irs.gov/pub/irs-pdf/fw9.pdf)

### 3.2.2 Summary of the 51 Contract Sample

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

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

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

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

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

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

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

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

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

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

### 3.2.3 Other Comments

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

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

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

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

### ***3.3 Overview of Findings***

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

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

## 4. "Blueprint" Assessment

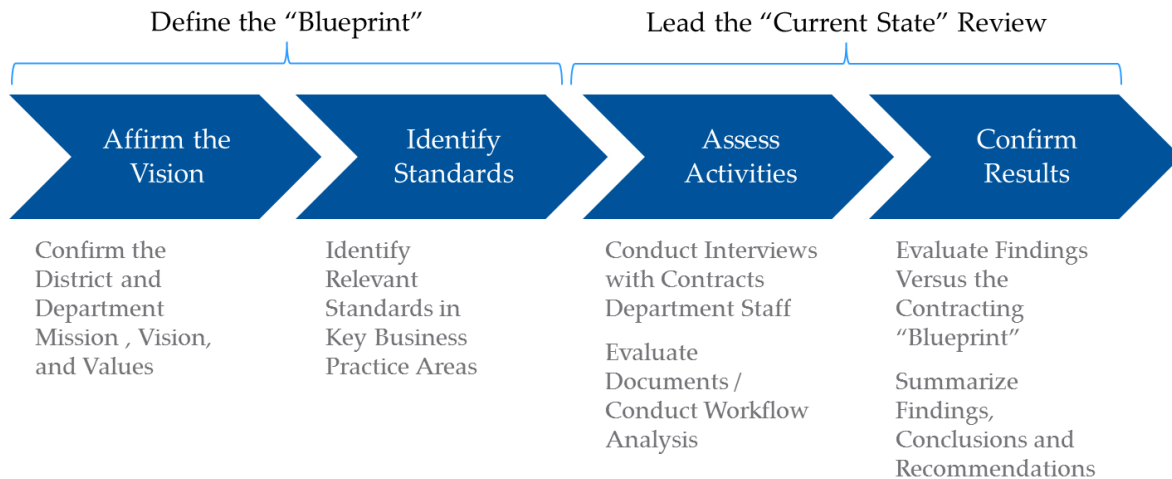
A primary objective of any process audit or assessment is to evaluate the current, "as-is" state of operations in order to identify specific actions that will deliver operational and organizational improvement. The standard of excellence (or "blueprint") to which an organization is compared is therefore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

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

### 4.1 Scope and Approach

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

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



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

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

#### 4.1.1 Affirm the Vision

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



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

#### **4.1.2 Identify Standards**

The team has drawn from its contract and procurement management experience, knowledge of best practice standards in contracting and related disciplines<sup>3</sup>, and understanding of relevant peer practices to develop relevant performance standards. Rather than specific tasks or detailed processes, these standards are high-level themes or characteristics we expect to be reflected in leading procurement or contract management groups. The following performance standards were selected by the Navigant team to form the foundation of the blueprint:

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

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

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

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

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

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

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

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

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

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

##### **4.1.2.1 Blueprint Description**

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

- » Policies
- » Business Processes

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

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

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

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

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

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

#### **4.1.3 Assess Activities**

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

#### **4.1.4 Confirm Results**

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

### **4.2 *Blueprint and Current State Review***

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

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

#### **4.2.1 Policies**

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

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

#### 4.2.1.1 Key Finding

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

<b>Area of Improvement No. 1:</b> The District appears to have a variety of documents that govern contract management activities, but lacks a single, overarching policy that pulls information into a single source and clearly defines the mission, structure, and accountability for contract management.
<b>Impact on SCVWD:</b> The absence of a clear articulation of the District’s governance structure and functional responsibility over contract management, signed and authorized by select staff is an important aspect of good corporate governance.
<b>Recommendations:</b> » Write a consolidated business policy concerning contracting management (including consultant contracting), which establishes the governance framework and functional accountability for contract management at the District. Include in this document a “Certificate of Acknowledgement” that staff must sign annually (or more frequently, as required).

#### 4.2.2 Business Processes

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

##### 4.2.2.1 Key Finding

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

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

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

### 4.2.3 People

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

#### 4.2.3.1 Key Findings

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

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

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

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

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

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

**4.2.4 Systems and Data**

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

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

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

#### 4.2.4.1 Key Finding

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

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

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

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

#### 4.2.5 Contract Management

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

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

#### 4.2.5.1 Key Finding

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

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

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

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

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

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

#### 4.2.6 Reporting

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

#### 4.2.6.1 Key Finding

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

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

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

### 4.3 Additional Findings

#### 4.3.1 Areas of Strength

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

#### 4.3.2 Pre-Award Processes

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



### 4.3.2.1 Key Findings

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

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

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

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

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

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

**Recommendation:**

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

#### ***4.4 Overview of Findings***

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

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

## 5. Conclusions and Recommendations

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

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

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

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

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

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

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

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

## Appendix A. List of Interviews

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

## Appendix B. List of Documents

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

## Appendix C. List of Contracts

### C.1 15 Contracts of Interest

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

## C.2 Random Contract Sample

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

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



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

## Appendix D. Description of Insurance Issues

### D.1 15 Contracts of Interest – Insurance

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

## D.2 Random Contract Sample – Insurance

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

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

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

## Appendix E. "Blueprint" Components

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

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

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

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

## Contract Management

### Key objectives for the Contract Management element include:

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

## Reporting

### Key objectives for the Reporting element include:

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





# Valley Water

Clean Water • Healthy Environment • Flood Protection

# Consultant Contracts Management Process and Process Improvement Audit

Ken Wong, Interim DAO General Services

Tina Yoke, COO IT & Administrative Services

# Table of Contents

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

# Summary of Status Reports to the Board

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

# Summary and Key Findings

2015 Audit by Navigant: Reviewed 66 Consultant Contracts, current policies, processes, and technology framework.

## Key Findings:

- Develop clear and consistent policies and procedures for centralized procurement
- Define roles, responsibilities, and target timelines; accountability framework
- Develop clear post-award process; including insurance compliance
- Increase staff to support customer requirements; provide governance guidelines
- Improve cycle time for contract administration; improve technology tools
- Establish guidelines to improve the development of the Scope of Work

# Accomplishments/Improvements

- Defined roles and responsibilities for Contract and PM staff.
- Conducted Workshops - Process improvement and SOW writing.
- Improved boilerplates for consistent contract development, scope, and deliverables; established timelines.
- Insurance Certification Management, vendor EBIX
- Track performance and measured against the new milestones

# Key Performance

## SUMMARY OF SOLICITATIONS AND AMENDMENTS July 1, 2019 - June 30, 2020

### Completed Solicitations

Type	Amount	Qty	Type	Amount	Qty
Group A - Contracts < \$225K	\$2,691,312.00	20	Group C - Contracts > \$1M - \$3M	\$3,000,000.00	2
Group B - Contracts > \$225K - \$1M	\$7,285,393.00	8	Group D - Contracts > \$3M - Highly Complex	\$16,619,002.45	3
<b>Total Solicitations Completed Amount &amp; Qty:</b>				<b>\$29,595,707.45</b>	<b>33</b>

### In Process Solicitations

Type	Amount	Qty	Type	Amount	Qty
Group A - Contracts < \$225K	\$1,611,394.00	10	Group C - Contracts > \$1M - \$3M	\$7,548,000.00	3
Group B - Contracts > \$225K - \$1M	\$2,573,840.00	6	Group D - Contracts > \$3M - Highly Complex	\$16,619,002.45	3
<b>Total Solicitations Completed Amount &amp; Qty:</b>				<b>\$28,352,236.45</b>	<b>22</b>

### Completed Amendments

Type	Amount	Qty	Type	Amount	Qty
Group A - Amendments < \$0 - Time Only	\$0.00	15	Group C - Amendments > \$225K	\$93,463,219.00	22
Group B - Amendments < \$225K	\$1,221,113.00	8			
<b>Total Solicitations Completed Amount &amp; Qty:</b>				<b>\$94,684,332.00</b>	<b>45</b>

# Key Performance Summary

<b>FY 19 Contract Value:</b>	<b>&lt; \$225K</b>	<b>\$225K - \$1M</b>	<b>&gt; \$1M</b>	<b>Total</b>	
Qty of Contracts	14	13	13	40	
Value of Contracts	\$1.8M	\$6.8M	\$173.6M	\$182.2M	
<b>FY 20 Contract Value:</b>	<b>&lt; \$225K</b>	<b>\$225K - \$1M</b>	<b>&gt; \$1M</b>	<b>\$3M+</b>	<b>Total</b>
Qty of Contracts	30	14	5	6	55
Value of Contracts	\$6.9M	\$9.8M	\$10.5M	\$32M	\$59.2M
<b>FY20 Amendment Value:</b>	<b>\$0 /time only</b>	<b>&lt; \$225K</b>	<b>&gt; \$225K</b>		<b>Total</b>
Qty of Amendments	15	8	22		45
Value of Amendments	\$0	\$1.2M	\$93.4		\$94.6M



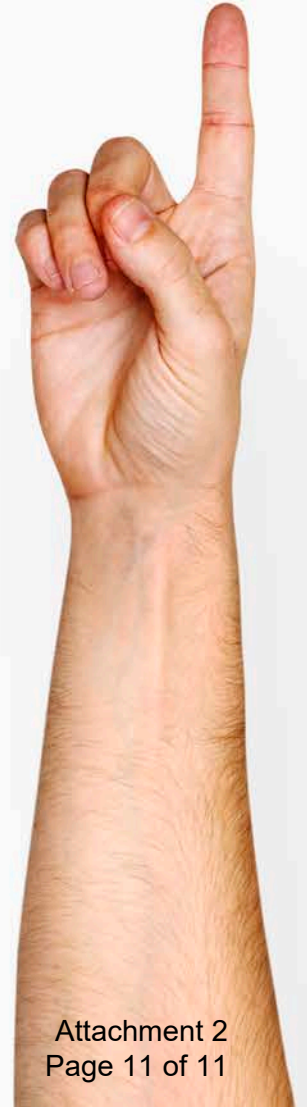
# Action Plan and Implementation

- Continue to update and standardize boilerplate documents
- Implement new procurement bidding software (PlanetBids)
- Implement new ERP (INFOR) to improve procurement process
- Continue staff training and development
- Develop Procurement Manual and Desktop Procedure Manual
- Update Administrative Policies to improve workflow efficiency
- Utilize Procurement Plan Checklist to confirm roles & responsibilities

# Annual Update

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

# QUESTIONS



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# Santa Clara Valley Water District

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**File No.:** 21-0113

**Agenda Date:** 2/17/2021  
**Item No.:** 5.2.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

#### **SUBJECT:**

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.

#### **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 International) for Board Independent Auditing Services. The agreement requires TAP International to work with the Board and the Board Audit Committee (BAC) to develop an annual audit program, assess operational risks, advise on potential audits to ensure Santa Clara Valley Water District (Valley Water) is in full compliance with its policies, procedures, and regulations, and conduct audits as directed by the Board and BAC.

On June 7, 2019, Amendment No. 1 to the Board independent auditing services agreement was fully executed to increase the not-to-exceed amount from \$405,000 to \$1,005,000. Amendment No. 1 with TAP International was set to expire on May 8, 2020.

On April 28, 2020, the full Board approved the Board Audit Committee's recommendation for an amendment (Amendment No. 2) to extend the Board Independent Auditing Services Agreement (Agreement No. A4071A) with TAP International to June 30, 2021.

On August 11, 2020, the full Board approved the Board Audit Committee recommendation to approve an amendment (Amendment No. 3) to exercise the option to increase the Board Independent Auditing Services Agreement not-to-exceed amount by \$250,000 from \$1,005,000 to \$1,255,000.

Attachment 1 shows both the remaining contract balance as well as the remaining budget balance

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and attempts to estimate how many additional audits could be done with those remaining balances.

**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 May 23, 2017, the Board approved an on-call consultant agreement with TAP International, Inc. for Board Independent Auditing Services. On August 11, 2020, Amendment No. 3 to the Board Independent Auditing Services agreement (Contract) was approved to increase the not-to-exceed amount from \$1,005,000 to \$1,255,000 to complete all audits related to this agreement that are approved by the Board. The Contract is set to expire on June 30, 2021.

For the Board Independent Auditor contract awarded to TAP International, Inc., the overall remaining contract amount is \$440,296.29. Exactly \$681,523.53 has been spent to date and \$133,180.18 remains to be paid on approved task orders.

### Budget Background

For FY 2020-2021, \$500,000 was budgeted for the Audit Management Program. In addition, \$500,718.47 was carried forward as prior year encumbrances, for a total FY 2020-2021 budget of \$1,000,718.47. Of that, \$177,242.00 has been spent in FY 2021, and \$133,180.18 is remaining to be paid against existing task orders, leaving a remaining balance of \$690,296.29.

### 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 \$200/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 contract amount (\$440,296.29) and budget amount (\$690,296.29) 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 2020-2021 Homelessness Analysis Audit would be the last audit under the contract, which is set to expire on June 30, 2021, 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 funds remaining in the FY 2020-2021 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
<b>Current Remaining as of 12/31/2020</b>							<b>\$440,296.29</b>		<b>\$690,296.29</b>	
2019-2020	Risk Management	143	260	\$200	\$28,600	\$52,000	\$411,696.29	\$388,296.29	\$661,696.29	\$638,296.29
2019-2020	Construction Project Management	314	371	\$200	\$62,800	\$74,200	\$348,896.29	\$314,096.29	\$598,896.29	\$564,096.29
2019-2020	Billing and Collections	343	429	\$200	\$68,600	\$85,800	\$280,296.29	\$228,296.29	\$530,296.29	\$478,296.29
2019-2020	Accountability	115	171	\$200	\$23,000	\$34,200	\$257,296.29	\$194,096.29	\$507,296.29	\$444,096.29
2020-2021	Community Engagement	417	543	\$200	\$83,400	\$108,600	\$173,896.29	\$85,496.29	\$423,896.29	\$335,496.29
2020-2021	Property Management	400	400	\$200	\$80,000	\$80,000	\$93,896.29	\$5,496.29	\$343,896.29	\$255,496.29
2020-2021	Homelessness Analysis	290	371	\$200	\$58,000	\$74,200	\$35,896.29	(\$68,703.71)	\$285,896.29	\$181,296.29
2020-2021	Classified Information	143	200	\$200	\$28,600	\$40,000	\$7,296.29	(\$108,703.71)	\$257,296.29	\$141,296.29
2020-2021	Local Workforce Hiring	200	229	\$200	\$40,000	\$45,800	(\$32,703.71)	(\$154,503.71)	\$217,296.29	\$95,496.29
2020-2021	Equipment Maintenance	143	229	\$200	\$28,600	\$45,800	(\$61,303.71)	(\$200,303.71)	\$188,696.29	\$49,696.29
2020-2021	Water Fix	160	286	\$200	\$32,000	\$57,200	(\$93,303.71)	(\$257,503.71)	\$156,696.29	(\$7,503.71)
2020-2021	SCADA Audit	714	857	\$200	\$142,800	\$171,400	(\$236,103.71)	(\$428,903.71)	\$13,896.29	(\$178,903.71)



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

BAC meeting attendance (6 hrs. at \$200/hr. at 12 times per year)	\$	14,400.00
Board of Director/Audit Committee Requests for Information (15 hrs. at \$200/hr.)	\$	3,000.00
Audit Training (8 hrs. at \$200/hr.)	\$	1,600.00
Support Services (10 hrs. at \$200/hr.)	\$	2,000.00
Management Reviews (8 hrs. at \$200/hr.)	\$	1,600.00
Ad-hoc Board Audit or Desk Review (60 hrs. at \$200/hr. at 3 times per year)	\$	36,000.00
Annual Independent Auditor Report (8 hrs. at \$200/hr.)	\$	1,600.00
Audit Follow-up (8 hrs. at \$200/hr.)	\$	1,600.00
Full Board meeting attendance (Task Order No. 34 Budget)	\$	12,550.00
<b>Total</b>		<b>\$ 74,350.00</b>

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# Santa Clara Valley Water District

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**File No.:** 21-0114

**Agenda Date:** 2/17/2021

**Item No.:** 5.3.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

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.

**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.

Per the BAC Workplan, the BAC was tasked with evaluating Board Auditor performance. In January 2021, the BAC requested a Board Auditor Activity Report (Annual Performance Report) from TAP to report on those same areas as addressed in the prior year's report or areas as determined by the Committee. The 2019 Independent Auditor Annual Performance Report provided a summary of accomplishments and activities, meeting attendance, task order completion, and a financial overview. The purpose of this agenda item is to receive and discuss the 2020 Independent Auditor Annual Performance Report (Attachment 1) from TAP to perform the evaluation.

**ATTACHMENTS:**

Attachment 1: Annual Performance Report

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068

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**TAP**International

**2020  
Annual  
Performance  
Report  
of the  
Independent  
Auditor**

January 2021



Date: January 29, 2021  
Memorandum For: Board Audit Committee  
From: TAP International, Inc.  
Subject: 2020 Annual Performance Report of the Independent Auditor

## 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 2020.

### 1. Supported efforts to update the BAC Audit Charter

#### A. Served as a Resource for Audit Charter Modification Support Services

Valley Water’s Board Audit Committee Audit Charter serves to administer a framework for providing the BAC oversight of the governance, risk management, and audit activities of Valley Water. The Audit Charter also describes the general responsibilities of the Independent Auditor. In 2020, the BAC revisited and updated the Audit Charter as part of its annual review as described in its Annual Performance Work Plan.

To support the BAC’s work, TAP International met the BAC Chair, District Counsel staff, and the Finance Director to review the Audit Charter. TAP International provided suggestions to add reporting procedures for contracted auditors should impairments to audit independence occur as well as to add clarifying information about the timelines for agency review of the preliminary and draft report. These changes align with established professional auditing standards. The Audit Charter is pending final approval by the Board of Directors.

**2. Implemented Board Audit Committee Directed Audit Activities**

**A. Attended Board Meetings (Audit Support Services)**

TAP International attended select Board meetings to meet Board Audit Committee expectations and to comply with both Request for Proposal and contractual requirements. Of the 25 Regular and Special Board Meetings (excluding joint meetings) held in 2020, the Independent Auditor attended 13 (52%) of them, as shown in Table 1 below. The purpose of TAP International’s attendance to Board meetings was to continuously monitor areas found to be of higher audit risks to Valley Water based on a prior risk assessment report, to collect data applicable to ongoing or planned audits, and to address agenda items directly applicable to TAP International audit activities.

**Exhibit 1: Board Meeting Attendance\***

<b>Reason for Attendance</b>	<b>Number of Board Meetings</b>
<b>Agenda item(s) directly related to work performed by TAP International, or the agenda item(s) directly relevant to the planning of or to current audits underway</b>	11
<b>Agenda item(s) related to audit risk monitoring</b>	2
<b>Total</b>	13

\*See Appendix A for meeting details.

When the Independent Auditor was not in attendance at Board meetings, the Independent Auditor monitored Board meetings through post meeting agenda review, documentation analysis, and video review for another 10 meetings. Charges incurred for these activities were not billed to Valley Water. TAP International believes these tasks are necessary to effectively perform its role as the Board’s Independent Auditor.

**B. Board Audit Committee Meeting Participation (Audit Support Services)**

TAP International attended all eight scheduled Board Audit Committees and performed the following activities:

- Participated in Board Audit Committee planning meetings
- Reviewed agenda items
- Provided audit process guidance
- Researched and provided information on best practices for various subject areas
- Provided progress reports on ongoing audit activities completed

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

#### A. Completed five audit-related reports and initiated one other audit

##### Performance Audit: District Counsel's Office Can Benefit from Enhanced Structure and Improved Management Processes

In December 2020, TAP International completed a performance audit of the District Counsel Office that assessed the operating structure and organizational processes of the Office. The audit report described the following key points:

- Valley Water operations and administrative units generally agreed that the District Counsel's Office provides quality legal services, providing legal review, advice, and representation, but many of them raised concern about the frequency of communication and timeliness of services.
- Each attorney has been encouraged to be independent and operate their own legal service center. While this management approach provides high autonomy to attorneys and increases morale, it also creates non-uniformity in service delivery among Valley Water operational and administrative units and customer satisfaction concerns.
- While there is not an established operating standard for public sector legal offices, best practices suggest that operating models are evolving from board-centric roles and as-needed support services on a task-by-task basis to enterprise-wide models that uniformly support organizations. The audit describes various strategies to update the District Counsel's Office current operating model consistent with best management practices as well as practices identified in other public sector legal offices, such as added policy and procedural development, use of added document templates, effective workflow management, use of master services agreements, service level agreements (SLAs), performance management systems, and implementation of 360-degree type of reviews. Implementation of these strategies would likely increase customer satisfaction.

The audit report described five recommendations that Valley Water reports as pending or in process of implementation.

##### Performance Audit: Real Estate Services Can Be A More Effective Resource for Valley Water

In August 2020, TAP International completed a performance audit of the Real Estate Services Unit (RESU) that evaluated how RESU could improve its performance for financial and service delivery. The audit report described the following key points:

- RESU has avoided acquiring property using eminent domain laws, utilizing its authority only 10 times since 2015.
- RESU collected \$1.6 million in Fiscal Year 18-19 on 114 income-producing properties, but better reporting on expenses and other costs are needed to assess fiscal sustainability of RESU's property management activities.
- RESU averages almost a year and half to complete a property acquisition, but challenges exist both within and outside of RESU's control to speed up the process. These challenges



include, among others:

- The willingness of a property owner to sell their property, extent of negotiations, and an owner's desire to request their own appraisal.
- Delays in project funding for property acquisitions and delays by other Valley Water Units in completing environmental assessments.
- Extensive involvement by the District Counsel's office in the acquisition process.
- RESU is generally operating and performing in accordance with its role as a support unit, RESU can be a useful resource to position Valley Water strategically to meet its future watershed and water utility needs.

Twelve recommendations were described in the audit report that are all currently pending or in the process of implementation by RESU.

#### Performance Audit of Community Project Resources Unit

TAP International began a performance audit of the Community Project Resources Unit (CPRU) in December 2020, designed to examine if permitting practices from other agencies can benefit Valley Water's permitting process when homeowners, jurisdictions, or contractors require use of Valley Water property. The audit will also address how CPRU can better promote itself to internal and external stakeholders. The expected Board presentation date is anticipated in April 2021.

#### **Desk Reviews**

Desk 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.

#### Desk Review of Grants Management

In February 2020, TAP International completed a limited review of Valley Water's grant administration and management process. The review identified issues related to the grant application process, grant award activities, and the timeliness of grant reimbursement that required further review under a separate audit that was subsequently approved by the Board of Directors. The audit was independently implemented by other outside auditors. The completion of the desk review led to estimated cost savings of up to \$60,000.

#### Desk Review of Employee hiring

In February 2020, TAP International completed a review that examined Turnover Rates among executive level positions, reasons for employment separation, recruitment and hiring efforts. The review highlighted the following key points:

- In 2018, Valley Water's turnover rate among 30 Deputy Chief and above positions was higher than the national average for local government.

- Valley Water executives have separated due to three factors: personal reasons, retirement, and non-probationary reasons.
- Valley Water historically has had a decentralized approach to recruitment, allowing individual Divisions to lead recruitments through the support of contracted talent search agencies. These hiring agencies are now overseen by Valley Water Human Resources Department.
- The hiring process for executive level positions did not include comprehensive background checks, especially for those positions that include financial management activity.

The desk review highlighted the need for Valley Water to revisit the implementation of background checks, which Valley Water has completed.

Desk Review of Board Committee agenda review

In March 2020, TAP International completed a peer review of Valley Water’s Board Committee agenda preparation and meeting coordination process. The review identified that processes were similar across five other agencies for meeting minute preparation and submission of agenda item documentation. Other processes differed among the agencies – agenda preparation, responsibility for meeting minute preparation, and meeting coordination and administration. The Board Audit Committee referred further discussion on the agenda process to another Board standing committee.

**TASK ORDER COMPLETION**

As shown in Table 2, Valley Water issued 10 task orders requesting various audit-related activities, frequently for attendance to Board Audit Committee meetings. TAP International has completed eight task orders with two in process of completion, audit training to be provided to the Board Audit Committee and the CPRU audit.

**Exhibit 2: Task Order History**

Year	Task Order Issued	Completed	In Process	Cancelled
2017	5	5	0	0
2018	7	7	0	0
2019	22	21	0	1*
<b>2020</b>	<b>10</b>	<b>8</b>	<b>2</b>	<b>0</b>
Total	44	41	2	1

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

**FINANCIAL OVERVIEW**

In 2020, TAP International charged Valley Water about \$178,970 for audit and support services. Table 3 shows added detail for these charges and Table 4 shows charges that were not charged to Valley Water for services performed by our staff. A budget balance of about \$454,727 remains for the independent audit function.

**Exhibit 3: 2020 Independent Auditor Charges**

<b>Audit Services (audits)</b>	<b>\$151,580.38<sup>1</sup></b>
<b>Support Services</b>	
Board meeting attendance – audit monitoring	\$9,378.22
Board Audit Committee requested activities)	\$18,011.46
<b>Total</b>	<b>\$178,970.06</b>

<sup>1</sup> Excludes charges incurred on audits performed by other companies. See Figure 6.

Exhibit 4 below shows the proportion of expenses between audit services and audit support.

**Exhibit 4: 2020 TAP International Charges to Valley Water**

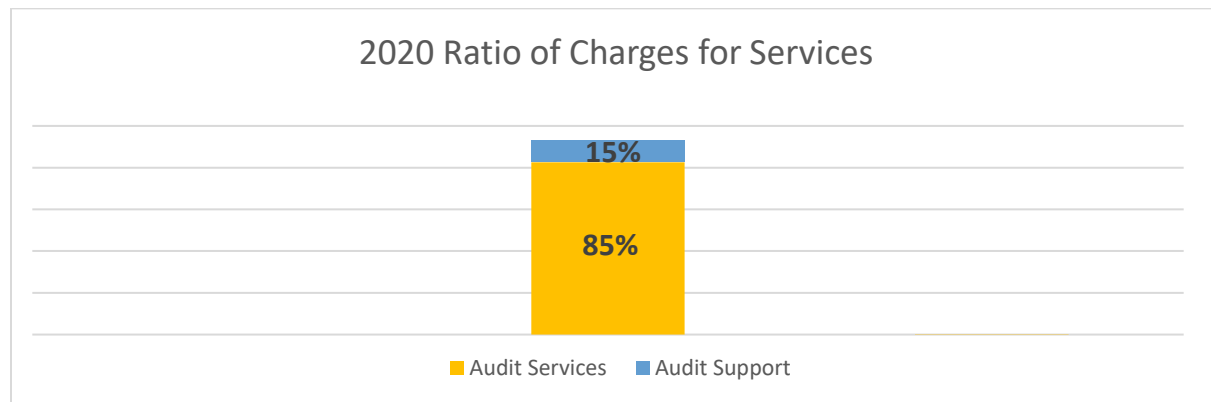


Exhibit 5 below shows TAP International expenses that were not charged to Valley Water related to audit and support services.

**Exhibit 5: 2020 Labor Costs Not Charged to Valley Water by TAP International**

<b>Audit Services (audits)-</b>	<b>\$33,908</b>
<b>Support Services</b>	
Board meeting attendance,	\$4,800
Board Audit Committee requested activities	\$3,312
<b>Total Charges Written Off in Excess of Task Order Budget, Or Not Billed</b>	<b>\$-42,020</b>

Exhibit 6 shows audit charges by other companies who performed work for the Board under the BAC’s Independent Contractor Budget.

**Exhibit 6: 2020 Independent Contractor Charges**

<b>Independent Contractors – Grant Management Audit</b>	<b>\$53,970</b>
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## **CONCLUSION**

The calendar year 2020 was met with challenges attributed to COVID-19. TAP International observed a high level of professionalism demonstrated by the Board Audit Committee Chair, Committee members and support staff in the administration of the independent auditor function. We commend Valley Water for its efforts to utilize the audit process to improve operations.

Respectfully submitted,

*TAP International, Inc.*

## Appendix A: 2020 Board Meeting Attendance by TAP International

Meeting Date	Agenda Item	Reason for Attendance	Billed Costs (rounded)
1/14/2020	4.3	Board discussion on approval of Annual Audit Work Plan updated by TAP International	\$681.22
4/28/2020	4.2	Board discussion on Board Independent Auditing Services Agreement extension to June 30, 2021	\$1,072.50
5/12/2020	4.1	Board discussion on the Final Audit Report and Management Response for the Contract Change Order Audit conducted by the Independent Auditor	780.00
6/09/2020	4.1	Board discussion on status of committee hearings due to COVID-19	\$585.00
6/23/2020	3.1	Audit monitoring on RESU activities related to pending audit.	\$487.50
7/21/2020	2.6	Board discussion on Board Audit of Santa Clara Valley Water District Grant Management Program	\$487.50
8/11/2020	4.2	Board discussion on approval of Amendment No. 3 to Agreement No. A4071A with TAP International, Inc.	\$780.00
8/25/2020	4.1	Board discussion on Independent Auditor Report Findings Regarding Hiring Practices Ad-hoc Desk Review	\$1,365.00
9/22/2020	4.3	Audit monitoring on COVID 19 Financial Risk to VW	\$487.50
10/13/2020	4.2	Board discussion on approving initiation of the permitting best practices audit	\$877.50
11/10/2020	4.2	Board discussion of RESU performance audit.	\$994.50
11/24/2020	8.1	Agenda item on civic engagement presentation discussing grant activities	\$390.00
12/15/2020	2.4	Discussion of Risk Management Unit prior to receiving District Counsel's Office	\$390.00
		<b>Total</b>	<b>\$9,378.22</b>

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# Santa Clara Valley Water District

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**File No.:** 21-0115

**Agenda Date:** 2/17/2021  
**Item No.:** 5.4.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

#### **SUBJECT:**

Receive an Update on the Status of the Permitting Best Practices Audit.

#### **RECOMMENDATION:**

Receive an update on the status of the on-going Permitting Best Practices Audit.

#### **SUMMARY:**

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

At the September 16, 2020 Board Audit Committee meeting, the Committee directed Staff to seek full Board approval to select the Permitting Best Practices Audit as the next audit from the Annual Audit Work Plan to be undertaken by TAP International, Inc. At the October 13, 2020 Board meeting, the Board approved the update to the Annual Audit Work Plan as recommended by the BAC identifying the Permitting Best Practices Audit as the next audit to be undertaken by TAP International, Inc.

Following initiation of the audit, the Committee shall discuss the status of the on-going audit progress report (Attachment 1) until the audit is completed.

#### **ATTACHMENTS:**

Attachment 1: CPRU Progress Report

#### **UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068

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Project Progress

Overall Status: On Track

Project Name: Performance Audit of CPRU

Date: January 1-31, 2021

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

- CPRU completed data request.
- Reviewed and summarized documented policies and procedures.
- Analyzed results of a five-question customer satisfaction survey; 29 respondents from 96 administered surveys (30% response rate)
- Completed financial analysis of permit processing (salary tables, invoices, CPRU budget)
- Completed initial collection of local agencies’ permit practices; telephone follow-up continuing.

Key Activities Planned for the next reporting period

- Summarize all results.
- Conduct follow-up interviews, as needed, with CPRU management and staff.
- Hold preliminary results meeting with CPRU management and staff.
- Prepare draft report.

**Timeline –**

Audit Activity	Estimated Due Date
Data collection and analysis	<b>1/22/2021</b>
Preliminary results meetings	<b>2/28/2021</b>
Technical review of Preliminary Draft Report	<b>3/15/2021</b>
Draft report submittal to Audit Committee	<b>February</b>
Final Report to Audit Committee	<b>March</b>

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