



Santa Clara Valley Water District Board Audit Committee Meeting

Via Zoom Teleconference

11:00 AM RESCHEDULED REGULAR MEETING AGENDA

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

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**Santa Clara Valley Water District
Board Audit Committee**

**11:00 AM RESCHEDULED REGULAR MEETING
AGENDA**

Monday, April 26, 2021

11:00 AM

Via Zoom Teleconference

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" tool 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.

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

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

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Join Zoom Meeting:

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

Meeting ID: 916 0807 9873

Join by Phone:

1 (669) 900-9128, 91608079873#

1. CALL TO ORDER:

1.1. Roll Call.

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

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

3. APPROVAL OF MINUTES:

3.1. Approval of Minutes.

[21-0382](#)

Recommendation: Approve the minutes.

Manager: Michele King, 408-630-2711

Attachments: [Attachment 1: 031721 BAC Minutes](#)

Est. Staff Time: 5 Minutes

4. ACTION ITEMS:

- 4.1. Discuss and Approve any Updates to the Annual Audit Work Plan. [21-0379](#)

Recommendation: Discuss 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

- 4.2. Review and Approve the Updated 2021 Board Audit Committee Work Plan. [21-0380](#)

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

- 4.3. Receive and Discuss the Permitting Best Practices Audit Draft Report. [21-0381](#)

Recommendation: A. Receive and discuss the Permitting Best Practices Audit Draft Report; and
B. Approve issuance of Permitting Best Practices Audit Draft Report for formal comment.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: Draft Report](#)
[Attachment 2: PowerPoint](#)

Est. Staff Time: 20 Minutes

5. INFORMATION ITEMS:

- 5.1. Receive an Update on the Status of the 2021 Risk Assessment. [21-0411](#)

Recommendation: Receive an update on the status of the 2021 Risk Assessment.

Manager: Darin Taylor, 408-630-3068

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

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 May 19, 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

File No.: 21-0382

Agenda Date: 4/26/2021
Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Approval of Minutes.

RECOMMENDATION:

Approve the minutes.

SUMMARY:

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

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

ATTACHMENTS:

Attachment 1: 031721 BAC Minutes

UNCLASSIFIED MANAGER:

Michele King, 408-630-2711

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BOARD AUDIT COMMITTEE MEETING

MINUTES

**Wednesday, March 17, 2021
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 3 Director Richard P. Santos, and District 7 Director Gary Kremen, constituting a quorum of the Committee.

Directors Estremera, and LeZotte attended via teleconference.

Staff in attendance were M. Overland. Staff members participating by teleconference were M. Cook, A. Fraumeni, A. Gschwind, A. Mendiola, D. Taylor, S. Tippets, K. Wong, and T. Yoke.

Also, in attendance by teleconference were D. Callahan, 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 February 17, 2021, and February 26, 2021, Committee meetings. It was moved by Director Santos, seconded by Director Kremen, and unanimously carried that the minutes be approved.

4. ACTION ITEMS

4.1 Discuss the Timing of the Pacheco Reservoir Expansion Audit and the Audit Firm that would Conduct the Work.

Recommendation: Discuss the timing of the Pacheco Reservoir Expansion Audit and the audit firm that would conduct the work.

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

It was moved by Director Kremen and seconded by Director Santos, and unanimously carried that staff recommend to the full Board, at a future Board meeting, to have District Counsel select a law firm to audit or investigate the Pacheco Reservoir Expansion Project.

4.2 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.

Chairperson Keegan 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 to consider meeting with the Financial Auditor on a quarterly basis;
- The Committee members would like the Financial Auditor to provide 1:1 meetings upon request;
- Regular financial reviews to be done quarterly, and a report to be provided to the Committee approximately 60 days after the close of the books for each quarter; and
- Staff to draft a memorandum for a future Committee meeting to discuss the parameters of future Financial audits.

4.3 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;
 - B. Discuss BAC member participation as the review panel for the Chief Audit Executive and On-Call Board Auditor Pool RFPs; and
 - C. Approve the updated 2021 BAC Work Plan.

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

The Board noted the information and requested the following:

- Two changes to the Work Plan were discussed and will be added;
 - Staff to add the topic for the Financial Auditor report to be provided on a quarterly basis; and
 - Staff to add a topic regarding the parameters for future financial audits.
- Committee members participation on the Evaluation Committee (EC) for the two Requests for Proposals for the Committee's Chief Audit Executive and the On-Call Board Auditing Pool; and
 - Committee members to participate on the Chief Audit Executive EC; and
 - Committee members will not participate with the On-Call Auditor Pool EC.
- Committee members request staff to perform the initial review and selection for the Chief Audit Executive and On-Call Auditor Pool and will provide the following:
 - Chief Audit Executive: staff will evaluate and then provide the top 2-3 candidate firms for the Committee members to interview and select; and
 - On-Call Auditor Pool: staff to evaluate and recommend which firms will be part of the pool by providing a summary justification for the staff selection, then the Committee will approve or reject staff recommendations.

It was moved by Director Santos and seconded by Director Kremen, and unanimously carried that staff work with Contracts to update and revise the Evaluation Committee for the Board Auditor Pool and possibly the initial assessment of proposals for the Chief Audit Executive.

4.4 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.

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

The Committee noted the information, without formal action.

5. INFORMATION ITEMS

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

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

- Audit report and recommendations was provided to CPRU for review and response;
- CPRU requested an extension to March 26, 2021, in order to complete their audit review and response;
- TAP was focused on CPRU permitting practices, development of an invoice tracking system, and impacts of other responsibilities as it relates to their roles and responsibilities;
- The Committee requested that Information Technologies come back to a future Committee meeting to report on CPRU technology integration.

6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

6.1 Clerk Review and Clarification of Committee Requests.

None.

7. ADJOURN

- 7.1 Adjourn to Regular Meeting at 2:00 p.m., on April 21, 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 3:20 p.m., to the 2:00 p.m. Regular Meeting on April 21, 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

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Santa Clara Valley Water District

File No.: 21-0379

Agenda Date: 4/26/2021
Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Discuss and Approve any Updates to the Annual Audit Work Plan.

RECOMMENDATION:

Discuss and approve any updates to recommend to the Board, if necessary.

SUMMARY:

On January 12, 2021 the Board recommended that an audit be performed by the Board Audit Committee (BAC) to determine the timeline associated with cost increases for the Pacheco Reservoir Expansion Project. At its February 17, 2021 meeting, the BAC added this Ad Hoc Board Audit to the Annual Audit Work Plan.

At its regularly scheduled meeting on March 17, 2021 the BAC did not identify any changes to the Annual Audit Work Plan. However, the BAC determined that the effort to determine the timeline associated with cost increases for the Pacheco Reservoir Expansion Project should be conducted by a legal firm as opposed to an audit firm.

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

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

DRAFT AUDIT WORK PLAN – MARCH 1, 2021

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

OVERVIEW

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

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

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

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

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

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

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

SECTION A

NON-AUDIT SERVICES AND SPECIAL PROJECTS

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

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

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

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

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

FY 2019-20

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

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

4	Risk Management	Can risk management business processes be implemented more effectively? (i.e. contract claims, workers compensation, small claims).	143-260	Relevance Financial Operational Best practices
3	Billing and Collections audit	Are there opportunities to enhance Valley Water's billing and collection processes?	343-429	Relevance Financial Regulatory Improvement Risk Return on Investment
11	Accountability audit	Are there opportunities to enhance safe clean water audits?	115-171	Health and Safety Relevance Improvement
Sub Total	5		1,800-2,317	

*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.

ID	Audit Name	Audit Objectives	Planned Hours	Factors Considered
	Ad-hoc Board Audits**	TBD	500-800	Relevance
	Audit Follow up	Review and monitor the status of audit recommendations	120	Relevance
	Subtotal		620-800	
	<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>
Ad Hoc Board Audit	Pacheco Reservoir Expansion (Lessons Learned)	(1) Develop a timeline of project costs (including contract change orders and professional services agreement amendments) and identify the types of expenses incurred.	220-270	Financial, Operational, and best practices improvements

		(2) Identify key drivers for project cost increases that were within and outside of VW's control. (3) Identify lessons learned in the planning, design and construction phases of the project.		
21	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
20	Homelessness analysis	How can the Valley Water enhance its homelessness encampment clean-up activities that <u>protect health and safety</u> ?	290-371	Health and Safety Relevance Financial Operational
8	Classified information***	To what extent does the Valley Water's Counsel's office appropriately classify confidential information?	143-200	Relevance Operational
26	Local workforce hiring	What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?	200-229	Operational
27	Equipment maintenance	Is Valley Water adequately meeting the needs of equipment maintenance?	143-229	Health and safety Operational Financial
33	Water Fix	What potential financial risks could occur on the California Water Fix project?	160-286	Financial Relevance
Sub Total	9		1,973-2,528	

**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 #	
Treated Water O&M DOO: TW Survey (customer service w/ WS DOO)	#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
Water Utility Capital Division	
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
Dam Safety & Capital Delivery Division	
CADD Services Unit	#366
Dam Safety Program & Project Delivery Unit	#595
Design and Construction Unit #3	#333
Pacheco Project Delivery Unit	#377
Water Supply Division DOO: TW Survey (customer service w/ TW O&M DOO)	#415
Wells & Water Measurement Unit	#475
Watersheds Design and Construction Division	
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
Associated Business Support Areas	
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.: 21-0380

Agenda Date: 4/26/2021
Item No.: 4.2.

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.

At the March 17, 2021 BAC meeting, the committee added two items related to the annual Financial Audit to the BAC Work Plan: 1) a Quarterly Financial Status Update (new item #90); and 2) a BAC topic for discussion related to the parameters for selection of the next financial auditing firm (new item #18). Staff will bring the topic of selection parameters for the next financial auditing firm to the BAC prior to the next Request for Proposal (RFP) process.

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

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

#	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	
Board Audit Committee Meeting Dates														
	Number of Agenda Items per Meeting Date	11	11	5	4	6	2	5	5	4	2	5	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.
Board Audit Committee Management														
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				See Note									<u>Recommendation:</u> Receive Annual Audit Training from Board Independent Auditor. <u>Note:</u> Training was conducted at Special BAC meeting on 4/2/2021
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	Chief Board Auditor - Request for Proposal: Review Panel					•								<u>Note:</u> Review Panel for the role of the Chief Board Auditor will be the BAC members

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

#	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	Tri-annual Risk Assessment		•							•				<p><u>Recommendation:</u> Discuss the scope of work for the 2021 Risk Assessment.</p> <p><u>Note:</u> Next Risk Assessment scheduled to be completed by September 2021. Risk Assessment scope was discussed at Special BAC meeting on 2/26/2021.</p>
Board Audit Committee Special Requests														
11	External Financial Auditor Meeting with Individual Board members							•						<p><u>Note:</u> Schedule as needed.</p>
12	Provide status report to full Board quarterly													<p><u>Note:</u> Report to be provided to Board in non-agenda the month after each BAC meeting.</p>
13	Discuss the Scope and Approach of the Ad-hoc Desk Reviews													<p><u>Recommendation:</u> Discuss the scope and approach of the ad-hoc Desk Reviews.</p>
14	Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract		•											<p><u>Recommendation:</u> Receive and discuss Financial Analysis regarding the Board Independent Auditing Services Contract with TAP International, Inc.</p>
15	QEMS & ISO Overview and Continuous Improvement Methodology Benchmarking Analysis													<p><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.</p> <p><u>Recommendation:</u> Review and discuss overview of QEMS Process Improvement post ISO de-certification, and Benchmarking Analysis for 2020.</p>
16	Risk Management Organization	•												<p><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.</p> <p><u>Recommendation:</u> Review and discuss Risk Management Organization.</p>
17	Valley Water Policies Related to Financial Auditor Responsibility	•												<p><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.</p> <p><u>Recommendation:</u> Review and discuss Valley Water Policies Related to Financial Auditor Responsibility.</p>
18	Financial Auditor Selection Parameters	•												<p><u>Note:</u> Board transferred this item to the BPPC at the 2/9/2021 Board meeting</p>
Management and Third Party Audits														
19	Review Draft Audited Financial Statements	•										•		<p><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.</p>
20	Audit Report of the Water Utility Enterprise Funds for the Fiscal Year							•						<p><u>Recommendation:</u> Receive and Discuss the Audit Report of the Water Utility Enterprise Funds for the Fiscal Year.</p>
21	Receive QEMS Annual Internal Audit Report								•					<p><u>Recommendation:</u> Receive information regarding the Quality and Environmental Management System.</p>

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BOARD AUDIT COMMITTEE 2021 WORKPLAN

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22	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.		•					•					<p><u>Note:</u> Staff CAS update every 6 months.</p> <p><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.</p>	
23	Review Contract Change Order Audit Report					•						•	<p><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.</p>	
24	Audit Recommendations Implementation Status	•										•	<p><u>Note:</u> Staff periodic update.</p> <p><u>Recommendation:</u> Receive and discuss a status update on the implementation of audit recommendations.</p>	
Board Independent Auditor - TAP International, Inc. Items														
25	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	<p><u>Recommendation:</u> Discuss the Annual Audit Work Plan and update, if necessary.</p>
Audit - Grants Management														
26	Receive notification of initiated Grants Management Audit													<p><u>Note:</u> Audit Objectives - Performance audit of the efficiency and effectiveness of grant management and administration.</p>
27	Review Grants Management Audit Progress Report													<p><u>Recommendation:</u> Receive an update on the status of the on-going audit.</p>
28	Review Grants Management Audit Draft Report Presentation	•												<p><u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.</p>
29	Review Response to Grants 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>
Audit - Permitting Best Practices														
30	Receive notification of initiated Permitting Best Practices Audit													<p><u>Note:</u> Audit Objectives - How does Valley Water's permitting process compare with other agencies? Can alternative permit processing activities benefit Valley Water?</p>
31	Review Permitting Best Practices Audit Progress Report	•	•	•										<p><u>Recommendation:</u> Receive an update on the status of the on-going audit.</p>
32	Review Permitting Best Practices Audit Draft Report Presentation				•									<p><u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.</p>
33	Review Response to Permitting Best Practices 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>
Audit - Pacheco Reservoir Expansion														
34	Receive notification of initiated Pacheco Project Audit			•					•					<p><u>Note:</u> Audit Objectives - Determine how and why the initial Project Scope & Cost evolved and increased over time?</p>

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35	Review Pacheco Project Audit Progress Report				•								<u>Recommendation:</u> Receive an update on the status of the on-going audit.	
36	Review Pacheco Project Audit Draft Report Presentation												<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.	
37	Review Response to Pacheco Project Audit Final Draft Report												<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.	
Audit - Construction Project Management (Tentative)														
38	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?	
39	Review Construction Project Management Audit Progress Report												<u>Recommendation:</u> Receive an update on the status of the on-going audit.	
40	Review Construction Project Management Audit Draft Report Presentation												<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.	
41	Review Response to Construction Project Management Audit Final Draft Report												<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.	
Audit - Supervisory Control and Data Acquisition (Tentative)														
42	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?	
43	Review Supervisory Control and Data Acquisition Audit Progress Report												<u>Recommendation:</u> Receive an update on the status of the on-going audit.	
44	Review Supervisory Control and Data Acquisition Audit Draft Report Presentation												<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.	
45	Review Response to Supervisory Control and Data Acquisition Audit Final Draft Report												<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.	
Audit - Risk Management (Tentative)														
46	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).	
47	Review Risk Management Audit Progress Report												<u>Recommendation:</u> Receive an update on the status of the on-going audit.	
48	Review Risk Management Audit Draft Report Presentation												<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.	

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49	Review Response to Risk Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Billing and Collections (Tentative)														
50	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?
51	Review Billing and Collections Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
52	Review Billing and Collections Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
53	Review Response to Billing and Collections Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Accountability (Tentative)														
54	Receive notification of initiated Accountability Audit													<u>Note:</u> Audit Objectives - Are there opportunities to enhance safe clean water audits?
55	Review Accountability Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
56	Review Accountability Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
57	Review Response to Accountability Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Community Engagement (Tentative)														
58	Receive notification of initiated Community Engagement Audit													<u>Note:</u> Audit Objectives - Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities? What are the best practices in planning and facilitating community engagement?
59	Review Community Engagement Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
60	Review Community Engagement Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
61	Review Response to Community Engagement Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Property Management (Tentative)														

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62	Receive notification of initiated Property Management Audit													Note: Audit Objectives - Is Valley Water implementing encroachment licensing program consistent with the Board's guiding principles?
63	Review Property Management Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
64	Review Property Management Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
65	Review Response to Property Management Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Homelessness Analysis (Tentative)														
66	Receive notification of initiated Homelessness Analysis Audit													<u>Note:</u> Audit Objectives - How can Valley Water enhance its homelessness encampment clean-up activities that protect health and safety?
67	Review Homelessness Analysis Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
68	Review Homelessness Analysis Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
69	Review Response to Homelessness Analysis Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Classified Information (Tentative)														
70	Receive notification of initiated Classified Information Audit													<u>Note:</u> Audit Objectives - To what extent does Valley Water's Counsel's Office appropriately classify confidential information?
71	Review Classified Information Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
72	Review Classified Information Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.
73	Review Response to Classified Information Audit Final Draft Report													<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.
Audit - Local Workforce Hiring (Tentative)														
74	Receive notification of initiated Local Workforce Hiring Audit													Note: Audit Objectives - What are the financial and service delivery disadvantages and advantages of RFPs that require preferences for local workforce hiring?
75	Review Local Workforce Hiring Audit Progress Report													<u>Recommendation:</u> Receive an update on the status of the on-going audit.
76	Review Local Workforce Hiring Audit Draft Report Presentation													<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.

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77	Review Response to Local Workforce Hiring Audit Final Draft Report												<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.	
Audit - Equipment Maintenance (Tentative)														
78	Receive notification of initiated Equipment Maintenance Audit												Note: Audit Objectives - Is Valley Water adequately meeting the needs of equipment maintenance?	
79	Review Equipment Maintenance Audit Progress Report												<u>Recommendation:</u> Receive an update on the status of the on-going audit.	
80	Review Equipment Maintenance Audit Draft Report Presentation												<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.	
81	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.	
Audit - Delta Conveyance (Tentative)														
82	Receive notification of initiated Delta Conveyance Audit												Note: Audit Objectives - What potential financial risks could occur on the California Water Fix project?	
83	Review Delta Conveyance Audit Progress Report												<u>Recommendation:</u> Receive an update on the status of the on-going audit.	
84	Review Delta Conveyance Audit Draft Report Presentation												<u>Recommendation:</u> Receive and discuss the Final Draft Audit Report.	
85	Review Response to Delta Conveyance Audit Final Draft Report												<u>Recommendation:</u> A. Receive and discuss the Management Response to the Final Draft Audit Report; and B. Direct staff to have TAP International, Inc. finalize the Audit Report and present it to the Board of Directors.	
BAC Work Plan Items Outside of the Current Term														
86	BAC Self-Evaluation Report												Note: 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.	
87	Sponsorship Program												<u>Recommendation:</u> Discuss the potential for a desk review or audit of the Sponsorship Program. <u>Note:</u> Board chose not to do a desk review or audit at the 1/12/2021 meeting.	

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88	Establishment of Additional Board Auditors					See Note		•					<p><u>Recommendation:</u> Discuss the potential master services agreement to recommend to the full Board for the establishment of additional Board Auditors.</p> <p><u>Note:</u> Closed Session meeting w/BAC in early May regarding firms selected for Negotiations; Closed Session meeting w/BAC in July regarding final selection and authority to present to the full Board in August</p>	
89	Participate in financial statement audit procurement process												<p><u>Note:</u> Next procurement scheduled for January 2022.</p>	
90	Financial Audit - Quarterly Update					•			•		•		<p><u>Note:</u> suggested frequency is as follows: February for mid-year review; May for Q3 review; September for unaudited close; November for Q1 review</p>	

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Santa Clara Valley Water District

File No.: 21-0381

Agenda Date: 4/26/2021
Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Receive and Discuss the Permitting Best Practices Audit Draft Report.

RECOMMENDATION:

- A. Receive and discuss the Permitting Best Practices Audit Draft Report; and
- B. Approve issuance of Permitting Best Practices Audit Draft Report for formal comment.

SUMMARY:

On October 13, 2020, the Board approved an update to the Annual Audit Work Plan as recommended by the Board Audit Committee (BAC) for the Permitting Best Practices Audit to be the next audit undertaken by TAP International, Inc.

On February 17, 2021, the BAC received an update on the progress of the audit. The update included a timeline stating that the technical review of the Preliminary Draft Report would be due on March 15, 2021.

On March 17, 2021, the BAC approved a request from staff for more time to complete their technical review of the preliminary draft report. Staff was able to complete their review and returned comments to the auditor.

Per the BAC Audit Charter, Article 6, Paragraph 5 Draft Audit Reports, the Committee may request the opportunity to review and comment on any draft audit reports (Attachment 1) before such reports are finalized by the auditor.

Upon the Committee's approval of the issuance of this draft report, the management response will be due within fifteen working days per Article VI, section 7 of the Board Audit Committee Audit Charter.

ATTACHMENTS:

- Attachment 1: Draft Report
- Attachment 2: PowerPoint

File No.: 21-0381

Agenda Date: 4/26/2021
Item No.: 4.3.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068



TAPInternational

Draft Report

**Community Projects Review
Unit: Opportunities to
Improve Permit Processing**

APRIL 2021

**Draft Report by the Independent
Auditor to the Board Audit Committee**



Date: April 21, 2021

Memorandum For: Board Audit Committee (BAC)

From: Independent Auditor, TAP International, Inc.

Subject: Transmittal of TAP International Performance Audit Report

Attached for your information is our draft report, *Community Projects Review Unit: Opportunities to Improve Permit Processing*. The audit objectives were to assess how alternative permit processing activities could benefit Valley Water and to compare Valley Water's permitting process with other local water agencies.

The audit found Valley Water's permitting process is not meeting customers' or its own expectations for timelines and communication, which can be addressed with the use of better tools, restructuring and collaboration. Various other local agencies have adopted alternative strategies and tools that could benefit Valley Water, including creating online portals to facilitate the submission of permit applications and the communication of the review status. To better publicize their services, some local agencies send letters to neighboring property owners to remind owners of the agency's property rights and how to access its services. In other areas of Community Projects Review Unit (CPRU) operations, the permit fee schedule needs updating and the establishment of a robust framework of financial management internal controls for invoicing and collection of payments. The report contains 14 recommendations that will help the CPRU to streamline the permit process, improve communication with applicants, update its fee schedule for permit processing activities, and ensure the timely invoicing and recording the payment of invoices.

Management's response to the recommendations in this audit report is included in Appendix A of this report. (To be inserted in the final report)

TAP International, Inc.

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Section 1: Audit Highlights

Why the Audit Was Conducted

The mission of the CPRU, located within Valley Water's Watershed Design & Construction Division, is to protect Valley Water's Watersheds and Water Utility assets and interests from external activities and threats as defined by Valley Water's Resources Protection Ordinance¹. Other units within the Watershed Design & Construction Division, in addition to CPRU, include the Land Surveying & Mapping Unit and the Real Estate Services Unit (RESU).

A performance audit evaluates the economy, efficiency, and effectiveness of programs, services, and operations. This performance audit was conducted because encroachment permit processing was identified as a higher risk area for potential improvement opportunities based on a 2018 risk assessment performed by the Independent Auditor.

This audit is important to the Board of Directors for the following reasons:

1. There are opportunities to reduce or offset costs to issue permits applications through streamlining of the permit process.
2. There are opportunities to reduce the overlap of services provided by CPRU and other Valley Water Units.
3. There are opportunities to enhance revenue collection through improved financial management.

How the Audit Was Conducted

The objectives of the audit were to:

1. Determine if alternate permit processing activities benefit Valley Water; and,
2. Assess how Valley Water's permitting process compares with other local agencies.

The audit work included: (1) interviews with CPRU staff and the CPRU Manager, who has been delegated the authority to issue encroachment permits, (2) an online survey of encroachment permit holders to whom CPRU issued a permit in fiscal year (FY) 2020, (3) analysis of financial data (financial audit, permits fees, invoices, salary tables), CPRU policies and procedures, organizational chart and other documentation related to the CPRU's operations, and (4) research into other California local agencies' approach to issuing encroachment permits and their current practices. Valley Water's ongoing effort to develop a new program to license or permit existing encroachments by residential property owners was not included in the scope of this audit; an audit of this program is included in the Annual Audit Work Plan of the Independent Auditor.

¹ Appendix C provides more information about Valley Water's Water Protection Ordinance.

What the Audit Found

This audit report discusses six key points:

- Demand for CPRU’s variety of services has remained steady over the past decade and increased notably during the first three-quarters of FY2021. In addition to issuing encroachment permits, these services include flood plain information and analysis, technical assistance to other local agencies, California Environmental Quality Act (CEQA) compliance reviews, agreements for public recreational use like trails, negotiation of real property transactions and more. Some of CPRU’s activities related to real estate, CEQA, and flood plain analysis overlap with the role of other Valley Water units. Utilizing services already offered by other Valley Water units could provide staff more time for permit processing.
- Valley Water permit process could be better at meeting customers’ or its own expectations for timelines and communication, even though many reported overall satisfaction. Respondents to a voluntary, online survey of those issued permits in FY2020 said Valley Water did not meet about half of applicants’ expectations for timeliness (55 percent) and communication (48 percent) but met or exceeded most (65 percent) survey respondents’ expectations for professionalism.
 - ✓ The audit found that CPRU processed six out of every 10 permit applications within the stated goal of eight weeks during FY2018 to FY2020. Overall, the average time required to issue a permit was about 13 weeks in FY2018 to FY2020.
- Timeliness issues stem from multiple factors including staff turnover, inexperienced staff, manual processes, reported applicant difficulties meeting Valley Water’s insurance requirements and, more notably, bottlenecks in the review and approval process. To better meet expectations for timeliness and communication, alternative strategies for permit processing can benefit Valley Water by improving the operational structure of CPRU’s permit process and by adopting better tools designed to:
 - ✓ Ensure timely entry of applications into the CPRU database;
 - ✓ Assist staff and address bottlenecks through the standardization and documentation of policies and procedures;
 - ✓ Expedite automation of the permit process and improve records management;
 - ✓ Renew collaboration with neighboring public agencies to plan for large projects;
 - ✓ Support communications with regular customer service training for staff; and
 - ✓ Enhance tools to facilitate applicant compliance with Valley Water insurance requirements.
- Local agencies have adopted alternative strategies that could also benefit Valley Water, including creating online portals to facilitate the submission of permit applications, communicating the review status of permits, and using a project coordinator to manage the process allowing the engineer to focus on the technical review. To better publicize their services, some local agencies send letters to neighboring property owners annually

or when properties are sold to remind owners of the agency's property rights and how to access its services.

- Valley Water can benefit from an updated fee schedule, based on a fee study, to identify opportunities to close any gaps between permit fees collected and the cost to issue a permit.
- The establishment of a robust framework of financial management internal controls is needed to ensure accurate and timely invoicing and collection of payments for permit fees.

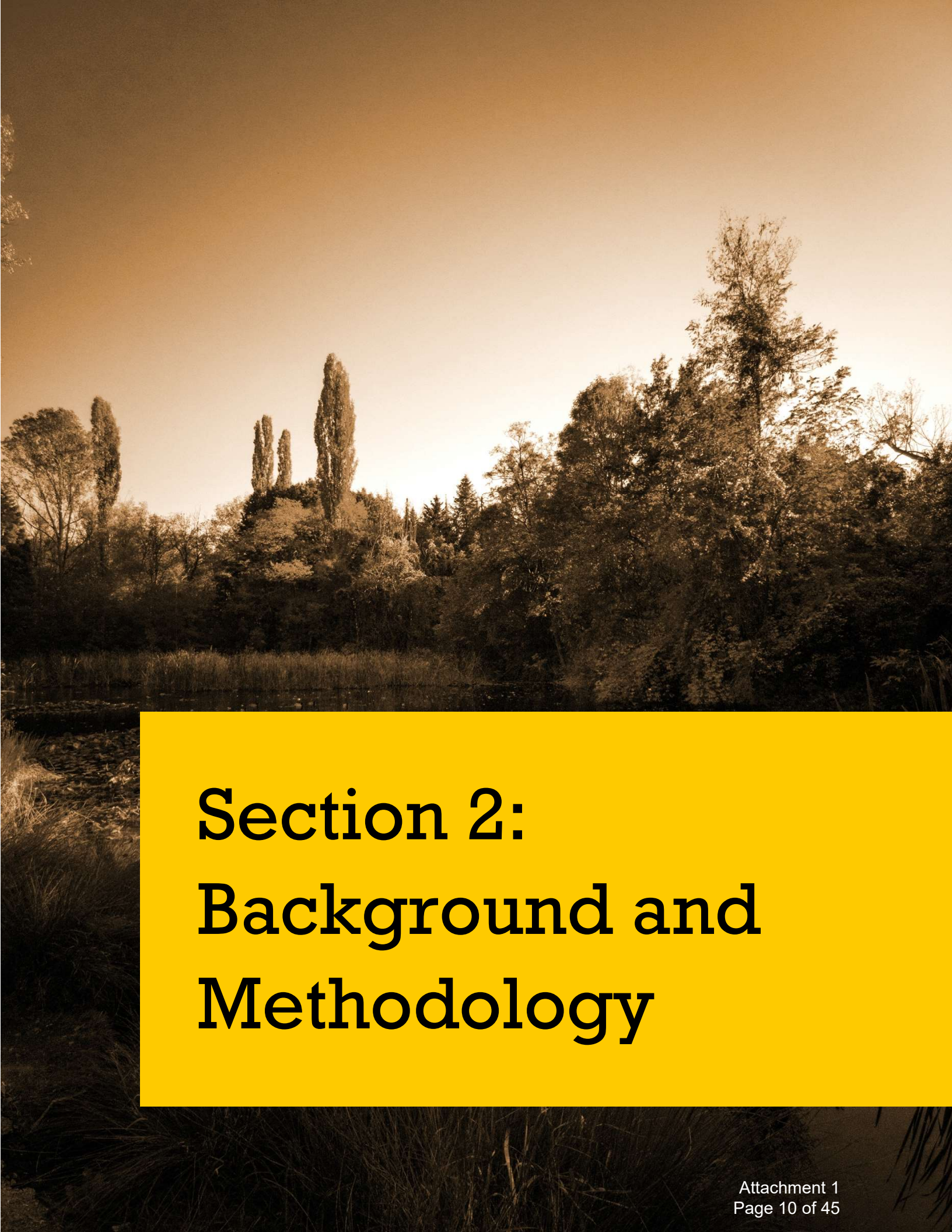
Recommendations

This audit report includes 14 recommendations for Valley Water to consider. These recommendations are designed to streamline CPRU services, address customer expectations for timely permit processing and communication, strengthen workflows and permit tracking, and add controls to CPRU financial management activities.

1. The Watersheds' Chief Operating Officer should consolidate overlapping functions between CPRU and other Valley Water units (such as real estate transactions to RESU and CEQA reviews to the Environmental Planner) to reduce CPRU staff workloads and allow CPRU staff to focus on the provision of permit services.
2. The CPRU Manager should complete standardization of permit review policies, practices, roles, and responsibilities.
3. The CPRU Manager should develop and implement a training program that includes various courses on:
 - a. Permit processing for new and inexperienced staff, which will reduce time spent on final review and approval of draft permits.
 - b. Customer service, building on the training experience of some CPRU staff completed earlier this year.
 - c. Risk management, through coordination with the Valley Water Risk Manager, on Valley Water's insurance requirements.
4. The CPRU Manager should establish criteria for the order in which permit applications will be reviewed, who has the authority to authorize exemptions from that process and under what special circumstances authority could be delegated to issue a permit.
5. The CPRU Manager should assign customer liaison responsibilities (to one or two individuals) to ensure consistent and timely communication on permit applications to help meet customer expectations.

6. The CPRU Manager, in collaboration with Valley Water Information Technology Unit, should continue efforts to identify and implement the solutions for desired functionality needed to strengthen permit processing, which include:
 - a. Electronic submission of permit applications and supporting documents that automatically creates an electronic permit review file.
 - b. Expanded search function for researching past projects and permits.
 - c. Customizable dashboards and/or reports that facilitate management oversight of permit processing timeliness, invoice aging, and other measures of performance.
 - d. Tools, such as a request form or ticketing system, to help CPRU track requests for services in addition to permit reviews received from internal and external stakeholders.
 - e. Ability for customers to self-check the status of their applications and other service requests through interface of the new customer resource management system with the new document management system.
 - f. Minimize the administrative burden of tracking and reporting time spent on permit review and other asset protection services by CPRU and other Valley Water units.
7. The CPRU Manager should renew regular consultations with other member agencies of the Water Resources Protection Collaborative to allow CPRU to plan for upcoming large land review development requests and to establish a process for monitoring the status of existing agreements.
8. The CPRU Manager, in coordination with the Valley Water Risk Management Unit Manager, should develop communication strategies, such as instructional videos, screen shots, and/or brochures to make it easier for applicants and insurance brokers to understand Valley Water's insurance requirements.
9. The CPRU Manager, with the assistance of the Watershed's Chief Operating Officer, should explore the feasibility of adopting strategies of other local agencies to promote their permit services, such as:
 - a. Change the name of CPRU to a name that better describes its functions.
 - b. Adopt a new model for the allocation of work among staff to minimize delays due to heavy demand, such as separating the roles of project coordination from technical review.
 - c. Conduct regular outreach by letter or other communication to neighboring property owners (and to new buyers of neighboring property) describing Valley Water's permit services, the reason for the permit process, and how to access the services.
10. Valley Water's CEO, with approval of the Board, should consider setting a goal for cost recovery from fees charged for permit services.

11. The CPRU Manager, in coordination with the Valley Water Chief Financial Officer, should update the current fee schedule based on the results of a fee study. The study should evaluate charging an hourly rate for inspections completed versus the current flat inspection fee.
12. The CPRU Manager should adopt a risk-based permit review strategy to reduce processing time for low-risk, repetitive types of permit applications. Clarify in the strategy how time spent on the review of permit applications and other processing tasks should be tracked and invoiced.
13. The CPRU Manager and the Chief Financial Officer should seek to identify an IT solution to ensure timely and accurate recording of invoices, payments and deposits. One option to consider is to use Valley Water's core financial management information system.
14. The CPRU Manager, in coordination with the Chief Financial Officer, should establish processes for invoicing and collection of payments that includes a robust framework of financial management internal controls, in particular the segregation of duties for billing and collections; cash management; monitoring of aging receivables; and reconciliation.



Section 2: Background and Methodology

Background

What is an Encroachment Permit?

An encroachment permit is permission from Valley Water for another party to enter, modify or use a Valley Water facility, its property or right-of-way. Examples of permitted activities include accessing Valley Water property to install a fiber optic line or pipelines that cross Valley Water facilities, collect fish for biological testing, erect a fence, cleanup litter and debris, construct and maintain a telecommunications tower or build a bridge over a local waterway.

To protect Valley Water Watersheds and Utility assets and interests from external activities and threats, the Water Resources Protection Ordinance² requires that Valley Water determine – through the permit review process – that the proposed activity meets nine requirements based on “substantial evidence” that the activity:

1. Will not impede, restrict, retard, pollute, change direction of the flow of water, catch or collect debris carried by such water;
2. Is located where natural flow of the storm and flood waters will not damage or carry any structure or any part there of downstream;
3. Will not damage, weaken, erode, cause siltation, or reduce the effectiveness of the banks to withhold storm and flood waters;
4. Will be constructed to resist erosion and siltation and entry of pollutants and contaminants;
5. Will not interfere with maintenance responsibilities or structures placed or erected for flood protection, water conservation or distribution;
6. Conforms to the requirements of the District Water Resources Protection Manual; and
7. Meets the purpose and intent of the District Act.
8. Issuance of the Encroachment Permit is in the public interest; and
9. Issuance of the Encroachment Permit will not result in conflict with or detriment to existing of planned District facilities.

² Appendix C provides more information about Valley Water’s Water Protection Ordinance.

Methodology

Scope of Work

The CPRU's delivery of encroachment permit services from FY2018 through FY2020 are the focus of this audit. Valley Water's ongoing effort to develop a new program to license or permit existing encroachments by residential property owners was not included in the scope of this audit; a separate audit of this program is included in the Annual Audit Work Plan of the Independent Auditor.

Project Approach

To determine if alternate permit processing activities could benefit Valley Water and to assess how Valley Water's permitting process compares with other local agencies, the Auditor performed activities using six methods described below.

- Review and analysis of the following policies, procedures, and documentation of the CPRU:
 - Position descriptions of CPRU and current responsibilities/duties.
 - CPRU policies and procedures related to encroachment permit processing, invoicing, inspections and other CPRU operations.
 - Valley Water's Water Resources Protection Ordinance, Manual, and Guidelines & Standards for Land Use Near Streams.
 - Valley Water's Encroachment Permit Application/Request for Real Estate Services, amendment application, and fence cost share application.
 - Valley Water website for encroachment permits.
 - Valley Water organizational charts.
- Interviews with CPRU staff responsible for processing encroachment permit applications and inspecting permitted projects, include:
 - CPRU Manager
 - Staff Analyst
 - Associate Engineers
 - Assistance Engineers
 - Resident Construction Inspector
 - Supervising Engineering Technician
 - Supervising Program Administrator
- Implementation of an online survey of encroachment permit holders to whom CPRU issued a permit in FY2020. The survey used CPRU-provided email addresses of permit

holders with a response rate of 30 percent (29 of 96 permit holders). The survey instrument and results can be found in Appendix A.

- Analysis of financial data including:
 - FY2021 Adopted Budget
 - Annual financial audit for FY2019
 - Data extracted from the CPRU database by CPRU staff showing the total dollar amount of fees for each permit issued in FY2018 to FY2020
 - Report showing the total dollar amount for each invoice from FY2018 to FY2020 (detailed fee data was not readily available)
 - Outstanding unpaid invoices and amounts as of January 2021
 - Valley Water salary tables
 - Data extracted from the CPRU database by Valley Water IT staff showing the number of hours billed for reviews conducted in FY20

- Analysis of permit data including:
 - QMR for FY2018 to FY2020 for measures owned by CPRU.
 - Data for permits issued in FY2018 to FY2020 extracted from the CPRU database by CPRU staff, including:
 - Pre-application content and disposition
 - Permit application content
 - Time to process the pre-application, application
 - Disposition of the permit application
 - Modifications to the application

- Research into eight local agencies' permitting practices, including three cities and counties in the Bay Area and five water agencies in California. Information on the types of permits issued, permit application requirements and submission methods, was collected from the City of San Jose, City of Santa Rosa, and Santa Clara County. Additional information on permit and inspection fees, communication practices with customers, insurance requirements, and methods for publicizing the agency's permit services were collected from five California water agencies: San Diego County Water Authority, Santa Margarita Water District, Metropolitan Water District, Imperial Irrigation District, and the Coachella Valley Water District. The water agencies were selected based on the following criteria:
 - Issues encroachment permits
 - Located in California
 - District boundaries include suburban areas
 - Website includes permit application

This performance audit used qualitative evidence, documentary evidence, and other performance information to assess the CPRU efficiency of the encroachment permit process. The

Auditor took additional steps to corroborate and substantiate qualitative information described in the report per generally accepted government auditing standards.

Assessment of the Reliability of Data

Section 9.2 of generally accepted government auditing standards require auditors to describe limitations or uncertainties with the reliability or validity of evidence if: (1) the evidence is significant to the findings and conclusions within the context of the audit objectives; and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions.

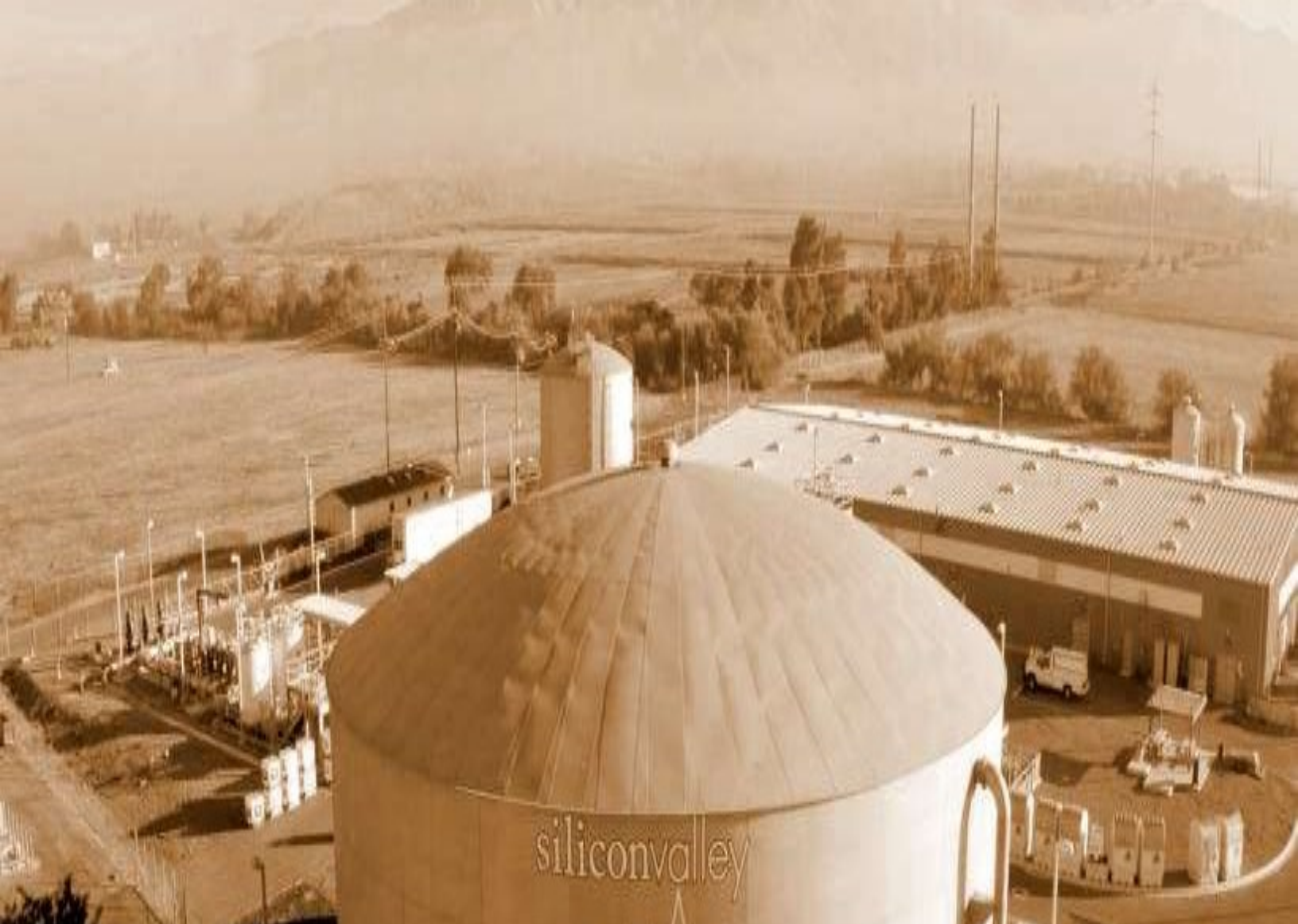
Auditors were unable to assess the integrity of the data extracted by staff from the CPRU database because electronic access to the CPRU's information system was not available.

Assessment of Internal Controls

Section 9.20 of generally accepted government auditing standards require auditors to assess the adequacy of internal controls if they are significant to the audit's objectives. The objectives of this performance audit did not require an internal control assessment, but policies and procedures and other controls were reviewed to identify potential improvements.

Audit Statement

The Auditor conducted this performance audit per generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. **A draft report was provided to the CPRU Manager. Comments were incorporated as applicable throughout the report. [See Appendix 1 for formal agency comments to the recommendations included in this report.] [To be included in the final report version, only.]**



Section 3: Key Findings

Finding 1: CPRU Provides Many Services to Protect Valley Water's Assets and Interests, Beyond Issuing Encroachment Permits; Some Overlap the Role of Other Valley Water Units

Demand for CPRU's services has fluctuated over the past ten years and at the time of the audit, demand was high. For FY2021 to-date, the number of submittals is on track to exceed 1,000 requests, a level last recorded in FY2011. Over the first three quarters of FY2021, CPRU reported already having received 845 requests for its services, including encroachment permits. CPRU staff attribute the increased demand to an increase in construction projects during the COVID pandemic.

In addition to processing permit applications, CPRU staff provide other services to protect Valley Water's watersheds and utility assets and interests. These services include:

- Performing flood plain analysis;
- Conducting CEQA compliance reviews;
- Providing technical assistance to local agencies in reviewing hydraulic analysis and other issues affecting local water ways;
- Managing and negotiate Joint Use Agreements with cities and the County for recreational use of Valley Water property;
- Communicating and serving as an intermediary with State and Federal agencies for designated projects/permittees;
- Providing preliminary project reviews to determine if a permit is required;
- Negotiating and preparing licenses, cost share agreements, and land rights transfers for non-capital projects;
- Operating the USA (Underground Service Alert) Desk;
- Maintaining Valley Water GIS showing Valley Water property rights; location of all CPRU files, suspected and verified un-permitted encroachments, Adopt-a-Creek information (available locations, un-adoptable areas and adopted areas) and locations of Joint Use Agreements;
- Archiving record drawings and update drawing database;
- Maintaining and correcting the DEED database;
- Annual updating of Valley Water land rights on assessor maps; and,
- Responding to public records requests, access Valley Water requests, and public inquiries related to flooding information, land rights, land use restrictions, and use of Valley Water right of way.

CPRU staff perform at least three services – performing real estate transactions, conducting CEQA reviews and performing flood analysis – that are consistent with the role of other Valley Water

Units within the Watersheds Department. First, CPRU will process most aspects of a real estate transaction, including negating the terms, if the transaction is needed to issue an encroachment permit, while others will request these services from the RESU depending on the expertise of the individual. In addition, CPRU is responsible for performing other RESU-related activities, such as negotiating and preparing licenses, cost share agreements, and land rights transfers for non-capital projects, including the preparation of Board agenda memos on real estate related activities, although individual staff involved said they will request the RESU's assistance to obtain appraisals and close escrow. Staff explained that CPRU traditionally leads the real estate estimate transaction if an encroachment permit is involved or if the customer wants to dedicated property to Valley Water rather than having RESU accept responsibility.³

Second, qualified CPRU staff reported performing CEQA compliance reviews, a service that staff explained can also be provided and is sometimes referred to the Environmental Planner. Similarly, some CPRU staff perform flood analysis – if they have the qualifications – while other CPRU staff refer the analysis to the Hydrology, Hydraulics and Geomorphology Unit. By having other Valley Water units perform these time-sensitive functions, which CPRU staff described as having delayed their reviews of other less time-sensitive permit applications, the workloads for CPRU could be reduced and focused on permit review and disruptions further minimized.

³ In a prior audit examining Valley water's real estate services, the audit presented to the Board a matter for consideration; to assess the feasibility of consolidating the delivery of Valley Water real estate services and permitting services by combining the RESU and CPRU into a single unit to leverage opportunities. RESU did not agree with the consolidation.

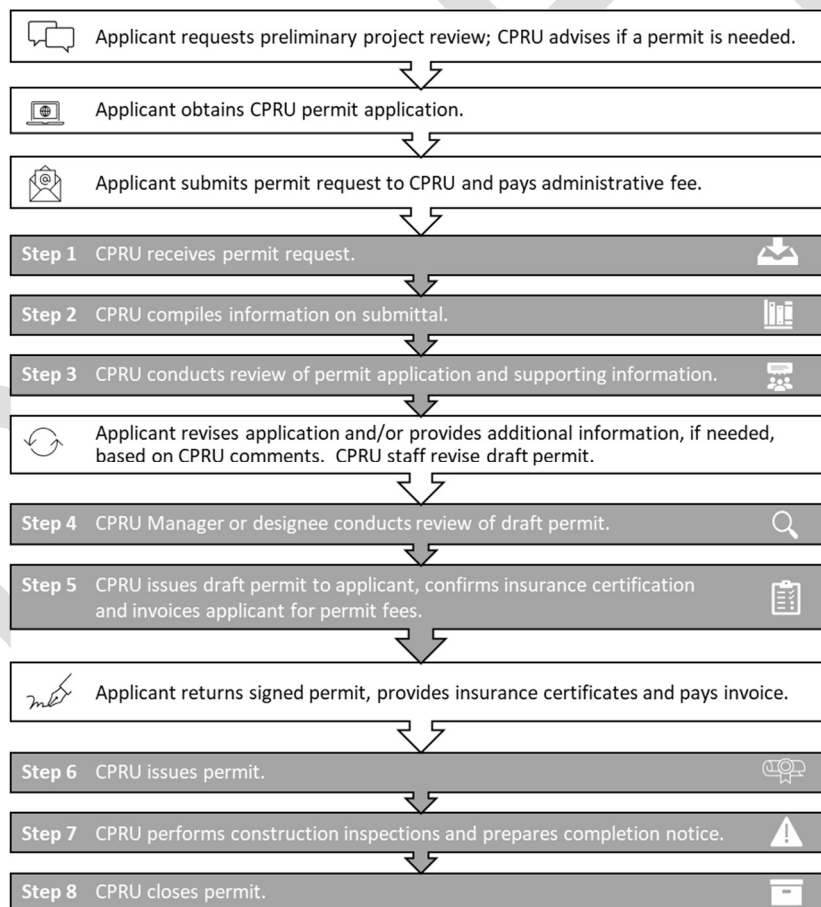
Finding 2: CPRU’s Permit Process Could be Better at Meeting Customer and its Own Expectations for Timeliness and Communication

Permittees Want Faster Permit Processing and Better Communication with Applicants

Valley Water’s permit process, shown in Figure 1, requires CPRU staff to collect, and share information from a variety of sources, including the applicant, Valley Water records, and

with other Valley Water units. Appendix B includes a more detailed description of the permit process, based on CPRU’s policies and procedures for permit processing.

Figure 1. Overview of the CPRU Permit Process⁴



To assess customer satisfaction with Valley Water’s encroachment permit process, the Independent Auditor surveyed applicants to whom CPRU issued encroachment permits in FY2018

⁴ Source: Independent Auditor analysis of CPRU policy and procedure “Review of Community Projects” effective date 6/11/2019 and interviews with CPRU staff.

to FY2020. Survey results show that almost two-thirds (62 percent) of 29 survey respondents reported overall satisfaction with Valley Water’s encroachment permit process, as shown in Figure 2 below.⁵ More than one-third (38 percent) of respondents reported their experience with the Valley Water Permit process was unsatisfactory. Staff reported that when CPRU receives complaints from applicants either directly by the customer or by communication from Valley Water Board members, the person receiving the complaint will attempt to address the applicants’ concerns.

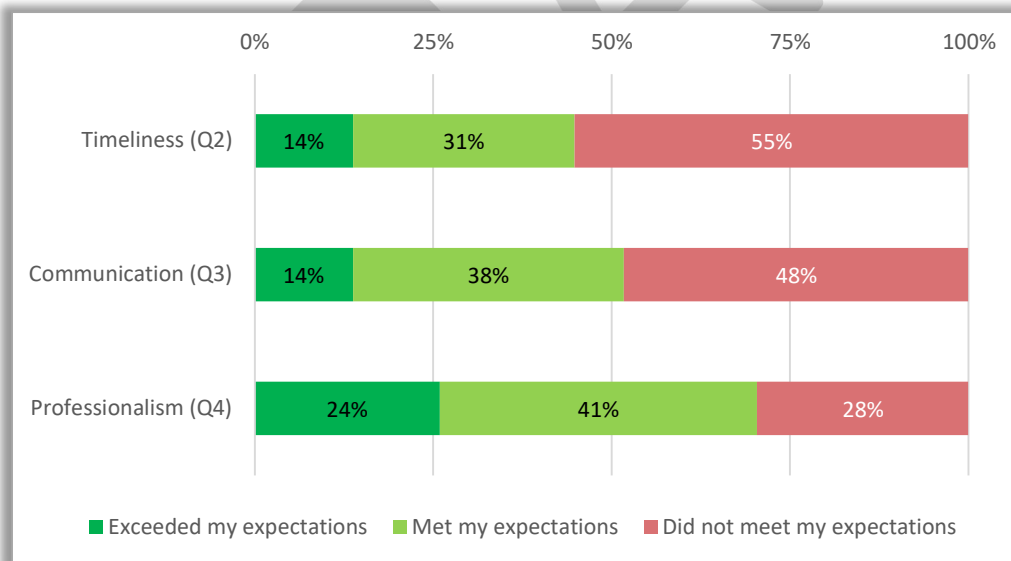
Figure 2. Customer Satisfaction with Valley Water’s Encroachment Permit Process (Q1)



Source: Independent Auditor survey of Valley Water customers issued permits in FY2020.

Survey results also show that CPRU did not meet about half of applicants’ expectations for timeliness (55 percent) and communication (48 percent), shown in Figure 3 below. However, most (65 percent) survey respondents said that Valley Water met or exceeded their expectations for professionalism, by providing courteous, clear, and complete answers to their questions regarding their permit application or the permit process.

Figure 3. Customer Satisfaction with Timeliness, Communication, and Professionalism of CPRU



Source: Independent Auditor survey of Valley Water customers issued permits in FY2020.

Survey respondents also offered their own suggestions for how Valley Water could improve its permit process. Eleven respondents asked for a faster review process and eight respondents asked for improved communication when permits are received and there are changes in the

⁵ Twenty-nine (29) of the 96 permit holders (30%) completed the voluntary survey, sent to the email address provided by the applicant. Appendix B contains the complete survey results. A survey was conducted because CPRU does not track customer complaints or collect other customer satisfaction data.

processing status. A respondent commented, “Everyone I have worked with at the Valley Water have been knowledgeable and helpful. Permit turnaround time has been measured in months instead of weeks for minor permits. There is not a process to let you know of the status of the permit.” And three respondents complimented CPRU, with one stating: “The CPRU office was great, they did an excellent job with processing my permit application.”

CPRU Has Mixed Success in Meetings Its Goals for Timely Permit Processing

CPRU has set the goal to review and issue an encroachment permit within six to eight weeks.⁶ Analysis of CPRU’s processing times for permits issued in FY2018 to FY2020 found that CPRU met the goal about half of the time,

when measured from the date of application submission. Although most applicants (84 percent) submitted a final project plan with their application, staff said that they must wait for this information to begin their review. When measured from the date the applicant had submitted the final project plan, CPRU met the goal for 61 percent of permits issued during FY2018 to FY2020, as shown in Figure 4. CPRU, overall, averaged a little over 13 weeks in FY2018 to FY2020 to issue a permit.

Figure 4. Timeliness of CPRU Permit Issuance

Processing Time	Submission of Final Plans to Permit Issuance			
	Number of Permits	Number of Permits	% of Total Permits	Cumulative %
Less than 4 weeks	136	160	35%	
4-6 weeks	47	55	12%	
6-8 weeks	61	65	14%	61%
8-12 weeks	56	63	14%	
12-16 weeks	50	42	9%	84%
16-20 weeks	19	15	3%	
20-24 weeks	19	12	3%	90%
More than 6 months	73	49	11%	100%
Total	461	461	100%	

Source: Independent Auditor analysis of CPRU staff extraction of data from the CPRU database. Permits were excluded from the analysis if data was missing for key processing dates.

Note: The analysis includes all permit applications for all types of projects submitted. Data provided to the Auditor by CPRU did not identify the complexity or size of the project, nor differentiate between those types of requests that would be expected to require minimal, if any, revisions to the initial request and those that would be expected to have re-submissions as the projects develops.

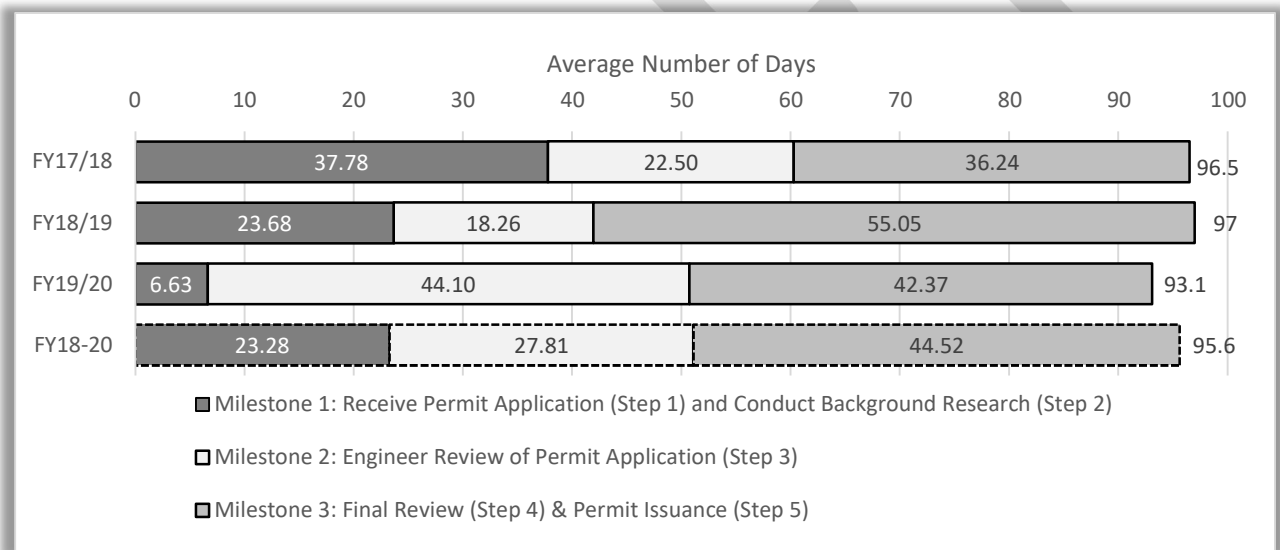
⁶ CPRU staff explained that review times will vary depending on the size and complexity of the project and available Valley Water staff resources. Large, complex projects are often submitted to CPRU during the project’s planning phase, staff reported, and it is assumed that applicants would not expect to receive a permit within the six-to-eight weeks of submission because the project is still in a planning phase.

Finding 3: Timeliness Concerns Attributed to Multiple Factors

Engineers Spend More Time Reviewing

While the time to complete the first two steps of the permit process declined by almost a month (a change of 31.15 days) as shown in Figure 5, the engineer review time increased by three weeks (a change of 21.6 days), which can be partially attributed to recent turnover and vacancies in the positions responsible for the initial steps in the permit process. The resulting vacancies led to the temporary shifting of some responsibility for compiling background information in step 2 to the engineers conducting the permit review in step 3. Similarly, three of the eight engineers responsible for these activities had a year or less experience at the time of the audit.

Figure 5. Days to Complete Steps of CPRU Permit Processing, from Receipt to Issuance, FY2018 to FY2020



Source: Independent Auditor analysis of CPRU staff extraction of data from the CPRU database. Permits were excluded from the analysis if data was missing for key processing dates.

Bottlenecks Occur at the End of the Permit Review Process

The final review and permit issuance activities were generally the longest part of the permit process and revealed a bottleneck in the process. As shown in Figure 5 above, the amount of time CPRU spent on the final steps in the permit issuance process (Steps 4 and 5) averaged about six weeks (44.52 days) over the three fiscal years. Staff attributed the “bottleneck” to the CPRU Manager having many other responsibilities in addition to being the sole person with the authority to sign the permits. Staff estimated it can take up to a week for the Manager to review to the draft permit and then additional time for staff to make any desired

changes or corrections, which the CPRU Manager again reviews. Staff said this process can be repeated if the draft permit is also reviewed by an Associate Engineer. To help address this bottleneck, the CPRU Manager reported that Valley Water management has recently authorized the conversion of a vacant Associate Engineer position into a new Senior Engineer position to assist the CPRU Manager with the review of drafts permits and correspondence.

Permit Applicants Experience Challenges in Meeting Insurance Requirements

Another factor attributed to longer processing times is the time required for applicants to obtain proper insurance documentation from their providers and submit that documentation to CPRU for subsequent approval. An applicant must submit the required insurance documentation along with any fees, before CPRU issues the final permit.⁷ Valley Water staff reported that applicants frequently struggle to provide the correct insurance documentation on the first attempt and often must contact their brokers for additional endorsements, delaying the issuance of the permit. Data was not available to assess the frequency or length of the delays to permit issuance caused by applicant struggles with the insurance requirement; CPRU does not track the number of permits that were delayed by applicants' efforts to meet the insurance requirements.

To prevent delays related to the submittal of required insurance documentation, CPRU staff said they take several actions. Staff will provide applicants with examples of the types of insurance documentation needed from insurance brokers during the review process; request applicants obtain the insurance documentation early in the application review process; and the CPRU Manager has plans to ask Risk Management to provide CPRU staff training on the insurance requirements.⁸

Some Permit Applications Are Not Recorded on a Timely Basis

Entry of permit applications into the CPRU Database is a key first step to timely processing & effective communication. Applicants can submit a permit application to CPRU using three different methods: (1) submitted via USPS mail to the CPRU; (2) emailed or mailed directly to an Associate or Assistant Engineer known to the applicant; or (3) submitted by email to the CPRU dropbox. Having three different methods for submitting applications creates challenges in their recording and tracking. Staff explained that historically, they enter an application into the CPRU database within 24 hours of receipt and distribute the

Entry of permit applications into the CPRU Database is a key first step to timely processing & effective communication. Applicants can submit a permit application to CPRU using three different methods: (1) submitted via USPS mail to the CPRU;

⁷ The encroachment permit application states: "Insurance: A certificate of insurance and additional insured endorsement acceptable to Valley Water must be provided prior to issuance of a Valley Water encroachment permit. Valley Water, its directors, officers, agents, employees, and volunteers must be named as additional insureds in the general, automobile liability, and worker's compensation insurance policies. Valley Water and the other foregoing individuals must remain as additional insureds until the later of: (i) the expiration for the Valley Water encroachment permit; or (ii) the completion of all of Applicant's activities on the Valley Water right-of-way. Specific requirements are shown on the Insurance Requirements information sheet (WF75113)."

⁸ The annual audit work plan of the Independent Auditor includes a separate review of Valley Water's insurance function and requirements.

applications with supporting information to the engineers up to one week of receipt, which the Independent Auditor verified through an analysis of the permit data for FY2020.⁹

Nonetheless, CPRU staff acknowledged that some permits are not entered on a timely basis into the CPRU database. This issue occurs when (1) an applicant emails their application directly to an engineer for review and does not also submit the application to the CPRU dropbox for entry into the CPRU database, or (2) the engineer begins the review process without forwarding the application for data entry into the system. CPRU staff explained that applicants will send their applications directly to them, with the hope of reducing the permit process review time. Staff have admittedly overlooked applications because they were not entered into the CPRU database, delaying its review and processing. To prevent unrecorded applications, the CPRU Manager has instructed staff to forward all applications to the CPRU dropbox and for staff to request that all applicants use the CPRU email address to ensure the application is sent to the CPRU dropbox.

Permit Review Activities Need Better Standardization and Clarity

CPRU needs to standardize and document current application review practices. Heavy workloads (as well as the challenges that come with working from home due to the pandemic and fires), staff explained, has made it difficult

to set aside time for less experienced staff to be trained on the permit process, limiting their ability to work independently, and resulting in more time spent on revising the work performed during the final review process. While CPRU has created templates for completing Adopt-a-Creek, fence cost shares, license/permits, and utility crossing permits, development of review checklists for use by newer staff can ensure consistency and completeness of the work. The CPRU Manager acknowledged the importance of updating the Unit's remaining policies and procedures but has not found the time for the update.

CPRU has not established criteria for the order in which applications will be reviewed, if exemptions to that criteria are allowed and under what special circumstances authority could be delegated from the CPRU Manager to issue a permit. Without criteria, staff reported interrupting their review of an application to work on another application designated as a "higher" priority, extending the review process for the now lower priority application. Finally, the lack of formal and documented processes for time-intensive activities, such as obtaining input from other Valley Water units, adds time to this portion of the review process. While some Valley Water units are very responsive to CPRU requests for input into the permit review process, other units do not have designated points of contact, causing staff to spend additional time identifying the correct person to provide input. Staff reported waiting several weeks to months for these units to provide their input because of the absence of agreements on expected completion dates. The policies and procedures provided also do not address under what special circumstances – such

⁹ While more than three weeks were needed to complete the first two steps in the permit process in FY2018, this declined to about 6 days in FY2020.

as absences or large workloads – that may require delegation of the authority from the CPRU Manager to issue permits.¹⁰

Further definition and standardization of the roles and responsibilities of each CPRU staff person in the permit review process could also reduce review times. Traditionally, CPRU divided the District into regions and assigned staff to be experts in that region of the District and responsibility for reviewing all permit applications, requests for technical assistance, joint use agreements, and other public inquires impact that region. Staff turnover and the high volume of requests for assistance has forced CPRU to move away from this model for assigning workloads. An option for an updated model would be to dedicate staff to the review of certain types of “straightforward” permits – as is already the practice for the Technical Support team to draft fence cost sharing and adopt-a-creek permits – to reduce review times for these permit types.

Permit Processing is Primarily a Manual Process

The current permit process is manual; a paper file is created and CPRU’s permit review and approval is based on the hard copy documentation. Manual processes are prone to processing errors and require extensive effort to manage manual record keeping systems. Staff further

spend time printing emails, maps and other documents that are submitted electronically by applicants to create and maintain a paper file for each permit application.

In addition, limitations of the current permitting database have necessitated manual processing. For example, paper files must be created because the database only allows one PDF document to be uploaded for each file, requiring staff to consolidate all the supporting documentation into that single PDF for storage in the application. Accessing that uploaded documentation is difficult, staff said, because they cannot search the database. The database also does not support an electronic workflow of the permit process. For example, staff cannot use the database to send messages to applicants on the status of their application, on which staff reported dedicating, on average, half an hour or more each day sending emails or retuning phone calls to update applicants on their applications’ status.

Many of CPRU’s records are also stored only in physical files. Despite a recently completed effort by staff to create an electronic inventory of the boxes of the physical files, staff described their continuing efforts to search through file boxes to locate the desired permit file and then search again to find additional files of oversized as-built drawings and plans.

Valley Water has initiated efforts to replace the current CPRU database with an enhanced document storage and management system; the replacement of the CPRU database is one of two pilot projects planned before implementing the system agencywide. Desired features of a new system, in addition to those identified by CPRU staff above, include an information technology (IT) solution to automate applicant submission and entry of the application into the

¹⁰ The Water Resources Protection Ordinance defines the Permit Authority as, “District employee designated by the CEO to make decisions regarding the issuance of encroachment permits.”

CPRU database or its replacement and allowing applicants to self-check the status of their applications reducing time spent preparing correspondence.

Valley Water's IT management said the replacement system will be implemented during the summer of 2021 and can be configured to address some but not all CPRU desired features.¹¹ The new system is a cloud-based document management system (ECM) that will be configured to automate the workflow of Valley Water's permit process. The new system can also provide workflow management for documents, analytics dashboards and time tracking but does not have an invoicing function, a feature of the current CPRU database. IT management also plans to implement a new Customer Resources Management (CRM) system, as a tool for all Valley Water units, to use to communicate with external customers. IT management said further research is needed to determine if and how the systems can send notifications to permit applicants during the review process. Until the new ECM and CRM systems interface, CPRU may need to record information on a permit's status into both systems because the new document management system cannot be used on its own to send communications to customers.

CPRU Does Not Consistently Plan for

Renewal of regular consultations with Water Resources Protection Collaborative members could help CPRU plan ahead and minimize any disruption or delays to other permit applications from larger, tight-deadline or time-intensive development projects. CPRU could conduct outreach with cities and other owners of properties adjacent to the District to identify upcoming large projects and pre-plan for the permits and other agreements, such as real estate transactions, to ensure these proposed projects will meet the requirements of the Water Resources Protection Ordinance. This type of advanced planning was the intent of the Collaborative that developed the *Guidelines* and Water Resources Protection Ordinance in 2005-2007, but a decade later and turnover of the Collaborative participants has led to a need for Valley Water to renew its efforts. Also, CPRU does not have a system in place to manage and monitor the status of its joint use agreements of Valley Water property. For example, Valley Water allowed an agreement with the City of San Jose to expire in FY2019 despite a QMS performance standard to monitor that "agreements with responsible partner agencies are in place for appropriate public access to District facilities."

¹¹ CPRU is one of two Valley Water units being used to pilot the new document management system, which IT plans to eventually implement throughout Valley Water.

Finding 4: Local Agencies’ Strategies Could Benefit Valley Water

Some Agencies Utilize Online Customer Service Portals to Upload Permit Application and to Check Permit Status

Information was collected from eight local agencies on their permit processes and tools. Three cities have created online portals that allow applicants to submit a permit application and/or upload supporting documentation and for applicants to obtain information about the status of their applications. These three localities estimated a two-to-four-week time frame for the initial review, after all supporting documentation is submitted, although the localities qualified that additional review time may be needed for complex projects. By automating the submission process, the online portal or a similar tool helps to reduce the chance of an application being overlooked.

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As shown in Figure 6 below, the five water agencies we contacted issue encroachment permits and all report using similar methods as Valley Water for applications submission; like Valley Water, none used an online portal. Reported times for permit processing varied across the five agencies, with Valley Water’s estimate falling in the middle. An official at one agency said they typically process permits within two weeks of submission, while another agency informs applicants that a minimum of four months is needed to complete the permit process for a “straightforward” permit such as day use of agency property. Agency staff explained that additional time is needed to process permits for land uses that require real estate transactions, review of construction plans for facilities such as solar farms or the development of housing. Most agencies said that the COVID pandemic had increased their processing times.

Figure 6. Estimated Permit Processing Times from Other California Water Agencies

Agency	Estimated Permit Processing Time
Valley Water	6-8 weeks
Other Water Agencies	4-12 weeks
	2 weeks
	4-6 months
	3-4 weeks
	4 weeks (30 days)

Source: Independent Auditor interviews with staff from water agencies.

One Agency Uses a Project Coordinator to Facilitate Communication and Timely Processing

One agencies used a slightly different model for communicating with the permittee in comparison to Valley Water. The agency assigns an Engineering Technician to serve in the role of project coordinator. The Engineering Technician coordinates the Engineer’s review of the

technical aspects of the proposed activity, real estate services, input from other departments, manages the records, and serves as the point of contact for the applicant, and is responsible for all communication with the applicant to allow the Engineers more time to work on the technical reviews. At Valley Water, the Engineers assigned to review the application also serves as the project coordinator, because CPRU only has one Engineering Technician position, reducing the amount of time an Engineer has to work on their technical reviews.

Other Agencies Identify Themselves Differently; Renaming CPRU May Avoid Confusion

Some CPRU staff, when discussing the challenges they face in coordinating the permit review process with other Valley Water units and applicants, said the name CPRU – Community Projects Review Unit – hindered rather than helped explain what the Unit does,

creating confusing within Valley Water and among applicants who try to find the correct Valley Water unit responsible for permit processing.

As shown In Figure 7 below, four of the five units within other agencies have property, real estate, or right-of-way in their name because the two functions – issuing encroachment permits and executing real estate transactions – both require an assessment of the impact of the proposed activity on the District’s property rights and authorized uses of the District’s property.

Figure 7. Comparison of Unit Names Responsible for Permit Processing

Agency	Unit Names Responsible for Permit Processing
Valley Water	Community Projects Review Unit
Other Water Agencies	Property Management Group
	Engineering
	Secondary Land Use, Real Property Group
	Real Estate Section, Operational Resources
	Right-of-Way Division

Other Agencies Outreach Annually to Publicize Agency’s Permit Services

To publicize their services, two water agencies we contacted proactively contact owners of property adjacent to the District using two different methods to publicize their permitting services and prevent unintentional violations.

When ownership of adjacent property is transferred, one agency said they send a letter to the buyer and real estate agent explaining any restrictions and easements on the subject property. This agency said that although their property interest is on the title report, buyers often do not understand the implications. Another agency said, on an annual basis, they send a general letter to adjacent property owners to remind owners to seek permission for a variety of common uses of District property. CPRU does not conduct this type of outreach.

Finding 5: Update Needed for Fee Schedule and Cost Recovery Strategy

Valley Water Recovers Only a Small Percentage of CPRU's Operating Costs from Permit Fees and Other Services

Many local water agencies, like Valley Water, own a large amount of property adjacent to the waterways and facilities that provide and deliver water to their customers. Prior to authorizing the use of their property for other activities, Valley

Water's Water Resources Protection Ordinance requires the agency to assess the impact of the proposed use and make certain findings, prior to using an encroachment permit for the use of its lands.¹² Water agencies may charge for the cost of processing the encroachment permit application, as well as the use of its lands for permitted activities.

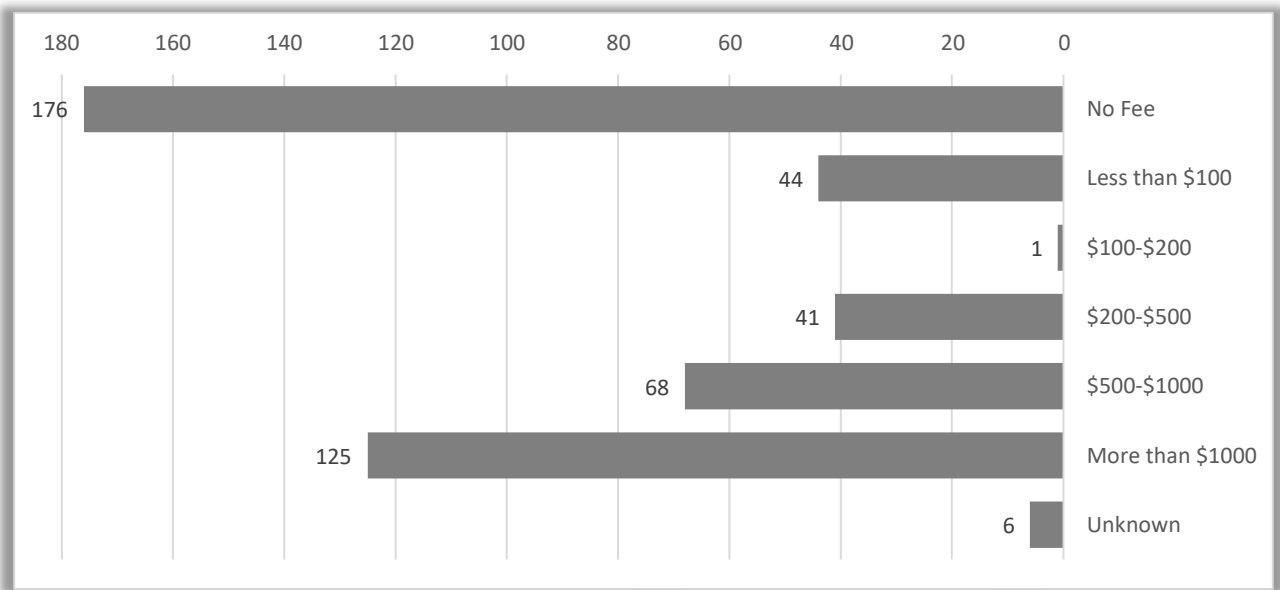
Water agencies generally do not recover their total costs from the activities they permit on their lands because they typically grant exemptions from the payment of fees to other public agencies and for certain permitted activities on its lands. For example, Valley Water exempts the following activities from payment of fees, including the cost of processing an encroachment permit:

- Adopt-a-Creek permits.
- Fence cost sharing permits.
- Temporary pedestrian access for environmental studies, sampling, surveying, and organized events.
- Activities covered by agreements with other public agencies where there is already an exchange of benefits such as public access for recreational purposes allowed through joint use agreements.
- Preliminary reviews by CPRU staff to determine if a permit is required for the proposed activity.
- Public safety (such as fire and police) emergency or investigatory access involving crime or public safety (excluding training exercises).

As shown in Figure 8 below, over the three-year period FY2018 to FY2020, Valley Water did not charge a fee for 38 percent of 461 permits issued by CPRU. About 27 percent of the permit issued had more than \$1,000 paid in permit fees, including 10 permits that had fees of more than \$10,000.

¹² In accordance with the Water Resources Protection Ordinance and Resolution No. 10-86, the District may recover certain costs to administer permit and other real property transactions. All services provided by District staff must be tracked by pay period for each billable project. All billable hours tracked on this form will be billed to the customer.

Figure 8. Amount of Fees Paid for Permits Issued FY2018 to FY2020.



Source: Independent Auditor analysis of permit data extracted by CPRU staff from the CPRU database.

While Valley Water recovers only a small percentage of the CPRU budget from its permit fees and other invoiced services, there could be opportunities to close the revenue and expense gaps. When compared to its budget, payments for CPRU invoiced fees ranged from 7.2 to 11.5 percent of CPRU’s budget for salaries and benefits. When compared to the CPRU’s total budget, the total payments from CPRU invoices represent about 4.5 to 6.8 percent. As shown Figure 9, \$106,000 to over \$195,500 represent the majority of invoiced fees (except in FY2018). Of the total amount invoiced by CPRU for its services, in FY2020, about 78 percent were fees for issued permits. The remaining invoiced fees were from floodplain analyses or right-of-way transactions.

Figure 9. Fees Comprise a Small Percent of CPRU’s Budget

	FY2018	FY2019	FY2020
CPRU Budget			
CPRU Budget	\$4,309,258.00	\$5,201,835.00	\$5,572,103.00
CPRU Salaries & Benefits	\$2,579,041.00	\$3,145,541.00	\$3,462,948.00
Revenue from Permit Fees & Invoices for All Services			
Total Permit Fees for Issued Permits	\$106,043.14	\$159,414.75	\$195,527.21
Total Payments from CPRU Invoices for All Services (includes Permits, Floodplain analyses, Right of way transactions)	\$292,673.12	\$197,579.03	\$249,450.18
Permit fees as a percent of all invoiced fees	36.2%	80.7%	78.4%
Fee Payments as a Percentage of CPRU Budget			
Total Payments/CPRU Budget	6.8%	3.8%	4.5%
Total Payments/CPRU Salaries & Benefits	11.4%	6.3%	7.2%

Source: Independent auditor analysis of CPRU Invoices, Permit Fees, and Valley Water Budgets.

Updating Valley Water's Fee Schedule, Based on a Fee Study, Could Help Ensure Appropriate Cost Recovery

Local agencies rely on fee schedules to help establish various charges for service. To ensure the public agencies receive adequate compensation, these fee schedules are periodically updated to reflect changes in the costs of services. Local agencies typically

review and update their fee schedules on a regular basis, including their fees for permit services. Despite increases in regional property values and administrative costs, Valley Water's permit fee schedule was last updated a decade ago, in 2011, and Valley Water has not established a mechanism to ensure it is periodically reviewed and updated.¹³ The CPRU Manager plans to work with Valley Water Financial Management and Planning Services to initiate the process to update the standard fee schedule.

Presently, Valley Water's current filing fee for an encroachment permit is \$250.¹⁴ The fees of other local water agencies are \$100, \$250, \$300, \$320, and \$500. Compared to other local water agencies, Valley Water's administrative processing fee for permit applications is the same as another local water agency but \$50-\$250 less than three other water agencies and about \$150 more than a much smaller water agency.

A key cost of processing permits is the salary costs of the staff providing the services. While not a comprehensive fee study, an analysis of Valley Water's salary costs for CPRU staff to perform the administrative activities required to process an encroachment permit found that \$250 may not be sufficient for these costs given that CPRU staff generally spent more time than the minimum estimated on these activities¹⁵. As shown in Figure 10 below, CPRU staff spend an estimated three to eight hours on the administrative activities. Using the salary ranges for the CPRU staff that currently perform these activities, the cost of the administrative activities is estimated to range from about \$195 to more than \$1,022 depending on the staff that perform the activities. This estimate does not include the cost to Valley Water for the equipment and other supplies that also add to the cost to conduct these administrative activities.

¹³ An audit of Valley Water's real estate services recommended, to enhance Valley Water's fiscal performance and asset management strategy, that the CEO should (a) conduct an annual review of the fee schedules maintained by Valley Water to ensure that the fees cover the costs to lease, license, and permit the use of its, and (b) shorten the duration and establish regular fee adjustments on future longer term lease agreements.

¹⁴ Water Resources Protection Ordinance section 2.3.1 states "All applications must be accompanied by a filing fee in an amount established by the Board."

¹⁵ Fee studies are conducted to help public agencies determine appropriate rates; a fee study examines the full costs of providing a service and identifies which costs are eligible for recovery through fees.

Figure 10. Estimate of Valley Water’s Administrative Costs to Process a Permit Application

Steps in Permit Process Related to Administrative Activities		Hourly rate		Staff Estimate of Hours Spent on Task		Estimated Salary Cost of Administrative Activities (Range)	
		Min	Max	Min	Max	Min	Max
Step 1	Receive Permit Application (Engineering Technician)	\$37.21	\$47.63	1	2	\$37.21	\$95.26
Step 2	Compile Background Information (Sup. Engineering Technician & Engineering Technician)	\$37.21	\$65.68	2	10	\$74.42	\$656.80
Step 4	Conduct Final Review of Draft Permit (Engineering Manager)	\$79.05	\$100.94	0.5	1	\$39.53	\$100.94
Step 5	Issue Permit and Update Records (Staff Analyst)	\$44.25	\$56.61	0.5	1	\$44.25	\$169.83
TOTAL Administrative activities				4	14	\$195.41	\$1,022.83

Source: Analysis of Valley Water salary tables and interviews with CPRU staff.

Updated Guidance for Billing for Staff Time Spent Reviewing Permits is Needed

In addition to the application filing fee, CPRU charges applicants for time spent to review the activity proposed in the permit application. Neither the Water Resources Protection Ordinance and Manual, nor the

CPRU policies and procedures, provide guidance for the billing for staff review time. Generally, the time invoiced is about two hours even when time incurred could be more.

Analysis of time tracking records from FY2020 generally supports the CPRU staff’s assessment of their practices to invoices a standard set of hours.¹⁶ CPRU recorded two hours or less time for most reviews, regardless of whether the time was recorded as billable (83%) or non-billable (76%), as shown in Figure 11 below. Of the 32 reviews where CPRU staff recorded both billable and non-billable hours, eight of the 32 records (25 percent) had more than two hours of billable time entered.

Figure 11. Distribution of the Number of Billable and Non-Billable Hours per Review, FY2020

Number of Hours Per Record	Billable Hours Only	Non-Billable Hours Only	Both Billable and Non-Billable Hours
2 hours or less	132 (83%)	125 (76%)	24 (75%)
2 to 10 hours	23 (14%)	33 (20%)	7 (22%)
10 or more hours	4 (3%)	6 (4%)	1 (3%)
Total	159	164	32

Source: Independent Auditor’s analysis of data provided by CPRU, which was extracted by IT from the CPRU database.

¹⁶ The number of records with no time recorded was not provided.

Staff reasoned that permit applicants should not be charged for the extra administrative time it takes to locate the historical files needed for the review due to its ineffective records management, as discussed in previously in this report. While CPRU has begun to digitize and organize these historical files, progress has been slow because CPRU has chosen to review each file before it is scanned. Valley Water IT management said the implementation of a new document management system during the summer of 2021 should address the limitations of the current CPRU database and physical files. Other reasons staff do not charge for their actual time spent on permit processing include:

- Less experienced staff are not expected to charge applicants for the additional time it takes for them to become familiar with the history of the Valley Water location, facilities, and prior permitted activities.
- CPRU's policies and procedures do not incorporate risk management principles in its permit review. Every permit application has the same level of review, regardless of risk proposed by the activity.
- The administrative burden of having to enter their time in two systems, staff explained, did not justify the entering small amounts of review time for billing.
- Staff has tried to simplify time tracking and reporting for other Valley Water units that participate in the permit review process, but these efforts have not been successful in collecting the time spent by other units for billing purposes. Data was not available to assess the frequency with which other Valley Water units submitted their time spent on permit reviews and for which CPRU staff then invoiced the applicant.
- Individual CPRU staff expressed concern that if they were to invoice for the actual time they spend on each review, applicants would not be willing to pay the additional costs beyond the filing fee and would complain to the Board.

Rather than billing for a set amount of time for each permit review, an alternative approach would be to establish risk-based criteria for the minimum information required to complete a permit review, especially for low-risk activities or repeat types of permit requests. For example, staff said many permit applications from utility companies request similar types of access and present the same types of risk although the locations differ. The repetitive nature of these permit applications could be used to establish the minimum information needed for a permit review for this type of permit, potentially reducing processing times and processing costs.

An alternative to using the new system planned to replace the current CPRU database for invoicing, would be to record in the financial system the gross fees for all time charged and associated costs for the services provided, and then adjusts the fees for invoicing purposes. Although the invoice sent to the customer shows the net fees due only, using the financial system could provide Valley Water better information for revenue and cost recovery analysis.

Other Local Water Agencies Charge Hourly Rate Instead of Flat Fee for Inspections

Once a permit has been issued, depending on the type of permitted activity, Valley Water will schedule inspections at the location of the permitted activity to ensure compliance with the terms of the permit, guided by the Water

Resources Protection Ordinance and Manual. Staff reported that two inspections – typically a preliminary, pre-activity inspection and a second, post-activity inspection – are scheduled and conducted by one full-time inspector. The permittee is generally charged a flat fee for up to two inspections although some larger projects require additional inspections.¹⁷

CPRU staff explained that their flat fee of \$125 per inspection may not cover the actual cost of inspecting a permitted project because the amount of time spent on each inspection varies by the type, complexity, and location of the project. For example, staff described complex projects that required several hours and more than two inspections to review the plans, property, and completion of the paperwork. As shown in Figure 12 below, if the inspector spends more than two hours on an inspection, Valley Water has not recovered its salary costs (nor other materials costs) of the inspection.

Figure 12. Salary Cost for Inspections

Cost to Inspect Permitted Activities		Salary Cost (Hourly rate)		Staff Estimate Hours Spent on Task		Estimated Salary Cost of Performing Inspection (Range)	
		Min	Max	Min	Max	Min	Max
Step 6	Inspection (Resident Construction Inspector)	\$50.06	\$64.07	2	10	\$100.12	\$640.70

Source: Independent Auditor’s analysis of data provided by CPRU.

None of the local water agencies researched for this audit charged for inspections using a flat fee. To account for the differences in inspection requirements among permitted activities, other local water agencies reported that they charge an hourly rate for inspections instead of a flat fee. When the agency issues the permit, the agency collects a deposit based on the inspector’s estimate of the types of inspections and time needed to perform the inspections. If the estimated cost exceeds the actual cost of the inspection, the agency returns the unused funds to the permit holder after the last inspection.

¹⁷ CPRU staff explained that the CPRU database does not track the number of inspections and a manual count of inspection forms would be required to determine the number performed per project.

Finding 6: Robust Internal Control Framework Needed to Ensure Accurate and Timely Invoicing and Collection of Fee Payments

Internal controls provide reasonable assurance that the objective of a business process, like invoicing for a service provided, will be consistently and properly performed. The audit found that CPRU does not have an automated billing and collection function nor strong internal controls.¹⁸ The issues identified include:

- Manual preparation of invoices for some public agencies.
- Incomplete tracking of all time spent on a permit.
- Absence of documented invoicing and revenue collection policies and procedures.
- Absence of controls to ensure that eligible permits have been invoiced and issued to the agency.
- Improper segregation of duties. Typically, the responsibility for the billing and collection of payments are assigned to multiple staff persons to ensure the proper execution and handling of invoices and payments. Within CPRU, the Staff Analyst is responsible for all financial management functions including the billing, collection and recording of the payments for invoiced services. Similarly, the Staff Analyst is responsible for the handling all aspects of the key deposits, which are required when CPRU gives a permit holder a key to gain access to Valley Water property to perform an activity. Proper segregation of duty would have one staff person accept and record the deposit and another process the return of the key and the permit holder's deposit.
- Absence of system and financial reconciliation. Reconciliation is another internal control used to ensure that payments have been properly collected and recorded, in particular when the permit system and Valley water financial system do not interface and automatically detect errors or other discrepancies. Staff reported that they had not been instructed to reconcile the payments records in the CPRU permit system with the records of the Valley Water financial system.

The absence of strong financial management controls has led to absence of recording and payment of invoices for two public transportation agencies that obtained permits from Valley Water. An undetermined number of invoices were not entered in the CPRU database; and some were never mailed and paid, resulting in a lost revenue opportunity although the magnitude of the financial loss is unknown. The CPRU Manager explained that the retirement of the CPRU staff

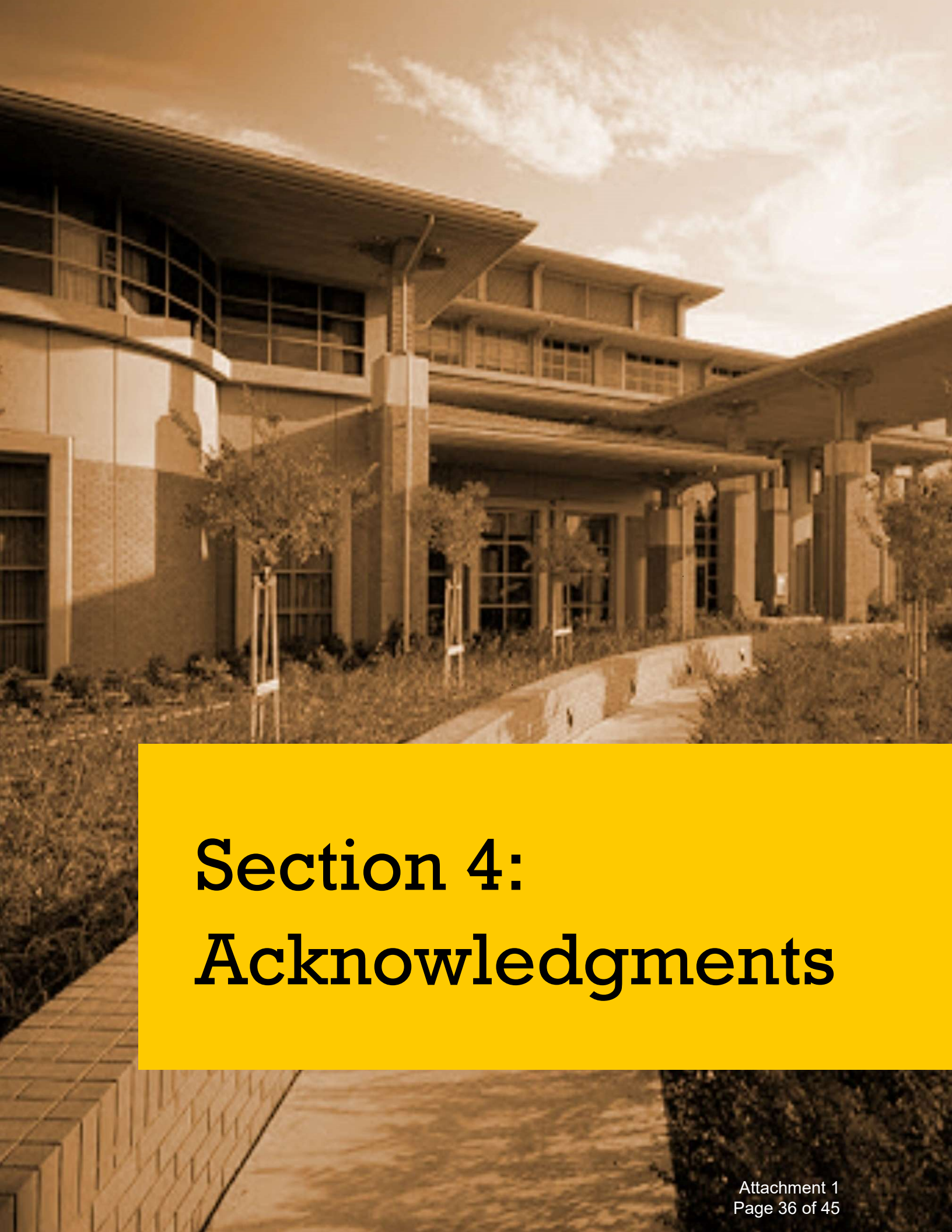
¹⁸ Staff explained that they use the CPRU permit system to input data, create an electronic invoice, and maintain a file record of those invoices, but they manually complete other activities, such as tracking the data used to generate the invoice, invoice approval, recording the receipt of invoice payments, and monitoring unpaid invoices.

responsible for managing the invoices, and the assignment of other staff to critical tasks, led to the oversight of these invoices.¹⁹

At the time of our review, CPRU implemented immediate action to initiate a process to reconcile the paper-based invoices with the CPRU database and seek payment for the outstanding invoices according to Valley Water agreements with the agencies. In addition, the Chief Financial Officer initiated efforts to work with CPRU to help strengthen internal controls to ensure accurate and timely invoicing and fee payments.

Valley Water's IT management said that the new document management system that will replace the CPRU's database will not have an invoicing function although time can be tracked. The new document management system will not be configured to interface with Valley Water's new financial management (ERP) system to allow CPRU to generate invoices. Potential use of Valley Water's new core financial management system to generate invoices and track and record payments (including key deposits) will help CPRU in its efforts to establish a robust internal controls framework and improve its financial reporting.

¹⁹ CPRU did not provide information on the number of invoices that were not entered in the CPRU database. For invoices that were entered into the CPRU database, at the end of December 2020, CPRU reported there were 15 unpaid invoices totaling \$13,831. Staff reported that for invoices recorded in the CPRU database, the system can generate a list of unpaid invoices and provides an automated alert to staff when an invoice is unpaid. However, staff must manually create and send via email a separate reminder to the customer if an invoice is not paid.



Section 4: Acknowledgments

ACKNOWLEDGMENTS

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

- Community Projects Review Unit
- The Board of Directors
- Staff from other local agencies

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Appendices

APPENDIX A: Anonymized Survey Responses

**Valley Water
Customer Satisfaction Survey
Community Projects Resources Unit**

****CONFIDENTIAL SURVEY****

Please help us improve Valley Water's permit services by completing this 60-second survey about your experience by **January 15, 2021**. You received this survey because Valley Water identified you as having recently requested a permit to perform work or initiate activity on property owned by the Santa Clara Valley Water District.

Valley Water has contracted with TAP International to conduct this survey. To learn more about TAP International, go to <https://tapinternational.org/>. If you would like to speak to us directly, please contact Denise Callahan or Kate Kousser of TAP International at 916.549.0831.

All responses will be kept confidential and identifying information removed.

OK

1. How would you rate your overall experience with the Valley Water permit process?

- Excellent
- Very Good
- Satisfactory
- Unsatisfactory
- Does not apply

Answer Choices	Percent of Responses	Number of Responses
Excellent	21%	6
Very Good	17%	5
Satisfactory	24%	7
Unsatisfactory	38%	11
Does not apply	0%	0
Total	100%	29

2. Did Valley Water process your permit application within a reasonable amount of time?

- Exceeded my expectations
- Met my expectations
- Did not meet my expectations
- Does not apply

Answer Choices	Percent of Responses	Number of Responses
Exceeded my expectations	13.79%	4
Met my expectations	31.03%	9
Did not meet my expectations	55.17%	16
Does not apply	0.00%	0
Total	100%	29

3. Did Valley Water staff keep you adequately and consistently informed of the status of your permit application?

- Exceeded my expectations
- Met my expectations
- Did not meet my expectations
- Does not apply

Answer Choices	Percent of Responses	Number of Responses
Exceeded my expectations	13.79%	4
Met my expectations	37.93%	11
Did not meet my expectations	48.28%	14
Does not apply	0.00%	0
Total	100%	29

4. Did you receive courteous, clear, and complete answers to your questions regarding your permit application or the permit process?

Exceeded my expectations


Met my expectations

Did not meet my expectations

Does not apply

Answer Choices	Percent of Responses	Number of Responses
Exceeded my expectations	24.14%	7
Met my expectations	41.38%	12
Did not meet my expectations	27.59%	8
Does not apply	6.90%	2
Total	100%	29

5. How could Valley Water improve the permit process?

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See how easy it is to create a survey.

Answers to Question 5:

- The permit process is straight forward. What needs improvement is the way important information about field conditions and related observations are brought into the greater understanding of environmental conditions, their impact on the community, and methods for bringing to compliance issues that compromise the public safety and security.
- In my experience the permit took a very long time to get.

- I think staff did a good job on processing the encroachment application. The only reason I marked them down on #3 is that it would be nice if the system would confirm receipt of the application so I know it is being worked on. Otherwise, great job!
- Faster reviews, more timely responses.
- Everyone I have worked with at the Valley Water have been knowledgeable and helpful. Permit turn around time has been measured in months instead of weeks for minor permits. There is not a process to let you know of the status of the permit.
- Permit review process takes too long of time and feels unorganized.
- The application was applied for in June 2020 and was issued on Sept. 2020. Invoices and photos were submitted for reimbursement in Oct. 2020 and the District contact person was notified with a phone call on the same day. As of January 2021 still awaiting reimbursement. The only individual who has been helpful in this process, [omitted] who after being contacted for the second time on the timing of the reimbursement contacted me to advise me of the status and timing of when a check might be issued. COVID is no excuse for the lack of response and delays that were encountered. A timely response to the application and reimbursement, to at a minimum meet the District's own published timeline would be a start to improving the process.
- Provide an online status of permits, increasing staff to address projects in a timely manner, etc.
- Assigned permit engineer did not communicate at all for a very routine request after repeated follow-ups, application stated 2 weeks, yet it took nearly 3 months after escalating to supervisor.
- The CPRU office was great, they did an excellent job with processing my permit application.
- speed up the process...have all comments back at the same time. Took almost a year to get permit.
- Clear explanations of fees, reasonable fees (their automatically escalating annual fee in public ROW is outrageous), permit issuance in a timeframe similar to surrounding agencies.
- Speed up the approval/review process. The process took about 6 months to complete and did not get a proper response time from the technician after numerous calls and emails
- Speed it up. I did not receive my permit in time for work prior to start of rains - which were way late this year.
- Expedite it. Return phone calls.

APPENDIX B: Detailed Description of Valley Water's Permit Process

Before the formal permit process begins, a prospective applicant must determine if their planned project or activity will adversely affect Valley Water facilities, property, or right-of way by requesting a preliminary review by CPRU to assess whether the proposed project or activity is feasible and will require a permit. If a permit is required, the applicant must submit project related documentation, such as engineering plans, federal or state environmental permits obtained from other agencies, biological assessments, and as-builts drawings. The permit application states that an application is not considered complete until the applicant has submitted, "all the information, drawings, reports, and other documents required by Valley Water" that show "that the proposed work will not adversely impact Valley Water's interests, including without limitation, the hydraulics, hydrology, structural integrity, maintenance, and property rights of Valley Water's right-of-way."

Permit processing then proceeds with three steps: Step 1 - record receipt of the application and Step 2 - compile all pertinent background information about the affected CPRU property and update the District's GIS layers to show the application. For Step 2, CPRU Technical Support staff compile information from multiple sources: CPRU's records about the affected property, current assessor's parcel maps, registered well information, and District GIS layers. The CPRU Manager or designated Associate Engineers assign projects (permit application and the project plans) to CPRU's Asset Protection Support staff. For Step 3, the Asset Protection Support staff – comprised of Engineers – conducts additional research, coordinates the review of the proposed work by other Valley Water units, and reviews the application and file to ensure that the permit will meet Valley Water's conditions, land rights, CEQA compliance, and insurance requirements. If the permit requires a real estate transaction, the Engineer will negotiate and prepare licenses, cost share agreements, and land rights transfers for non-capital projects, and may also review the HSLA, plats and description, deed language, appraisals, title reports, and preparation of CEO approval Board agenda memo. Applicants then revise the permit application, if needed, based on the comments from Valley Water reviewers.

The Engineer's review of the permit may require extra steps to gather more information from applicants regarding the project, or to obtain input from other Valley Water units to assess the impact of the planned project on Valley Water facilities, property, or right-of-way. Once the Engineer has completed their review, the Engineer updates the CPRU database, prepares a draft permit and invoice, and submits the package to the CPRU Manager for review. If an assistant Engineer prepared the draft permit, an Associate Engineer may first review the draft and return to the Assistant for further revisions. Step 4 includes the review and approval of the draft permit by the CPRU Manager, and then in Step 5, the Staff Analyst sends the draft permit to the applicant for signature with the invoice for payment and submission of the insurance requirements. During the COVID pandemic's work-from-home orders, CPRU adopted the use of DocuSign to allow electronic signature of documents. The CPRU Manager signs the draft permit, making it effective,

after the applicant has returned the signed permit, payment for the invoice, and insurance certificates. In Step 6, CPRU's Resident Construction Inspector performs the inspections as required by the permit. Finally, under Step 7 and upon completion of the permitted work the Staff Analyst under Step 7 obtains and files as-built plans of any permitted work and updates the CPRU database with the status of the permitted work. A separate unit within CPRU is responsible for enforcement of unpermitted activities, which were outside the scope of this audit.

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APPENDIX C: Permits & Valley Water's Water Resource Protection Ordinance

Representatives from Valley Water, 15 cities, Santa Clara County, business, agriculture, streamside property owner and environmental interests formed the Water Resources Protection Collaborative in 2002 to clarify and streamline local permitting for streamside activities. In 2005, the Collaborative developed (and Valley Water later adopted) the *Guidelines & Standards for Land Use Near Streams* to guide permitting activities by public agency members of the Collaborative. The *Guidelines* describe 11 permitting tools for Valley Water and other Collaborative members to follow when issuing encroachment or streamside construction permits, including highlighting steps for coordination between the applicant, permit authority (such as Valley Water, the County or one of the 15 member cities) with Valley Water and each other regarding the water resources impact of the proposed activity. Other permitting tools in the *Guidelines* include exempted land uses, definitions of a stream and bank, questions to illicit information to be provided by the applicant about the project and on plans submitted to the permit authority. The Collaborative last updated the *Guidelines* in July 2006.

In 2007, Valley Water adopted the Water Resources Protection Ordinance, so that a Valley Water permit is only required when a person enters, modifies, or otherwise uses a Valley Water facility, property, or right-of-way. Prior to the Ordinance, for construction and activities near streams, applicants were required to obtain a permit from Valley Water regardless of whether the planned construction or activity would impact District facilities or land rights. If the construction or activity does not affect Valley Water's facilities or land rights, then the applicant is only required to obtain a permit from a local land use agency (either a city or the county, if unincorporated). Local land use agencies, staff explained, will often consult with CPRU when the agency receives permit applicants that could affect local waterways.

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Santa Clara Valley Water District

Community Projects Review Unit (CPRU) Performance Audit Draft Results Presentation

APRIL 21, 2021



TAPInternational

Background

Acknowledgements



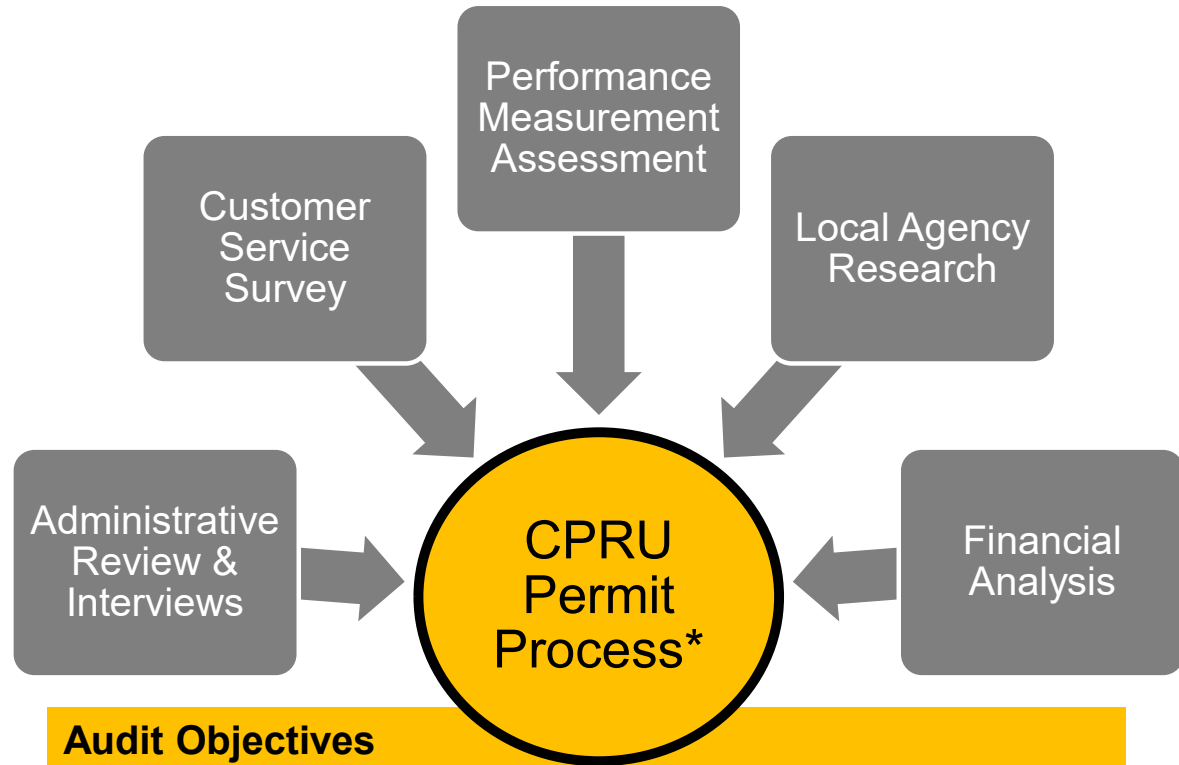
... *thank you* ...

TAP International wants to thank the **Community Projects Review Unit** for their participation in this audit. We greatly appreciate their candor and contributions.

We also thank the Valley Water **permit holders and other local agencies** that provided information for this audit.

Background

Audit Objectives & How the Audit was Conducted




Audit Objectives

1. Determine if alternate permit processing activities benefit Valley Water; and,
2. Assess how Valley Water’s permitting process compares with other local agencies.

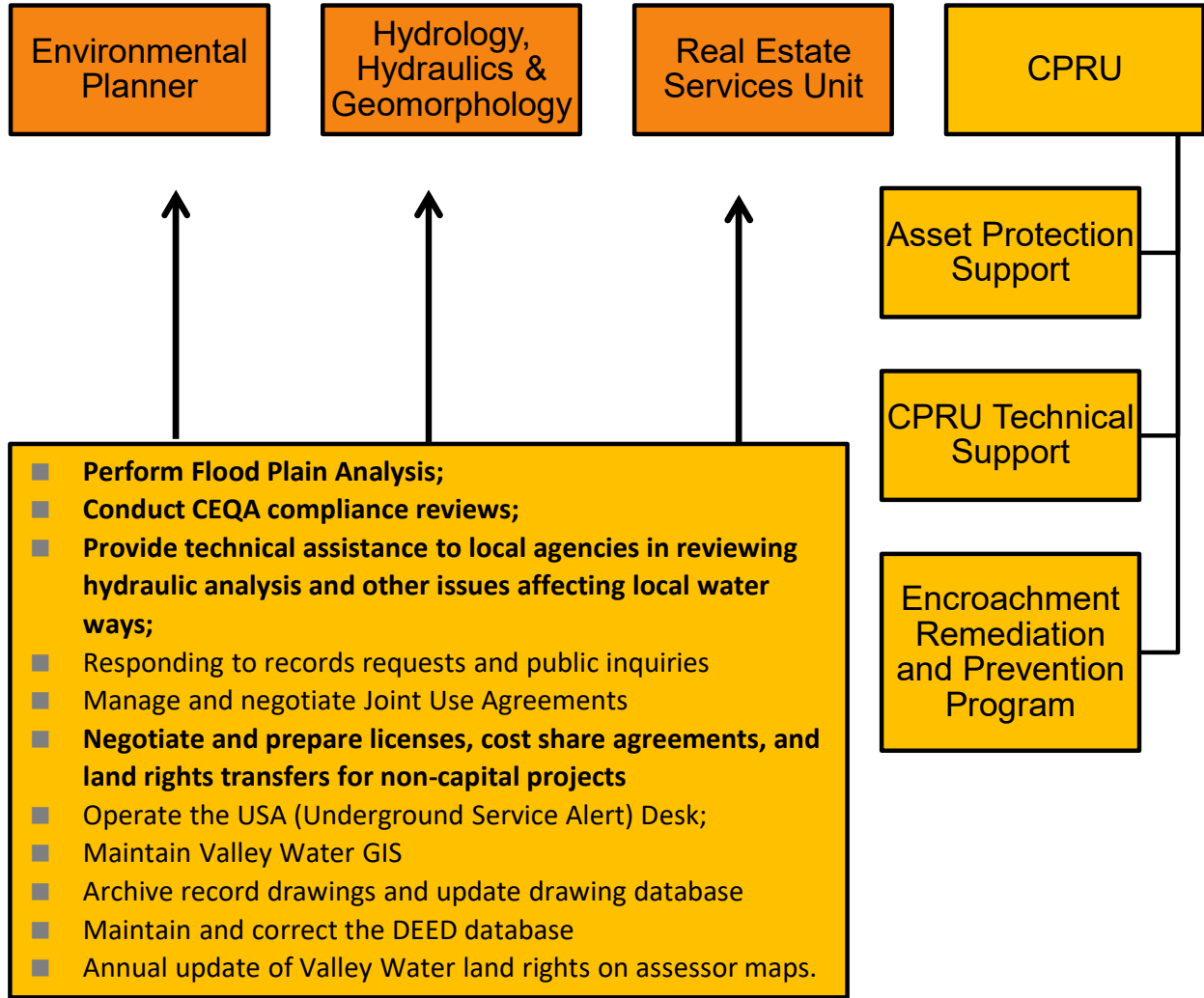
* New program for existing encroachments was outside scope of this audit.

Opportunities to Improve Permit Process

- 
- 1 CPRU Provides Many Services to Protect Valley Water Assets Beyond Issuing Permits
 - 2 Permit Process is Not Meeting Expectations for Timeliness & Communications
 - 3 Alternate Strategies for the Operational Structure Can Improve Timeliness & Communications
 - 4 Local Agencies Alternative Strategies Could Benefit Valley Water
 - 5 Update Needed for Fee Schedule and Cost Recovery Strategy
 - 6 Robust Internal Controls Framework Needed for Invoicing and Payments

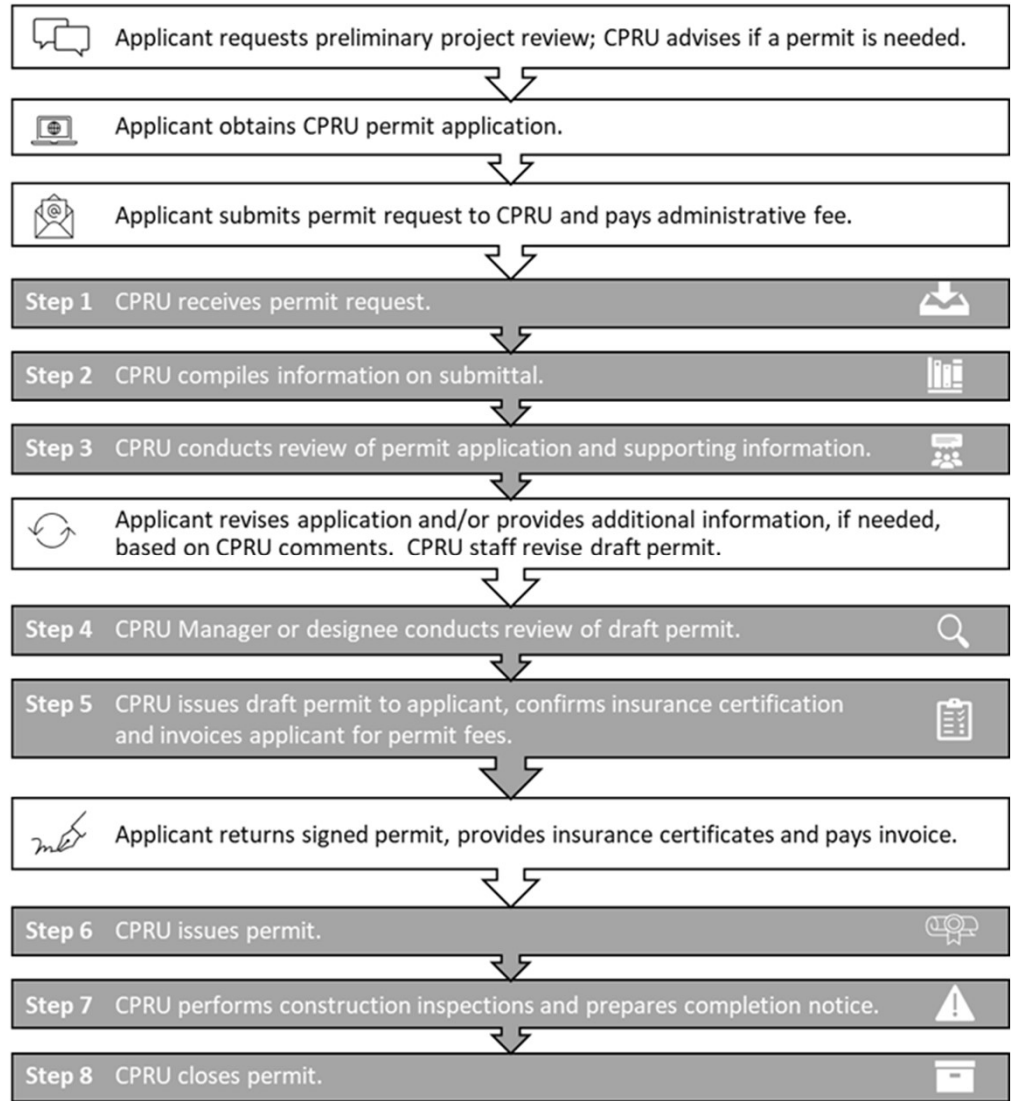
Finding #1

CPRU Provides Many Services Beyond Permit Processing; Some Overlap



Finding #2

Permit Process Could Be Better at Meeting Customer and Its Own Expectations for Timelines and Communication



Finding #2

Permittees Want Faster Permit Processing and Better Communication with Applicants



Source: Independent Auditor survey of Valley Water customers issued permits in FY20.

Finding #2

CPRU has Mixed Success in Meeting its Goals for Timely Processing



Processing Time	Submission of Final Plans to Permit Issuance			
	Number of Permits	Number of Permits	% of Total Permits	Cumulative %
Less than 4 weeks	136	160	35%	
4-6 weeks	47	55	12%	
6-8 weeks	61	65	14%	61%
8-12 weeks	56	63	14%	
12-16 weeks	50	42	9%	84%
16-20 weeks	19	15	3%	
20-24 weeks	19	12	3%	90%
More than 6 months	73	49	11%	100%
Total	461	461	100%	

Source: Independent Auditor analysis of CPRU staff extraction of data from the CPRU database. Permits were excluded from the analysis if data was missing for key processing dates.

Finding #3

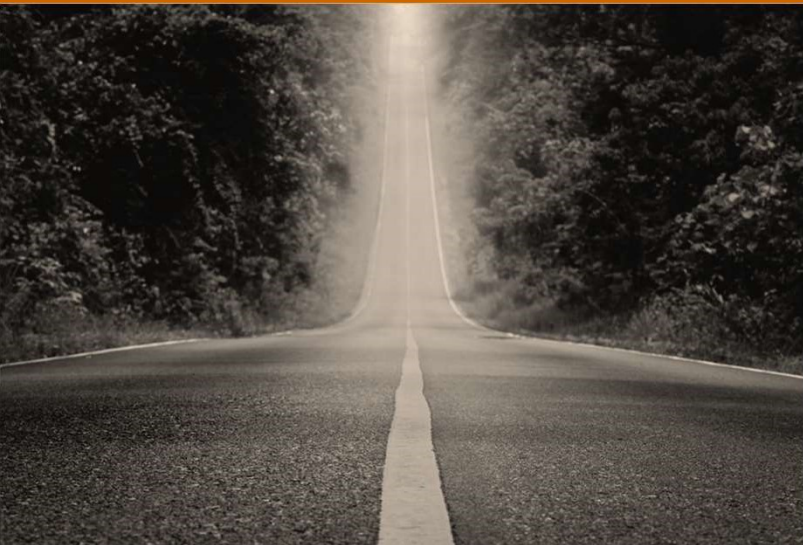
Timeliness Concerns Attributed to Multiple Factors



- Engineers Spend More Time Reviewing Permits.
- Final Review Step Can Act as a Bottleneck.
- Compliance with Insurance Requirements Can Delay Permit Issuance.
- Some Permits Not Recorded on a Timely Basis.
- Standardize and Formally Document Permit Review Activities.
- Processing is Primarily Manual.
- More Consistency in Planning for Large Reviews.

Finding #4

Local Agencies' Strategies Could Benefit Valley Water



- Online portals to upload application and check permit status.
- Project coordination model used to facilitate communication and timely processing.
- Renaming may avoid confusion over unit name.
- Annual outreach to adjacent & new owners to publicize services.

Finding #5

Update Needed for Fee Schedule and Cost Recovery Strategy



- Cost recovery is small percentage of operating costs.
- Many Valley Water permit applicants pay no fees.
- Permit fee schedule was last updated in 2011.
- Fee Study is used to ensure desired cost recovery.
- Updated guidance for billing practices for staff time.
- Other local agencies use hourly rate approach to inspections.

12


Finding #6

Robust Internal Control Framework Needed for Accurate and Timely Invoicing and Payments



- Strong internal controls framework needed for consistent and proper performance
- Issues:
 - Manual preparation of invoices for some public agencies
 - Incomplete time tracking
 - Absence of policies and procedures
 - Improper segregation of duties
 - Lack of reconciliation
- TBD: IT solution for invoicing when new system to replace CPRU database is implemented.

Summary of Recommendations

- 
- 1 The Watersheds' Chief Operating Officer should consolidate overlapping functions between CPRU and other Valley Water units.
 - 2 The CPRU Manager should complete standardization of permit review policies, practices, roles, and responsibilities.
 - 3 The CPRU Manager should develop and implement a training program that includes various courses on permit processing, customer service and risk management.
 - 4 The CPRU Management should establish criteria for the order in which permit applications will be reviewed, authority for process exemptions and special circumstances to delegate permit authority.

Summary of Recommendations



5

The CPRU Manager should assign customer liaison responsibilities to help meet customer expectations.

6

The CPRU Manager, in collaboration with Valley Water Information Technology Unit, should continue efforts to identify and implement the solutions for desired functionality needed to strengthen permit processing.

7

The CPRU Manager should renew regular consultations with other member agencies of the Water Resources Protection Collaborative to allow CPRU to plan for upcoming large land review development requests and to establish a process for monitoring the status of existing agreements.

Summary of Recommendations



8

The CPRU Manager, in coordination with the Valley Water Risk Management Unit Manager, should develop communication strategies to make it easier for applicants and insurance brokers understand Valley Water's insurance requirements.


9

The CPRU Manager, with the assistance of the Watershed's Chief Operating Officer, should explore the feasibility of adopting strategies of other local agencies to promote their permit services.

10

Valley Water's CEO, with approval of the Board, should consider setting a goal for cost recovery from fees charged for permit services.

Summary of Recommendations

- 
- 11 The CPRU Manager, in coordination with the Valley Water Chief Financial Officer, should update the current fee schedule based on the results of a fee study.
 - 12 The CPRU Manager should adopt a risk-based permit review strategy to reduce processing time for low-risk, repetitive types of permit applications.
 - 13 The CPRU Manager and the Chief Financial Officer should seek to identify an IT solution to ensure timely and accurate recording of invoices, payments and deposits.
 - 14 The CPRU Manager, in coordination with the Chief Financial Officer, should establish processes for invoicing and collection of payments that include robust framework of financial management internal controls.



TAPInternational



Santa Clara Valley Water District

File No.: 21-0411

Agenda Date: 4/26/2021
Item No.: 5.1.

COMMITTEE AGENDA MEMORANDUM

Board Audit Committee

SUBJECT:

Receive an Update on the Status of the 2021 Risk Assessment.

RECOMMENDATION:

Receive an update on the status of the 2021 Risk Assessment.

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 an 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.

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.

At the March 9, 2021 Board meeting the Board authorized staff to extend TAP International's current agreement by 3 months to expire on September 30, 2021. This will allow adequate time to complete the 2021 Risk Assessment.

Following initiation of the Risk Assessment, the Committee may receive and discuss the status of the on-going risk assessment until it is completed.

ATTACHMENTS:

Attachment 1: Progress Report

File No.: 21-0411

Agenda Date: 4/26/2021
Item No.: 5.1.

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

TAP *International, Inc*

Project Progress

Overall Status: ● On Track

Project Name: Risk Assessment

Date: April 16, 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

- Coordinated with A. Mendiola and VW staff to collect stakeholder contact information. Mr. Mendiola reached out to VW Divisions and is serving as the liaison for receipt of stakeholder contact information. Pending receipt of additional stakeholder information, 146 individual stakeholders have been identified to date from the following 116 organizations. Individual stakeholders appeared on lists provided for nonprofit grantees (67), public agency partners (21), water retailers (13) and water supply consultants (38).

Alliance for Water Efficiency
AM Conservation Group Inc
Association of the Los Altos Historical Museum
Bachrodt Elementary PTA
Baker Home and School Club
BAWSCA
Bay Area Maranatha Christian Center
Bay Area Older Adults
Bay Area Ridge Trail Council
BayQWEL
Better World Advertising
Breathe California
CALIFORNIA H2ORTICULTURE SERVICES
California Water Efficiency Partnership (CalWEP)
California Water Service Company
Children's Discovery Museum of San Jose
Citizens for Environmental and Economic Justice
City of Campbell
City of Cupertino
City of Gilroy
City of Los Altos
City of Milpitas
City of Monte Sereno
City of Morgan Hill
City of Mountain View
City of Palo Alto
City of San Jose

City of Santa Clara
City of Santa Clara
City of Saratoga
City of Sunnyvale
Clean Water Fund
Coastal Habitat Educational and Environmental Restoration
Comcate
Committee for Green Foothills
Community Express
County of Santa Clara
Downtown Streets Team
Droplet, LLC
EBMUD
Echo Church
Ecology Action
EKI Environment & Water, Inc.
Elizabeth F. Gamble Garden
Environmental Volunteers, Inc.
Evergreen Islamic Center
Friends of Los Alamitos Watershed
FRIENDS OF MASTER GARDENERS OF SANTA CLARA COUNTY
Friends of Stevens Creek Trail
G3 Gardens Group
Gilroy After Hours Rotary Club
Gilroy Compassion Center
Girl Scouts of Northern California
Global Sun Landscape
Grassroots Ecology
Great Oaks Water Company
Green Evolution
GreenTown Los Altos
Guadalupe River Park Conservancy
Hazen and Sawyer
Heart of the Valley, Services for Seniors, Inc.
IISME, dba Ignited
IntelliScience Training Institute
Interpersonal Frequency, LLC.
Keep Coyote Creek Beautiful
Latimer Home and School Club
Living Classroom
Local Government Commission
Maine Technology
Marshmallow Minds
M-Cubed
Mid Peninsula Open Space District
NASA Ames (NASA)
Our City Forest

PitStop Outreach
Purissima Hills Water District
Red-White & Blue Charity
SACRED HEART COMMUNITY SERVICE
San Francisco Bay Bird Observatory
San Francisco Bay Wildlife Society
San Jose Conservation Corps
San Jose Municipal Water System
San Jose State University Research Foundation
San Jose Water Company
Santa Clara County Parks
Santa Clara University
Santa Clara Valley Chapter of the California Native Plant Society
Santa Clara Valley Habitat Agency
Santa Clara Valley Open Space Authority
Save the Bay
Saved By Nature
Science from Scientists
SCIENCE IS ELEMENTARY INC
Sherwood Design Engineers
Silicon Valley Bicycle Coalition
Smart Yards Education Foundation
South Bay Clean Creeks Coalition
South Bay Historical Restoration Foundation
Stanford Conservation Program
Stanford University Utilities Division
Stevens & Permanente Creeks Watershed Council (Acterra)
Sunday Friends Foundation
Sustainable Silicon Valley
The River Otter Ecology Project
The Tech Museum of Innovation
Town of Los Altos Hills
Town of Los Gatos
Trout Unlimited
Trust for Conservation Innovation (WaterNow Alliance)
UC Regents Santa Cruz
University of California Cooperative Extension
UPSTREAM
Veggielution
Vision New America, Inc.
Waterfluence, LLC.
Youth Outside

NOTE: More complete lists were requested to include stakeholders from the following groups:

- Major construction project contractors
- State and federal agency partners

- Members of VW Board Advisory Committees, Joint Committees and External Committees (non-VW Board of Director members)
- Recipient organizations of Board approved sponsorships
- Developed survey questions for phase 1 to identify emerging risks.

Key Activities Planned for the next month

- Receive additional stakeholder information related to sponsorships and VW construction contractors
- Pre-test the survey
- Prepare information for VW Divisions and Units that provided contact information about the upcoming survey and whom to contact if inquiries are received
- Administer the survey