



# Santa Clara Valley Water District Board Audit Committee Meeting

Via Zoom Teleconference

## 11:00 AM SPECIAL MEETING AGENDA

Friday, February 26, 2021  
11:00 AM

**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  
11:00 AM SPECIAL MEETING  
AGENDA**

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Friday, February 26, 2021

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Via Zoom Teleconference

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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. ACTION ITEMS:**

3.1. Scope of Work for the 2021 Risk Assessment.

[21-0210](#)

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 Options](#)  
[Attachment 2: Risk Assessment Planning Document](#)  
[Attachment 3: PowerPoint](#)

Est. Staff Time: 5 Minutes

**4. 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.*

**5. ADJOURN:**

- 5.1. 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.

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# Santa Clara Valley Water District

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**File No.:** 21-0210

**Agenda Date:** 2/26/2021

**Item No.:** 3.1.

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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.

On February 17, 2021 the BAC determined a more detailed discussion is required to develop the full scope of the assessment and requested a Special Meeting to convene on February 26, 2021 to do

so. Additional information on risk assessment planning options is reflected in Attachment 1. Upon agreement of the scope of work for the 2021 Risk Assessment, 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 Options  
Attachment 2: Risk Assessment Planning Document  
Attachment 3: PowerPoint

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068



2021 Audit Planning Assessment – Scope of Work Options				
	Option 1: Repeat 2018 assessment.	Option 2: 2018 methodology but with different units of analyses.	Option 3: Stakeholder Engagement Approach	Option 4: Integrated Approach
Risk Factors (criteria to help assess the likelihood that an audit is needed)	Project Delivery risk Service Delivery risk Operational Effectiveness risk	Reputational risk Financial risk Accountability risk	Phase 1: Risk factors to be <u>identified</u> by the Stakeholder Surveys  Phase 2: BAC and the Board to <u>determine</u> the risk factors to be included in the audit planning assessment.	Reputational risk Financial risk Operating risk
Functional Areas (Areas that are discussed with stakeholders)	Capital Improvement Planning 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 N = 14	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, Fraud prevention, Capital project permitting, Training Accountability N=14	TBD based on the results of the survey	Capital Construction Budgeting, Emergency Preparedness/Disaster planning, Succession Planning, Purchasing/Contracting, Financial Management (AP, AR), Homelessness, Information Technology and Management, Succession planning, Capital project permitting, Training Accountability Inventory Management/stores Fraud prevention N-13

	Option 1 Repeat 2018 assessment.	Option 2: 2018 methodology but with different units of analyses.	Option 3: Stakeholder Engagement Approach	Option 4: Integrated Approach
Stakeholder participation	Water Utility Capital Division, Water Supply Division Watershed Design & Construction Division Treated Water Operations & Maintenance Division Watershed Operations & Maintenance Office of COO Water Utility Office of the COO Watershed Information Technology Division General Services Division Financial Planning and Management Watershed Stewardship and Planning Division Office of District Counsel Human Resources	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	Phase 1: Stakeholder Survey Four possible groups. Retailers: 5 wks. Local and state agencies: 6 wks. Partners/Organizations doing business with VW – 6 wks. All VW execs: 4 wks.  Note: Each survey would need to be unique for each group  Phase 2: VW internal stakeholders TBD based on the results of Phase 1.	Survey: VW retail customers <b>Virtual Workshops:</b> (includes respective VW exec) External Affairs, Government Relations, Civic Engagement, Emergency Services and Security, Dam Safety, Business Planning and Analysis – Watersheds, Business Planning and Analysis – Water Supply, Financial Planning and Management Services, General Services, Watersheds Operations and Maintenance, Information Technology Division, Procurement/contracts
Cost	2018:\$152,000 2021:\$120,000 (planning activities would not be required resulting in savings).	\$128,000 Model is developed and it would require developing assessment questions with the functional areas.	Phase 1 costs: Total: \$12K - \$46K to 54K Retailers: \$11K to \$15K Gov't agencies: \$11K to \$15K VW Partners: \$12K All VW execs: \$12K  Phase 2 costs: Unknown. BAC can limit the number of areas to assess and the number of stakeholders to participate in the assessment to no more than 10 to estimate costs – \$125K to \$130K.	\$139K to \$144K

	Option 1 Repeat 2018 assessment.	Option 2: 2018 methodology but with different units of analyses.	Option 3: Stakeholder Engagement Approach	Option 4: Integrated Approach
Board Presentation Date	June 2021	June 2021	July/August 2021	June 2021
Pros	<ul style="list-style-type: none"> <li>Allows for comparative analysis of progress made.</li> <li>Issues/concerns identified will translate to auditable areas.</li> <li>Will update 2018 annual audit work plan.</li> </ul>	<ul style="list-style-type: none"> <li>Identifies emergent issues.</li> <li>Some comparative analysis against the 2018 assessment.</li> <li>Assessment of all VW operations within the last 3 years by including VW units and agencies that were not included in the 2018 assessment.</li> <li>Will monitor areas identified as higher risk in the annual audit plan for potential updates.</li> <li>Results will translate to auditable areas.</li> <li>BAC and Board will have the opportunity to select/prioritize a variety of audits.</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive identification of a wide range of risks (risk register).</li> <li>Provides external perspective.</li> </ul>	<ul style="list-style-type: none"> <li>See Option 2</li> </ul> <p>And,</p> <ul style="list-style-type: none"> <li>Provides external stakeholder perspective.</li> <li>Does not extend the project completion time because the survey will be administered concurrently with the workshops.</li> </ul>
Cons	<ul style="list-style-type: none"> <li>Could miss emergent issues.</li> <li>Asserts risk areas to be included in the planning assessment although mitigated by Auditor and Board Directors' experience/observation.</li> </ul>	<ul style="list-style-type: none"> <li>Asserts risk areas to be included in the planning assessment although mitigated by Auditor and Board Directors' experience/observation.</li> </ul>	<ul style="list-style-type: none"> <li>Extends project completion time by 4 to 8 weeks; VW will need provide contact information.</li> <li>The nature of the risk factors identified may not fully translate to auditable areas (e.g. political, economic, social). Mitigation of these risks may need to be addressed through other internal/non-audit activities.</li> <li>Internal executives may be reluctant to identify all risks if it could lead to an audit.</li> </ul>	<ul style="list-style-type: none"> <li>Asserts risk areas to be included in the planning assessment although mitigated by Auditor and Board Directors' experience/observation.</li> </ul>

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## 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

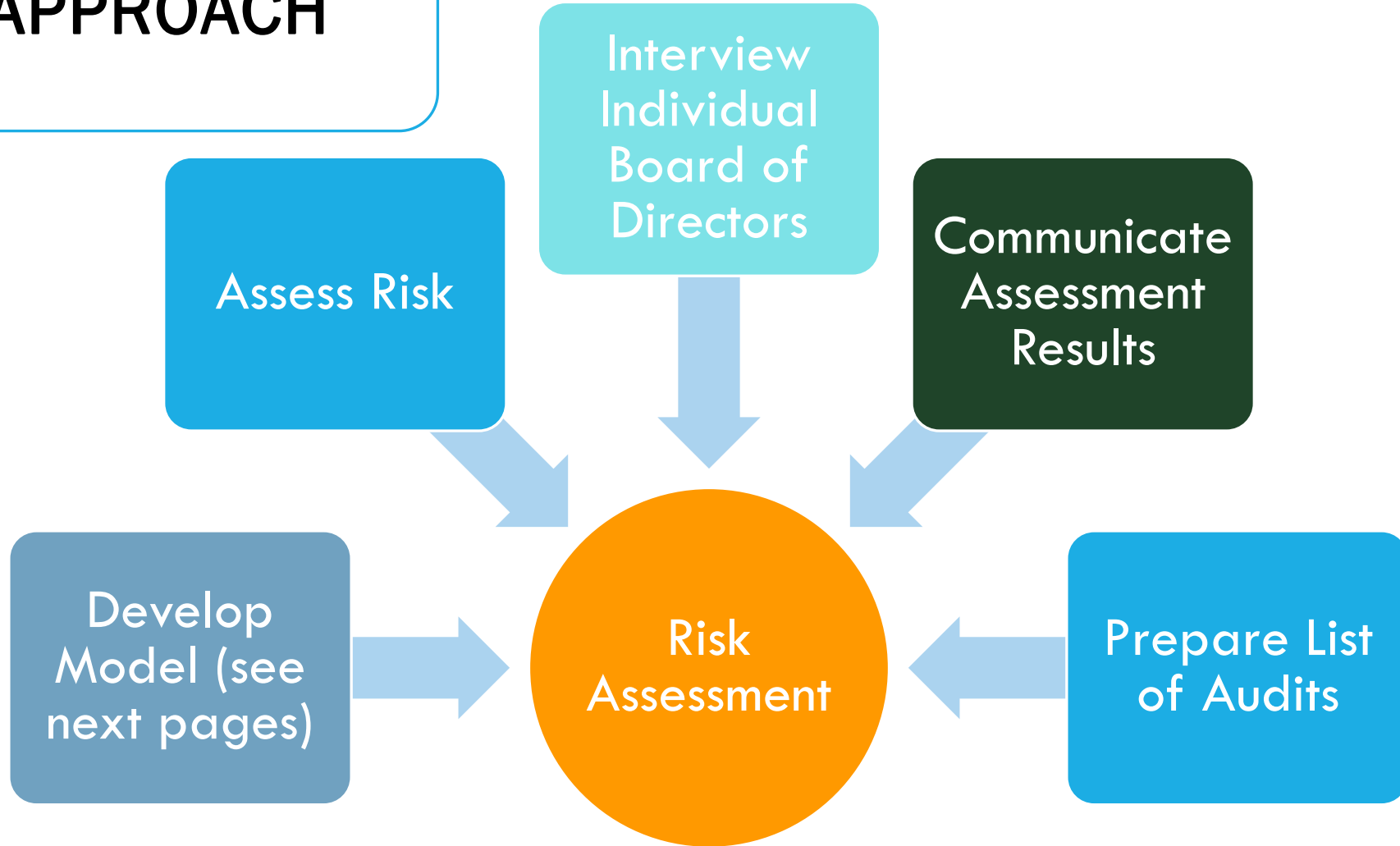
# What is a Risk Assessment



- ✓ 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**

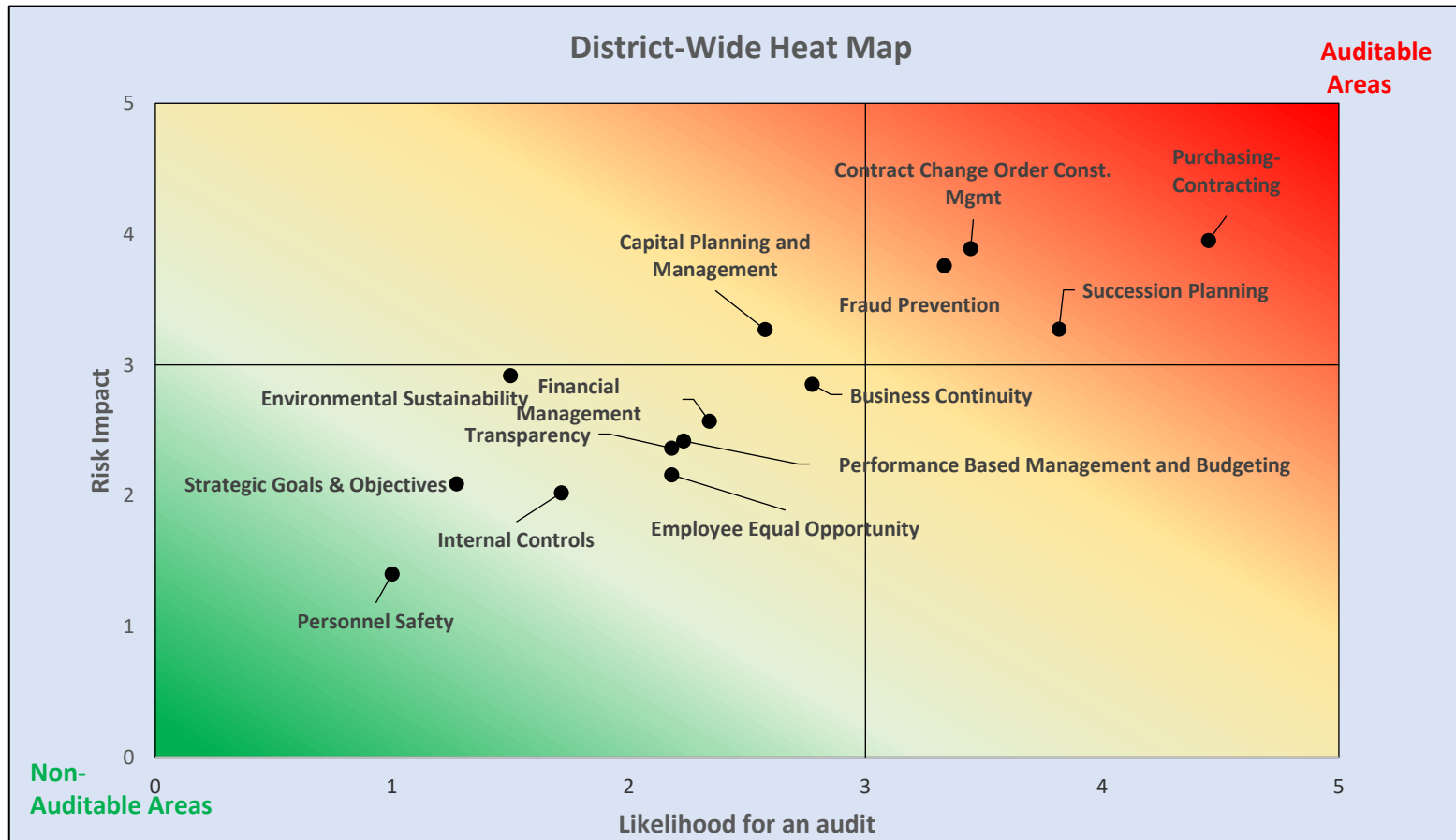
- 1.Capital Improvement Planning & Budgeting
- 2.Performance Based Budgeting
- 3.Financial Management
- 4.Internal Controls
- 5.Strategic Goals & Objectives
- 6.Fraud Prevention
- 7.Equal Employment Opportunity
- 8.Purchasing/Contracting
- 9.Contract Change Order Management
- 10.Succession Planning
- 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