



## Santa Clara Valley Water District Board Audit Committee Meeting

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

### 10:00 AM REGULAR MEETING AGENDA

Wednesday, January 22, 2020  
10:00 AM

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

**BOARD AUDIT COMMITTEE**

Barbara Keegan, Chair, District 2  
Nai Hsueh, Vice Chair, District 5  
Gary Kremen, District 7

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

DARIN TAYLOR  
Committee Liaison

MAX OVERLAND  
Assistant Deputy Clerk II  
Office/Clerk of the Board  
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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.**

**Santa Clara Valley Water District  
Board Audit Committee  
10:00 AM REGULAR MEETING  
AGENDA**

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Wednesday, January 22, 2020

10:00 AM

Headquarters Building Conference Room A-124

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**1. CALL TO ORDER:**

1.1. Roll Call.

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

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

**3. APPROVAL OF MINUTES:**

None.

**4. ACTION ITEMS:**

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

[20-0127](#)

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

Manager: Michele King, 408-630-2711

Est. Staff Time: 5 Minutes

4.2. Conduct Annual Self-Evaluation.

[20-0039](#)

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

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: BAC Self-Evaluation Framework](#)

Est. Staff Time: 5 Minutes

**5. INFORMATION ITEMS:**

- 5.1. Review and Update 2020 Board Audit Committee Work Plan. [20-0022](#)
- Recommendation: A. Review the 2020 Board Audit Committee Work Plan; and  
B. Discuss topics of interest raised at prior Board Audit Committee Meetings and make any necessary adjustments to the Board Audit Committee Work Plan.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: 2020 BAC Work Plan](#)
- Est. Staff Time: 5 Minutes
- 5.2. Board Independent Auditor Report Update - TAP International, Inc. [20-0023](#)
- Recommendation: A. Discuss the Annual Audit Work Plan and update, if necessary; and  
B. Discuss the status of on-going audits.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: Annual Audit Work Plan](#)  
[Attachment 2: Progress report Real Estate Jan 22 submittal](#)  
[Attachment 3: Progress report TO16 1-22-20 submittal](#)
- Est. Staff Time: 10 Minutes
- 5.3. Final Draft Management Response for the Contract Change Order Audit Conducted by TAP International, Inc. [20-0081](#)
- Recommendation: Discuss the Final Draft Management Response to Draft Contract Change Order Audit Report.
- Manager: Tina Yoke, 408-630-2385
- Attachments: [Attachment 1: Management Response](#)
- Est. Staff Time: 10 Minutes
- 5.4. Discuss Scope of Annual Audit Training from Board Independent Auditor. [20-0047](#)
- Recommendation: Discuss Scope of Annual Audit Training from Board Independent Auditor.
- Manager: Darin Taylor, 408-630-3068
- Est. Staff Time: 5 Minutes

- 5.5. Discuss the Scope and Approach of the Ad-hoc Desk Reviews. [20-0033](#)
- Recommendation: Discuss the Scope and Approach of the Ad-hoc Desk Reviews.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: HR work plan-submttl](#)  
[Attachment 2: Grants work plan - submttl](#)  
[Attachment 3: Brd agda prcss work pln -sbmttl](#)
- Est. Staff Time: 5 Minutes
- 5.6. Receive and Discuss Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance. [20-0032](#)
- Recommendation: Receive and Discuss Board Auditor Activity Report from TAP International, Inc. to Evaluate Board Auditor Performance.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: SCVWD Independent Auditor Annual Performance](#)
- Est. Staff Time: 5 Minutes
- 5.7. Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract with TAP International, Inc. [20-0035](#)
- Recommendation: Receive and Discuss Financial Analysis Regarding the Board Independent Auditing Services Contract with TAP International, Inc.
- Manager: Darin Taylor, 408-630-3068
- Attachments: [Attachment 1: Financial Analysis](#)
- Est. Staff Time: 20 Minutes
- 6. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.**  
*This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.*
- 7. ADJOURN:**
- 7.1. Adjourn to Regular Meeting at 12:00 p.m., on February 19, 2020, in the Santa Clara Valley Water District Headquarters Building Board Conference Room A-124, 5700 Almaden Expressway, San Jose, California.



# Santa Clara Valley Water District

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**File No.:** 20-0127

**Agenda Date:** 1/22/2020

**Item No.:** 4.1.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

Election of 2020 Board Audit Committee Chair and Vice Chair.

**RECOMMENDATION:**

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

**SUMMARY:**

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

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

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

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

Officers of the Committee include the Committee Chair and Vice Chair, who serve as the Committee's primary and secondary facilitators and representatives. The Committee Chair and Vice Chair are elected by the Committee annually.

**ATTACHMENTS:**

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**File No.:** 20-0127

**Agenda Date:** 1/22/2020  
**Item No.:** 4.1.

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None.

**UNCLASSIFIED MANAGER:**  
Michele King, 408-630-2711



# Santa Clara Valley Water District

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**File No.:** 20-0039

**Agenda Date:** 1/22/2020  
**Item No.:** 4.2.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

Conduct Annual Self-Evaluation.

**RECOMMENDATION:**

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

**SUMMARY:**

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

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

The BAC Charter states that at least annually, the Committee shall conduct an evaluation of its performance to determine whether it is functioning effectively and to discuss with the Independent Auditor any observations related to the effectiveness of the Committee. The Committee shall prepare a formal report based upon each such self-evaluation and shall provide such report to the full Board following its adoption by the Committee.

The Annual Board Audit Committee Self-Assessment (Attachment 1) is provided to serve as a framework for the BAC to conduct a self-evaluation.

**ATTACHMENTS:**

Attachment 1 - BAC Self-Evaluation Framework.

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068





**ANNUAL BOARD AUDIT COMMITTEE SELF-ASSESSMENT**

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

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

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

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

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

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<b>Continuous monitoring</b>			
20. BAC has enough time and resources to carry out member responsibilities delegated by the Board of Directors.			
21. BAC determines whether audit recommendations have been implemented by VW management.			

**Comments**

**Suggestions:**





# Santa Clara Valley Water District

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**File No.:** 20-0022

**Agenda Date:** 1/22/2020  
**Item No.:** 5.1.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

Review and Update 2020 Board Audit Committee Work Plan

**RECOMMENDATION:**

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

**SUMMARY:**

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

The 2020 Board Audit Committee Work Plan is included in Attachment 1.

**ATTACHMENTS:**

Attachment 1: 2020 Committee Work Plan

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068



# BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
<b>Board Audit Committee Meeting Dates</b>														
1	Meeting Dates	•	•	•	•	•	•	•	•	•	•	•	•	On-going.
<b>Board Audit Committee Management</b>														
2	Review and update BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	On-going. Schedule open discussion as needed for topics of interest raised at prior BAC meetings.
3	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•	Full Board approved Annual Audit Work Plan on 6/25/19.
4	Prepare risk assessment tri-annually													Next Risk Assessment scheduled to be completed in October 2021.
5	Evaluate Board Auditor performance												•	Board Auditor Activity Report to be provided January 2020.
6	Provide status report to full Board quarterly													Report to be provided to Board in non-agenda the month after each BAC meeting.
7	Discuss scope of annual independent auditor training	•												Scheduled for first meeting in 2020.
8	Receive training from independent auditor annually		•											Scheduled for February 2020.
9	Conduct self evaluation annually	•												Scheduled for first meeting in 2020.
10	External Financial Auditor meeting with individual Board members													Schedule as needed.
<b>Board Audit Committee Special Requests</b>														
11	Review staff CAS update every 6 months				•									On-going. Combined with Procurement/CAS Mgmt. Audit Review.
12	QEMS & ISO Overview and Continuous Improvement Methodology Benchmarking Analysis			•										Provide overview of QEMS Process Improvement post ISO de-certification and provide benchmarking analysis for 2020.

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

# BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
13	Ad-hoc Desk Reviews	•												Discuss scope and approach for the following ad-hoc desk reviews: (1) hiring practices; (2) grant management; and (3) agenda preparation.
14	TAP International, Inc. Contract Budget Analysis	•												Discuss remaining budget and work to be performed for TAP International, Inc. contract to expire on 05/08/2020.
<b>Management and 3rd Party Audits</b>														
15	Review QEMS Annual Internal Audit Report		•											Scheduled for early 2020.
16	Participate in financial statement audit procurement process													Next procurement scheduled for January 2022.
17	Review draft audited financial statements										•			Financial auditor to present and contact Board members.
18	Review Procurement/CAS Management Audit Report				•									
19	Water Utility Fund Audit													Revenue/Cost Allocation audit between North/South zones.
20	Valuing Water as an Asset					•								Update on Research Valuing Water as an Asset
21	Review Contract Change Order Audit Report							•						Provide periodic update on progress being made since audit recommendations were provided.
<b>Audit - Change Order</b>														
22	Review Response to Change Order Audit Final Draft Report	•												
<b>Audit - District Counsel</b>														
23	Review District Counsel Audit Progress Report	•												On-going until audit complete.
24	Review District Counsel Audit Draft Report Presentation													

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**BOARD AUDIT COMMITTEE 2020 WORKPLAN**  
January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
25	Review Response to District Counsel Audit Final Draft Report													
<b>Audit - Real Estate</b>														
26	Review Real Estate Audit Progress Report	•												On-going until audit complete.
27	Review Real Estate Audit Draft Report Presentation													
28	Review Response to Real Estate Audit Final Draft Report													
<b>Audit - Construction Project Management (Tentative)</b>														
29	Receive notification of initiated Construction Project Management Audit													
30	Review Construction Project Management Audit Progress Report													On-going until audit complete.
31	Review Construction Project Management Audit Draft Report Presentation													
32	Review Response to Construction Project Management Audit Final Draft Report													
<b>Audit - Supervisory Control and Data Acquisition (Tentative)</b>														
33	Receive notification of initiated Supervisory Control and Data Acquisition Audit													
34	Review Supervisory Control and Data Acquisition Audit Progress Report													On-going until audit complete.
35	Review Supervisory Control and Data Acquisition Audit Draft Report Presentation													
36	Review Response to Supervisory Control and Data Acquisition Audit Final Draft Report													
<b>Audit - Permitting Best Practices (Tentative)</b>														
37	Receive notification of initiated Permitting Best Practices Audit													
38	Review Permitting Best Practices Audit Progress Report													On-going until audit complete.

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# BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
39	Review Permitting Best Practices Audit Draft Report Presentation													
40	Review Response to Permitting Best Practices Audit Final Draft Report													
<b>Audit - Risk Management (Tentative)</b>														
41	Receive notification of initiated Risk Management Audit													
42	Review Risk Management Audit Progress Report												On-going until audit complete.	
43	Review Risk Management Audit Draft Report Presentation													
44	Review Response to Risk Management Audit Final Draft Report													
<b>Audit - Billing and Collections (Tentative)</b>														
45	Receive notification of initiated Billing and Collections Audit													
46	Review Billing and Collections Audit Progress Report												On-going until audit complete.	
47	Review Billing and Collections Audit Draft Report Presentation													
48	Review Response to Billing and Collections Audit Final Draft Report													
<b>Audit - Accountability (Tentative)</b>														
49	Receive notification of initiated Accountability Audit													
50	Review Accountability Audit Progress Report												On-going until audit complete.	
51	Review Accountability Audit Draft Report Presentation													
52	Review Response to Accountability Audit Final Draft Report													
<b>Audit - Community Engagement (Tentative)</b>														

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# BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
53	Receive notification of initiated Community Engagement Audit													Audit Objectives: Can Valley Water benefit from updating its purchasing practices for multi-media, advertising, and other community engagement vendor related activities?  On-going until audit complete.
54	Review Community Engagement Audit Progress Report													
55	Review Community Engagement Audit Draft Report Presentation													
56	Review Response to Community Engagement Audit Final Draft Report													
<b><i>Audit - Homelessness Analysis (Tentative)</i></b>														
57	Receive notification of initiated Homelessness Analysis Audit													On-going until audit complete.
58	Review Homelessness Analysis Audit Progress Report													
59	Review Homelessness Analysis Audit Draft Report Presentation													
60	Review Response to Homelessness Analysis Audit Final Draft Report													
<b><i>Audit - Local Workforce Hiring (Tentative)</i></b>														
61	Receive notification of initiated Local Workforce Hiring Audit													On-going until audit complete.
62	Review Local Workforce Hiring Audit Progress Report													
63	Review Local Workforce Hiring Audit Draft Report Presentation													
64	Review Response to Local Workforce Hiring Audit Final Draft Report													
<b><i>Audit - Equipment Maintenance (Tentative)</i></b>														
65	Receive notification of initiated Equipment Maintenance Audit													On-going until audit complete.
66	Review Equipment Maintenance Audit Progress Report													

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# BOARD AUDIT COMMITTEE 2020 WORKPLAN

January 1, 2020 to December 31, 2020

#	ACTIVITY	Q1			Q2			Q3			Q4			NOTES
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
67	Review Equipment Maintenance Audit Draft Report Presentation													
68	Review Response to Equipment Maintenance Audit Final Draft Report													
<b>Audit - Community Engagement (Tentative)</b>														
69	Receive notification of initiated Community Engagement Audit													Audit Objectives: What are the best practices in planning and facilitating community engagement?
70	Review Community Engagement Audit Progress Report													On-going until audit complete.
71	Review Community Engagement Audit Draft Report Presentation													
72	Review Response to Community Engagement Audit Final Draft Report													
<b>Audit - Water Fix (Tentative)</b>														
73	Receive notification of initiated Water Fix Audit													
74	Review Water Fix Audit Progress Report													On-going until audit complete.
75	Review Water Fix Audit Draft Report Presentation													
76	Review Response to Water Fix Audit Final Draft Report													

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# Santa Clara Valley Water District

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**File No.:** 20-0023

**Agenda Date:** 1/22/2020

**Item No.:** 5.2.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

Board Independent Auditor Report Update - TAP International, Inc.

**RECOMMENDATION:**

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

**SUMMARY:**

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

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

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

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

An amendment to the Board independent auditing services agreement was initiated to increase the not-to-exceed amount from \$405,000 to \$1,005,000 to complete all three proposed audits and approximately three additional future audits. On June 7, 2019, the amendment was completed, therefore, TAP initiated the performance audits of the District Counsel's office and real estate services. Following initiation of the audits, the Committee shall discuss the status of on-going audits until the audits are completed.

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

2020-2021 (Attachment 1). In addition to carrying out audits in the Board approved Annual Audit Work Plan, the Committee shall discuss and update the Annual Audit Work Plan, if necessary.

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

Following Board approval of the three performance audits, TAP initiated the audit of contract change order management processes and discussed the audit scope with the BAC Chair. On October 23, 2019, Management Response to the Construction Contract Change Order Management and Administration audit draft report was initially submitted to TAP. At the November 18, 2019, BAC meeting, the BAC requested for staff to re-submit to TAP a revised Management Response, for later discussion by the Committee.

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

**ATTACHMENTS:**

Attachment 1: Annual Audit Work Plan

Attachment 2: Real Estate Audit Progress Report

Attachment 3: District Counsel's Office Audit Progress Report

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068

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

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

## OVERVIEW

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

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

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

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

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



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

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

### SECTION A

#### NON-AUDIT SERVICES AND SPECIAL PROJECTS

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

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

**SECTION B: AUDIT SERVICES**

**AUDIT WORK PLAN – INDEPENDENT AUDITOR**

**FY 2018-19**

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

<b>ID</b>	<b>Audit</b>	<b>Audit Objectives</b>	<b>Planned Hours</b>
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
<b>Total</b>	3 audits		1,667

**FY 2019-20**

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

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

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

### FY 2020-21

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

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

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

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

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

**AUDIT WORK PLAN – VALLEY WATER RESPONSIBILITY**

**FY 18/19 THRU FY 19-20**

**QEMS**

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





**Project Progress**

**Overall Status:** ● On Track

**Project Name:** Performance Audit of Valley Water Real Estate Unit

**Date:** December 16, 2019 – January 16, 2020

Status Code Legend

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

Summary narrative –

● On Track:

Key Activities Completed during the Period

- ◆ Met with real estate contractor staff.
- ◆ Reviewed hard copy real estate files and found missing information.
- ◆ Completed analysis on performance metrics.
- ◆ Completed RESU staff interviews.
- ◆ Met with COO/Operations.
- ◆ Requested financial information on leased properties from RESU.
- ◆ Scheduled interview with District Counsel responsible for Real Estate.
- ◆ Scheduled follow up meetings with Real Estate staff.
- ◆ Scheduled meetings with RESU executive management.

Key Activities Planned for January 22, 2020 to February 22, 2020

- ◆ Conduct small group meetings to discuss data.
- ◆ Meet with Facilities Management.
- ◆ Meet with selected project managers.
- ◆ Meet with RESU executive management.
- ◆ Conduct Preliminary Results Meeting.
- ◆ Begin drafting Preliminary Report.

**Updated Timeline – Performance Audit of Real Estate Services**

**Audit Activity**

<b>Audit Activity</b>	<b>Estimated Due Date</b>
Complete Data Collection and Analysis	1/30/2020
Follow up Meetings	Next Week
Results Meeting with RESU	2 <sup>nd</sup> week of February
RESU Technical Review of Preliminary Draft Report	March 5 <sup>th</sup> , 2020 or before
Draft Report Submittal to Audit Committee	March TBD
Draft Report Response Received from Valley Water Management	April/May 2020
Final Report	Mid May 2020





**Project Progress**

**Overall Status:** ● On Track

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

**Date:** December 17, 2019 – January 16, 2020

Status Code Legend

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

Summary narrative –

- On Track, adjusting scope

Key Activities Completed during the Period

- ◆ Coordinated, processed and submitted request for review of closed session and confidential memos for level of confidentiality.
- ◆ Continued consolidation and summarization of collected data.
- ◆ Completed interviews with Board Directors and Valley Water DOOs.

Key Activities Planned for January 22 to February 22, 2020

- ◆ Collect and review closed session confidential board memos for level of confidentiality.
- ◆ Consolidate data and summarize results.
- ◆ Conduct follow up meetings with District Counsel staff (small group meetings).
- ◆ Prepare results meeting material.
- ◆ Conduct quality assessment review.

**Updated Timeline – Performance Audit of District Counsel Office**

<b>Audit Activity</b>	<b>Estimated Due Date</b>
Complete Data Collection and Analysis	2/10/2020
District Counsel Small Group Meetings	Week of Feb. 10, 2020
Preliminary Results Meeting	1 <sup>st</sup> week of March
District Counsel Technical Review of Preliminary Draft Report	3/20/2020
Draft Report Submittal to Audit Committee	April, 2020
Draft Report Response by Valley Water Management	April/May 2020
Final Report	May 2020





# Santa Clara Valley Water District

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**File No.:** 20-0081

**Agenda Date:** 1/22/2020

**Item No.:** 5.3.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

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

**RECOMMENDATION:**

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

**SUMMARY:**

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

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

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

Following Board approval of the three performance audits, TAP initiated the audit of contract change order management processes and discussed the audit scope with the BAC Chair. On October 23, 2019, Management Response to the contract change order audit draft report was submitted to TAP, for later discussion by the Committee at the following Board Audit Committee meeting in November 2019.

At the November 18, 2019, Staff presented the Draft Management Response and the BAC requested for staff to correct, unify, and simplify analysis for the Contract Change Order Management Response and present at a future BAC meeting. The Contract Change Order Audit Management Response to

Draft Report will be provided via supplemental attachment to the agenda for the January BAC meeting.

**ATTACHMENTS:**

Attachment 1: Management Response

**UNCLASSIFIED MANAGER:**

Tina Yoke, 408-630-2385

SUBJECT: Contract Change Order Audit Valley Water Management Response

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The purpose of this memorandum is to provide Management's response and targeted milestones to the seven recommendations in the TAP International audit report of the Construction Contract Change Order Management and Administration. Management would like to acknowledge that not all responses represent full agreement with TAP's recommendations. Some responses represent management's partial agreement. A justification is presented with any response where management was not in agreement. However, there is one response in which management fully disagrees with the recommendation- *recommendation #6 (a) developing and establishing specific criteria for establishing contingency budgets for change orders that consider project complexity and size (Example: \$0 contingency for capital projects less than \$100,000 ranging to an amount over \$1M for projects over \$500M) eliminating the need for the Board of Directors to separately approve contingency budgets for each capital construction contract.* In the interest of transparency, management is making the following response; *contingency will continue to be separately approved by the Board of Directors for each capital construction contract.* See Management's full justification in the response to recommendation #6 below. Management would like to present the following responses for your review and feedback:

**RECOMMENDATION 1**

Update capital construction change order policies and procedures applicable to large-scale projects to: a) require an Independent Cost Estimate (ICE) for capital construction change orders, (b) use a separate advisory body to review and recommend the approval of change orders, and c) prohibit commencement of work until after change order approval.

**a. MANAGEMENT RESPONSE: Management agrees with this recommendation.**

Management will require an Independent Cost Estimate (ICE) for capital construction change orders on contracts greater than \$100M or on projects of a lesser value when the Chiefs deem the project to be higher risk.

In addition, services of an on-call cost estimator will be required for complex cost estimates, as determined by the Capital Engineering Manager overseeing the project based on an evaluation of in-house experience relative to the scope of work.

**Target Implementation:** December 2020.

**b. MANAGEMENT RESPONSE: Management agrees with the recommendation.**

A Change Control Board (CCB) will be established as part of a systemic change order management approach. The CCB will review changes that have significant cost or schedule impacts.

For large-scale projects, the addition of a Project Steering Committee will be established with project oversight to keep a pulse on progress or to address major design or construction changes. The Steering Committee would not replace the functions of the CCB but will review items of substantial interest as determined by the Steering Committee.

Staff will develop process and procedures for the CCB.

The make-up of the CCB and Project Steering Committee will include senior and executive staff. Additional resources will provide input depending on the project issue under consideration, including the Engineer of Record, subject matter experts, legal counsel, and claims management and scheduling consultants.

**Target Implementation:** December 2020

**c. MANAGEMENT RESPONSE: Management agrees with the recommendation.**

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

**Target Implementation:** December 2020

**RECOMMENDATION 2**

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

**MANAGEMENT RESPONSE: Management agrees with the recommendation.**

Third-party and/or peer review processes will continue to be required for all large-scaled projects to address constructability and identify risks and develop approaches to mitigate those risks.

Staff will consider securing consultant services to provide third-party constructability reviews.

**Target Implementation:** December 2020

**RECOMMENDATION 3**

Enhance the review and approval process for change orders (including potential change orders, contract change orders, and directed change orders) on capital construction projects that are new to Valley Water and/or whose project costs exceed a specific level established by the CEO (i.e. \$100M) to add and enhance support structures to aid project and construction managers in capital project delivery. Options include: a) create a Capital Project Steering Committee for each new project to review project progress and provide authority to review and approve change orders. The Committee should include Valley Water management, project, and construction manager, external subject matter experts, outsourced legal construction contract counsel, and a representative from the Purchasing and Consulting Contracts Services Unit.

**MANAGEMENT RESPONSE: Management agrees with the recommendation.**

The change-order approval process requires a review to ensure both processes and roles/responsibilities are clearly defined along with authority levels which will be clarified in the revised process.

The role of review and approval of change orders would be delegated to the CCB, with defined governance and procedures, including defined authority levels.

Due to the unique and unexpected issues encountered by large projects; a Project Steering Committee would be established for projects greater than \$100M. The Project Steering Committee will be established with project oversight to keep a pulse on progress or to address major design or construction changes. The Steering Committee would not replace the functions of the CCB but will review items of substantial interest as determined by the Steering Committee.

Executive management will define the make-up and role of the Project Steering Committee.

**Target Implementation:** July 2021.

**RECOMMENDATION 4**

Create a Resources Services Office (RSO) or restructure the current Capital Program Planning and Analysis Unit and develop RSO roles and responsibilities, including the business processes and information systems needed to

support large-scale capital construction projects and to serve as a resource for project and construction managers on smaller projects. Examples of expected RSO roles and responsibilities for large-scale capital construction projects include: integrate project design and construction management activities; develop large-scale construction management policies and procedures; ensure consistent and uniform implementation of capital project management and construction management standards; manage and administer the contract management and change order process; consolidate, analyze, and disseminate lessons learned activities and historical project information for future project planning; coordinate project and construction project activities; establish and manage project and construction management standardization; implement a centralized project management information system; enhance QEMS activities, including the preparation and updating of guidelines and checklists to be used by project and construction managers; prepare information about the reality of existing projects and corrective action plan development; promote continuous process improvement; and establish a performance-based management system to track effective change order management, project completion, and project financial performance. Examples of RSO roles and responsibilities for smaller capital construction projects would be to share historical project information to support design activities and to assist project and construction managers on change order negotiation.

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

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

**Management does not agree with the recommendation that the Project Controls Office also be given certain design and construction management activities.** Project delivery and construction management activities should functionally be separate from the Project Controls Office, yet monitoring of the project schedule, costs, and scope would be done for the lifetime (design and construction) of the project by the Project Controls Office. The Project Manager, assigned as the responsible person for the project, is tasked to integrate design and construction management activities from start to completion of the project – it is management's recommendation that this role should not be delegated to others, including the Project Controls Office.

**Management does not agree with the recommendation that the Project Controls Office be given responsibility to manage contract management and change order process.** The Project Manager is responsible to manage all aspects of the project. It is management's recommendation that the responsibility should not be assigned to a separate entity. Expected roles in the change management process are as follows:

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

Staff will define the roles of project controls staff and define staffing levels for a new Project Controls Office.

**Target Implementation:** July 2021

## **RECOMMENDATION 5**

Transfer the responsibility to administer procurement activities on capital projects (i.e. request for bid preparation and bid processing) from the Capital Program Planning and Analysis Unit to Valley Water's Purchasing and Consultant Contracts Services Unit to centralize procurement activities.

The RSO should assume responsibility for contract administration and change order management on all capital projects upon execution of the contract by the Purchasing and Consultant Contracts Services Unit. The Purchasing and Consultant Contracts Services Unit, as an option, can also embed an employee into the RSO to oversee change order management or administer an oversight role in coordinating updated change order policies and procedures, and conduct spot audits to ensure change orders comply with contractual terms and conditions.

### **MANAGEMENT RESPONSE: Management agrees with the recommendation with the following exceptions.**

*All responses below will use the term "Project Controls Office", which is a more common term in project and construction management instead of "Resources Services Office".*

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

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

### **Target Implementation:**

- January 2020 transfer capital construction procurement activities to Purchasing and Contracts Unit.

## **RECOMMENDATION 6**

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

### **MANAGEMENT RESPONSE: Management disagrees with the recommendation.**

In the interest of transparency, contingency will continue to be separately approved by the Board of Directors for each capital construction contract.

**Target Implementation:** N/A

### **MANAGEMENT RESPONSE: Management agrees with the recommendation.**

Regarding the recommendation to enhance the Risk Management Process: Providing a risk register and methods to mitigate risks, with reference to past projects, would assist Risk Management in defining insurance requirements. Large-scale projects will require a robust Risk Register with identified costs and methods to mitigate risks.

Staff will develop the following:



- 1) A work instruction that lists those quality records to be included in the "official" contract file. Furthermore, a defined standard electronic folder system with checklist of contents would accompany the work instruction and serve as a template for contract administration.
- 2) Staff will add additional details for the Close-out process that includes checklists and roles of the project manager, contract administration, and project controls.
- 3) A risk management approach and procedures.

**Target Implementation:** December 2020

**a. MANAGEMENT RESPONSE: Management agrees with the recommendation.**

All Project Managers and Construction Management staff will be trained on essential project management skills to help ensure uniformity of practices on all projects.

**Target Implementation:** December 2021

**RECOMMENDATION 7**

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

**MANAGEMENT RESPONSE: Management agrees with the recommendation.**

Management concurs with the recommendation to develop, track and report on performance metrics for all projects that have been included within our CIP.

Performance metrics and key performance indicators (KPI's) will be created for monitoring, reporting requirements, and reporting methodology.

**Target Implementation:** December 2021





# Santa Clara Valley Water District

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**File No.:** 20-0047

**Agenda Date:** 1/22/2020  
**Item No.:** 5.4.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

Discuss Scope of Annual Audit Training from Board Independent Auditor.

**RECOMMENDATION:**

Discuss Scope of Annual Audit Training from Board Independent Auditor.

**SUMMARY:**

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

On August 27, 2019, the Board approved the BAC Audit Charter to provide detailed guidance regarding how the BAC should carry out its functions and to guide the work of TAP International, Inc. The BAC Charter describes a requirement to provide audit training to BAC members at least annually. The purpose of this item is to discuss the scope of the training to be provided by the Board Independent Auditor. Audit Training may include training on auditing standards as well as the audit process. The Annual Audit Training will be provided at the February 2020 BAC meeting.

**ATTACHMENTS:**

None.

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068





# Santa Clara Valley Water District

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**File No.:** 20-0033

**Agenda Date:** 1/22/2020  
**Item No.:** 5.5.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

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

**RECOMMENDATION:**

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

**SUMMARY:**

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

On May 23, 2017, the Board, approved an on-call consultant agreement with TAP International, Inc. (TAP) for Board independent auditing services. On June 7, 2019, an amendment to the Board independent auditing services agreement was completed to increase the not-to-exceed amount from \$405,000 to \$1,005,000.

On June 25, 2019, the Board approved the Annual Audit Work Plan for FY 2018-2019 through FY 2020-2021 (Attachment 1). In addition to carrying out audits in the Board approved Annual Audit Work Plan, the Committee shall discuss and update the Annual Audit Work Plan, if necessary. On August 27, 2019, the Board approved the BAC Audit Charter to provide detailed guidance regarding how the BAC should carry out its functions and to guide the work of TAP International, Inc.

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

**ATTACHMENTS:**

Attachment 1: HR Work Plan

Attachment 2: Grants Work Plan

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**File No.:** 20-0033

**Agenda Date:** 1/22/2020  
**Item No.:** 5.5.

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Attachment 3: Board Agenda Process Work Plan

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



<b>Title</b>	<b>Ad-Hoc Analysis: Alignment of Selected Employee Hiring Activities to Best Practices</b>
<b>Purpose</b>	To assess potential operational or service delivery risks to Valley Water.
<b>Scope</b>	<ul style="list-style-type: none"> <li>• HR Functions: Recruitment screening, hiring process regarding use of comprehensive background checks and references</li> <li>• Executive and senior management positions</li> </ul>
<b>Work Plan</b>	<ol style="list-style-type: none"> <li>1. Collect leading practices on HR applicant screening and hiring process.</li> <li>2. Collect employee retention rate for executive and senior management positions.</li> <li>3. Interview HR Director and staff to discuss VW’s applicant process and related screening, hiring process regarding background checks and references.</li> <li>4. Review current VW recruitment and hiring.</li> <li>5. Compare information collected to leading practices.</li> <li>6. Determine if risks are present.</li> <li>7. Determine if action is needed immediately or if risks warrant a comprehensive audit.</li> <li>8. Present the results to the Board Audit Committee.</li> <li>9. Prepare draft memo (to be referred to as a letter report).</li> <li>10. Board Audit Committee review.</li> <li>11. Finalize the letter report.</li> </ol>
<b>Time Required to Complete</b>	8 days of audit work, spanning 15 days, to begin immediately upon completion of the grants review.
<b>Project Risks</b>	Potential delay in accessing HR related records.





<b>Title</b>	<b>Ad-Hoc Analysis: Grant Management - Scope Design and Reimbursement Activities</b>
<b>Purpose</b>	To determine if VW scope of work and deliverables/reimbursements for grant funded program and services sufficiently mitigate potential financial risks.
<b>Scope</b>	<ul style="list-style-type: none"> <li>• Two grant agreements to be selected judgmentally</li> </ul>
<b>Work Plan</b>	<ol style="list-style-type: none"> <li>1. Selection and analysis of two grant agreements.</li> <li>2. Collect Valley Water internal documentation applicable to the two grant agreements.</li> <li>3. Review scope of work preparation activities with standard grant development guidelines and VW policies and procedures.</li> <li>4. Review contractual history of the two agreements applicable to timeliness of deliverable requirements and reimbursement activities.</li> <li>5. Interview VW employee/analyst responsible for the applicable grant agreement.</li> <li>6. Determine if risks are present.</li> <li>7. Determine if action is needed immediately or if risks warrant a comprehensive audit.</li> <li>8. Present the results to the Board Audit Committee.</li> <li>9. Prepare draft memo (to be referred to as a letter report).</li> <li>10. Board Audit Committee review.</li> <li>11. Finalize the letter report.</li> </ol>
<b>Time Required to Complete</b>	8 days of audit work, spanning 15 days, to begin immediately upon BAC approval of the work plan.
<b>Project Related Risks</b>	Potential delays in responding to data requests.





<b>Title</b>	<b>Ad-Hoc Analysis: Alternative Strategies to Agenda Preparation and Review Activities</b>
<b>Purpose</b>	To determine if Valley Water could potentially streamline Committee Agenda processing.
<b>Scope</b>	<ul style="list-style-type: none"> <li>• Valley Water agenda review and approval workflow process</li> <li>• Two public agencies (to collect information on Committee agenda review and approval processes)</li> </ul>
<b>Work Plan</b>	<ol style="list-style-type: none"> <li>1. Identify and contact other public agencies subject to Brown Act requirements related to Committee agenda processing (e.g. review and approval workflow).</li> <li>2. Identify the number of days required to post items on the agenda and to submit documentation, and when agenda folders/packets are sent to Committee members.</li> <li>3. Assess issues/risks to continue Valley Water Committee agenda review and approval process.</li> <li>4. Present the results to the Board Audit Committee.</li> <li>5. Prepare draft memo (to be referred to as a letter report).</li> <li>6. Board Audit Committee review.</li> <li>7. Finalize the letter report.</li> </ol>
<b>Timeframe for Completion</b>	5 days of audit work, spanning 15 days, to begin upon completion of the grants and employee hiring review.
<b>Project Risks</b>	None anticipated.





# Santa Clara Valley Water District

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**File No.:** 20-0032

**Agenda Date:** 1/22/2020

**Item No.:** 5.6.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

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

**RECOMMENDATION:**

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

**SUMMARY:**

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

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

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

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

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

**ATTACHMENTS:**

Attachment 1: SCVWD Independent Auditor Annual Performance.

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068





TAPInternational

# Report to the Audit Committee

INDEPENDENT AUDITOR  
ANNUAL PERFORMANCE  
REPORT - DRAFT

2019

Santa Clara Valley  
Water District



## INDEPENDENT AUDITOR OVERVIEW

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

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

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

## INDEPENDENT AUDITOR ACCOMPLISHMENTS

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

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

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

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

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

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

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



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

C. Developed Annual Audit Work Plan (Support Services)

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

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

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

A. Attended Board Meetings (Audit Support Services)

TAP International attended selected Board Meetings to meet Board Audit Committee expectations and to comply with both Request for Proposal and contractual requirements. Of the 27 Regular Board Meetings held in 2019, the Independent Auditor attended nine (33%) of them, as shown in Table 1 below. The primary purpose of Board meeting attendance was to continuously monitor risks to Valley Water, collect data applicable to ongoing or planned audits, and to address agenda items directly applicable to TAP International audit activities.

**Table 1: Board Meeting Attendance\***

Reason for Attendance	Number of Board Meetings
Agenda item(s) directly related to work performed by TAP International, or the agenda item(s) directly relevant to planning or current audits underway	7
Agenda item(s) was a high or moderate audit risk that required monitoring	2

\*See Appendix A for meeting details.

Time billed for attending Board meetings totaled 19.5 hours. Another 52 hours was not billed for other allowable activities related to Board Meeting attendance.

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

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

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

When the Independent Auditor was not in attendance at Board Meetings, the Independent Auditor monitored the meetings through agenda review, documentation analysis, and video review across another eight meetings. The time required for this service was not charged to Valley Water. TAP International believes these tasks are necessary to effectively perform its role as the Board's Independent Auditor.

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

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

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

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

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

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

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

#### Performance Audit of Contract Change Order Processing

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

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

#### Performance Audit of the District Counsel Office Structure and Organizational Process

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

#### Performance Audit of the Real Estate Financial and Service Delivery Performance

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

## TASK ORDER COMPLETION

Since June 2017, TAP International has completed 25 of 34 approved task orders. Twelve of 25 completed task orders were completed under budget, leaving about \$9,330 to be returned to the Audit Budget.

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

**Table 2: Task Order History**

Year	Task Order Issued	Completed	In Process
2017	5	5	0
2018	11	11	0
2019	18	9	9

## FINANCIAL OVERVIEW

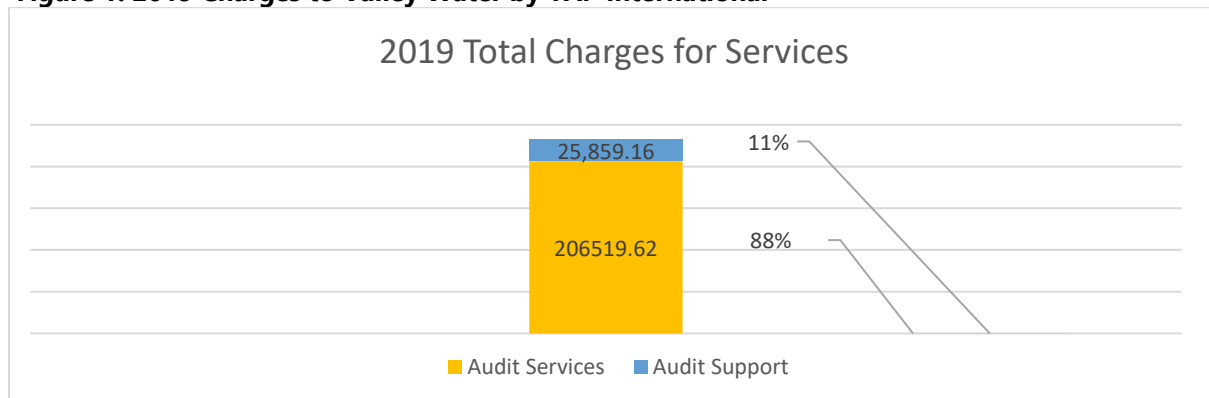
In 2019, TAP International charged Valley Water \$232,378.78 for audit and support services. The budget balance remaining at year-end is \$561,558.49.

**Table 3: 2019 Independent Auditor Charges**

Audit Services (audits)	\$206,519.62
Support Services (Board meeting attendance, Board Audit Committee requested activities)	\$25,859.16
Total	\$232,378.78
Services Not Charged	\$32,590

Figure 1 below illustrates the allocation of charges incurred. Audit services comprised 89 percent, or \$206,519.62, of the total charges. Audit support services, such as attendance to Board Audit Committee (BAC) meetings and Regular Board meetings, as well as BAC directed work comprised the remaining 11 percent or \$25,859.16.

**Figure 1: 2019 Charges to Valley Water by TAP International**



About \$32,590 were not charged to Valley Water by TAP International for services incurred. These "no charge" services included:

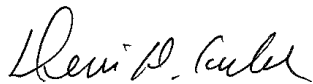
- Development of Board Audit Committee self-assessment framework - \$525.
- Review of Board Audit Committee performance monitoring report and development of suggested performance measures - \$480.
- Review of Board meeting agenda and documentation, video for eight meetings that TAP International did not directly attend - \$2,880
- Services performed that exceeded task order budgets 85 hours - \$17,575.
- Unbilled charges incurred to attend Board meetings - \$9,880.
- Time/expenses incurred to participate in Board Audit Committee meetings - \$1,250 (estimate).

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

## **CONCLUSION**

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

Respectfully submitted,



Denise Callahan  
Principal, **TAP International, Inc.**

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

<b>Meeting Date</b>	<b>Agenda Item</b>	<b>Reason for Attendance</b>	<b>Billed Costs</b>
<b>1.22.19</b>	<ul style="list-style-type: none"> <li>Item 5.3 – Update on California Water Fix.</li> <li>Item 6.1: Real estate transaction – Exchange of property (real estate service was identified by the Board Audit Committee as a priority audit).</li> </ul>	<p>Known risk area regarding potential unfunded liabilities; risk monitoring.</p> <p>Subject matter related to the 2019 planned audit.</p>	\$380.00
<b>2.26.19</b>	<ul style="list-style-type: none"> <li>Item 4.2: Recommendation from Board Audit Committee for the Board to Approve the Implementation of Three Performance Audits by the Board Independent Auditor, TAP International, Inc.</li> </ul>	Agenda item applicable to work to be performed by TAP International.	\$912.15
<b>6.11.19</b>	<ul style="list-style-type: none"> <li>Item 6.2: Amendment No. 1 to Agreement No. A4088A with Ghirardelli Associates, Inc., to Increase the Not-to-Exceed Fee and Extend the Term of Agreement for Construction Management Services for the Watersheds Asset Rehabilitation Program, Project No. 62084001.</li> </ul>	Directly applicable to TAP International’s on-going audit.	\$285.00
<b>6.25.19</b>	<ul style="list-style-type: none"> <li>Item 4.6: Approve Recommendation from Board Audit Committee to Approve the Fiscal Years 2018-2019 to 2020-2021 Annual Audit Work Plan Prepared by the Board Independent Auditor, TAP International, Inc.</li> </ul>	Directly applicable to work performed by TAP International.	\$627.15
<b>8.27.19</b>	<ul style="list-style-type: none"> <li>Item 4.1: Approve the Board Audit Committee Audit Charter.</li> </ul>	Directly applicable to work performed by TAP International.	\$589.30

<p><b>10.22.19</b></p>	<ul style="list-style-type: none"> <li>• Item 2.9: Approve Encroachment Remediation Program. (Item Previously Listed as 2.8)</li> <li>• Item 4.3: Receive Recommendations and Associated Staff Analyses from the Homeless Encampment Ad Hoc Committee, September 30, 2019 Meeting.</li> <li>• Item 7.3: Approve Amendment No. 1 to Agreement A3981R FY2016 Safe, Clean Water and Natural Flood Protection Program Project B3 Grant Agreement Between the Santa Clara Valley Water District and the West Valley-Mission Community College District (Saratoga) (District 5).</li> <li>• Item 7.4: Approve Amendment No. 2 to Agreement A3862R Santa Clara Valley Water District, Safe, Clean Water and Natural Flood Protection Program, FY 2015 Safe, Clean Water Priority D3 Trails Grant Program Between the Santa Clara Valley Water District and the West Valley-Mission Community College District (Saratoga) (District 5).</li> <li>• Item 7.5: Approve Amendment No. 3 to the Safe, Clean Water and Natural Flood Protection Program 2014 Safe, Clean Water Priority B Grant Program</li> <li>• Agreement No. A3761R Between the Santa Clara Valley Water District and West Valley-Mission Community College District (Saratoga) (District)</li> <li>• Item 8.1: Fiscal Year 2018-19 Updated Preliminary and Unaudited Financial Status Report and Approve Budget Adjustment in the Amount of \$200,000 to the Fiscal Year 2020 Budget of the Pollution Prevention Partnership and Grants Program in the Safe, Clean Water Fund, Project No. 26061006</li> </ul>	<p>Monitoring of operational risks to Valley Water programs and services. Attendance led to subsequent discussion with Board Audit Committee and tentative plans to perform preliminary work and follow up audit.</p>	<p>\$1,644.50</p>
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<b>11.12.19</b>	<ul style="list-style-type: none"> <li>Item 3.3: Approve the Sale of Santa Clara Valley Water District Surplus Property Located at 110 South Sunset Avenue, San Jose, APN 481-21-055, File No. 4026-131.1 (District 6) (San Jose).</li> </ul>	Directly applicable to TAP International's ongoing audit.	\$541.60
<b>11.26.19</b>	<ul style="list-style-type: none"> <li>Item 4.1: Board Committees (Summary or Meeting Agenda): Board Audit Committee (BAC) Handout 4.1.3-A: 111819 BAC Summary.</li> </ul>	Directly applicable to work to be performed by TAP International.	\$570.00
<b>12.17.19</b>	<ul style="list-style-type: none"> <li>Item 2.2: Receive Watersheds Operations and Maintenance Program Overview and Review Draft 5-Year Plan</li> <li>Item 2.3: Receive Updates on Safe, Clean Water and Natural Flood Protection Program Flood Protection Projects and Funding Scenarios</li> <li>Item 2.4: Review the Draft Preliminary Fiscal Years 2021-2025 Capital Improvement Program for the Watersheds Stream Stewardship Fund.</li> </ul>	Directly applicable to TAP International's ongoing audit.	\$285.00





# Santa Clara Valley Water District

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**File No.:** 20-0035

**Agenda Date:** 1/22/2020

**Item No.:** 5.7.

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## COMMITTEE AGENDA MEMORANDUM

### Board Audit Committee

**SUBJECT:**

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

**RECOMMENDATION:**

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

**SUMMARY:**

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

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

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

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

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

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**File No.:** 20-0035

**Agenda Date:** 1/22/2020  
**Item No.:** 5.7.

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**ATTACHMENTS:**

Attachment 1: Financial Analysis

**UNCLASSIFIED MANAGER:**

Darin Taylor, 408-630-3068

# FINANCIAL ANALYSIS

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

### Contract Background

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

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

### Budget Background

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

### Financial Analysis

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

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

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

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

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

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

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

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

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