

January 11, 2024

MEETING NOTICE

SANTA CLARA VALLEY WATER DISTRICT BOARD AUDIT COMMITTEE

Members of the Board Audit Committee:

District 2 Director Barbara F. Keegan, Committee Chairperson
District 4 Director Jim Beall, Committee Vice Chairperson
District 3 Director Richard P. Santos, Committee Member

Staff Support of the Board Audit Committee:

Rick Callender, Esq., Chief Executive Officer
Carlos Orellana, District Counsel
Michele King, Clerk of the Board
Melanie Richardson, Assistant Chief Executive Officer
Tina Yoke, Chief Operating Officer
Darin Taylor, Chief Financial Officer
Rachael Gibson, Chief of External Affairs
Chris Hakes, Chief Operating Officer
Aaron Baker, Chief Operating Officer
Brian Hopper, Sr. Assistant District Counsel
Leslie Orta, Sr. Assistant District Counsel
Joseph Aranda, Assistant District Counsel
Rita Chan, Sr. Assistant District Counsel
Andrew Gschwind, Assistant District Counsel
Cecil Lawson, Deputy Administrative Officer
Marta Lugo, Deputy Administrative Officer
Tony Ndah, Deputy Administrative Officer
Emmanuel Aryee, Deputy Operating Officer
Bhavani Yerrapotu, Deputy Operating Officer
Alexander Gordon, Assistant Officer
Anthony Mendiola, Program Administrator
Manpreet Sra, Management Analyst
George Skiles, Partner, Sjoberg Evashenk Consulting

A Santa Clara Valley Water District regular Board Audit Committee Meeting has been scheduled to occur at 2:00 p.m. on Wednesday, January 17, 2024 in the Headquarters Building Boardroom located at the Santa Clara Valley Water District, 5700 Almaden Expressway, San Jose.

Members of the public may join the meeting via Zoom Teleconference at:
<https://valleywater.zoom.us/j/91608079873>.

The meeting agenda and corresponding materials are located on our website:
<https://www.valleywater.org/how-we-operate/committees/board-committees>.



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Santa Clara Valley Water District Board Audit Committee Meeting

Headquarters Building Boardroom
5700 Almaden Expressway, San Jose, CA 95118

Join Zoom Meeting:
<https://valleywater.zoom.us/j/91608079873>

REGULAR MEETING AGENDA

**Wednesday, January 17, 2024
2:00 PM**

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

BOARD AUDIT COMMITTEE
Barbara F. Keegan, Chairperson - District 2
Jim Beall, Vice Chairperson - District 4
Richard P. Santos - District 3

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

DARIN TAYLOR
Committee Liaison

Nicole Merritt
Assistant Deputy Clerk II
Office/Clerk of the Board
(408) 630-3262
nmerritt@valleywater.org
www.valleywater.org

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

Santa Clara Valley Water District Board Audit Committee REGULAR MEETING AGENDA

Wednesday, January 17, 2024

2:00 PM

Headquarters Building Boardroom
5700 Almaden Expressway,
San Jose, CA 95118
Join Zoom Meeting:
<https://valleywater.zoom.us/j/91608079873>

*****IMPORTANT NOTICES AND PARTICIPATION INSTRUCTIONS*****

Santa Clara Valley Water District (Valley Water) Board of Directors/Board Committee meetings are held as a “hybrid” meetings, conducted in-person as well as by telecommunication, and is compliant with the provisions of the Ralph M. Brown Act.

To maximize public safety while still maintaining transparency and public access, members of the public have an option to participate by teleconference/video conference or attend in-person. To observe and participate in the meeting by teleconference/video conference, please see the meeting link located at the top of the agenda. If attending in-person, you are required to comply with Ordinance 22-03 - AN ORDINANCE OF THE SANTA CLARA VALLEY WATER DISTRICT SPECIFYING RULES OF DECORUM FOR PARTICIPATION IN BOARD AND COMMITTEE MEETINGS located at <https://s3.us-west-2.amazonaws.com/valleywater.org.if-us-west-2/f2-live/s3fs-public/Ord.pdf>

In accordance with the requirements of Gov. Code Section 54954.3(a), members of the public wishing to address the Board/Committee during public comment or on any item listed on the agenda, may do so by filling out a Speaker Card and submitting it to the Clerk or using the “Raise Hand” tool located in the Zoom meeting application to identify yourself in order to speak, at the time the item is called. Speakers will be acknowledged by the Board Chair in the order requests are received and granted speaking access to address the Board.

- Members of the Public may test their connection to Zoom Meetings at: <https://zoom.us/test>
- Members of the Public are encouraged to review our overview on joining Valley Water Board Meetings at: <https://www.youtube.com/watch?v=TojJpYCxXm0>

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

This agenda has been prepared as required by the applicable laws of the State of California, including but not limited to, Government Code Sections 54950 et. seq. and has not

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

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

Join Zoom Meeting:

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

Meeting ID: 916 0807 9873

Join by Phone:

1 (669) 900-9128, 91608079873#

1. CALL TO ORDER:

1.1. Roll Call.

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

Notice to the public: Members of the public who wish to address the Board/Committee on any item not listed on the agenda may do so by filling out a Speaker Card and submitting it to the Clerk or using the "Raise Hand" tool located in the Zoom meeting application to identify yourself to speak. Speakers will be acknowledged by the Board/Committee Chair in the order requests are received and granted speaking access to address the Board/Committee. Speakers' comments should be limited to three minutes or as set by the Chair. The law does not permit Board/Committee action on, or extended discussion of, any item not on the agenda except under special circumstances. If Board/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 Board/Committee may take action on any item of business appearing on the posted agenda.

3. APPROVAL OF MINUTES:

3. APPROVAL OF MINUTES:

- 3.1. Approval of December 20, 2023 Board Audit Committee Minutes. [24-0102](#)

Recommendation: Approve the minutes.

Manager: Candice Kwok-Smith, 408-630-3193

Attachments: [Attachment 1: 122023 BAC Minutes](#)

4. REGULAR AGENDA:

- 4.1. Receive Progress Report on Implementing the Grants Management Performance Audit Recommendations. [24-0032](#)

Recommendation: Receive progress report on implementing the Grants Management Performance Audit recommendations.

Manager: Donald Rocha, 408-630-2338

Attachments: [Attachment 1: Grants Audit Progress Report](#)
[Attachment 2: PowerPoint](#)

- 4.2. Discuss the Board Audit Committee's (BAC) Annual Self-Evaluation Process of Calendar Year 2023 Activities; Provide Guidance Regarding Preferred Method to Conduct Process; and Request the Chief Audit Executive (CAE) to Conduct Self-evaluation Process and Return to Provide Summary of Discussions. [24-0033](#)

Recommendation:

- A. Discuss the BAC's annual self-evaluation process of calendar year 2023 activities; and
- B. Provide guidance regarding preferred method to conduct process; and
- C. Request the CAE to conduct self-evaluation process and return to provide summary of discussions.

Manager: Darin Taylor, 408-630-3068

- 4.3. Request Chief Audit Executive (CAE) Activity Report from Sjoberg Evashenk Consulting, Inc. to Evaluate CAE Performance, and Direct CAE to Return to Present Report at a Later Date. [24-0034](#)

Recommendation:

- A. Request CAE activity report from Sjoberg Evashenk Consulting, Inc. to evaluate CAE performance; and
- B. Direct CAE to return to present report at a later date.

Manager: Darin Taylor, 408-630-3068

- 4.4. Discuss Proposed 2024 Annual Audit Work Plan and Provide Further Guidance as Needed. [24-0031](#)

Recommendation: A. Discuss the proposed 2024 Annual Audit Work Plan;
and
B. Provide further guidance as needed.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: 2023 Risk Assessment Report](#)

- 4.5. Review and Discuss the 2024 Board Audit Committee (BAC) Work Plan. [24-0030](#)

Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2024 BAC Work Plan.

Manager: Candice Kwok-Smith, 408-630-3193

Attachments: [Attachment 1: 2024 BAC Work Plan](#)

5. 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.

6. ADJOURN:

- 6.1. Adjourn to Regular Meeting at 2:00 p.m., on February 21, 2024.

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Santa Clara Valley Water District

File No.: 24-0102

Agenda Date: 1/17/2024
Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Approval of December 20, 2023 Board Audit Committee Minutes.

RECOMMENDATION:

Approve the minutes.

SUMMARY:

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

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

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item.

ATTACHMENTS:

Attachment 1: 122023 BAC Minutes

UNCLASSIFIED MANAGER:

Candice Kwok-Smith, 408-630-3193

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BOARD AUDIT COMMITTEE MEETING
DRAFT MINUTES

**REGULAR MEETING SESSION
WEDNESDAY, DECEMBER 20, 2023
2:00 PM**

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A regular meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee) was called to order in the Valley Water Headquarters Building Boardroom at 5700 Almaden Expressway, San Jose, California, and by Zoom teleconference, at 2:00 p.m.

1.1 Roll Call.

Committee members in attendance were District 3 Director Richard P. Santos, District 4 Director Jim Beall, Vice Chairperson, and District 2 Director Barbara F. Keegan, Chairperson presiding, constituting a quorum of the Committee.

Staff members in attendance were: Emmanuel Aryee, Sarah Berning, Walter Gonzalez, Brian Hopper, Michael Lee, Jennifer Martin, Patrice McElroy, Anthony Mendiola, Nicole Merritt, Tony Ndah, Carlos Orellana, Luz Penilla, Mario Rivas, Manpreet Sra, Darin Taylor, Cheryl Togami, Kristen Yasukawa, and Tina Yoke.

Public in attendance were: Valley Water Director Rebecca Eisenberg, Katja Irvin (Sierra Club), George Skiles (Sjoberg Evashenk Consulting), and XXX-XXX- 7078.

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

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

3. APPROVAL OF MINUTES:

3.1. Approval of November 15, 2023 Board Audit Committee Meeting Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the November 15, 2023 Committee meeting.

Public Comments:
None.

It was moved by Director Santos and seconded by Vice Chairperson Beall, and unanimously carried that the minutes be approved.

4. REGULAR AGENDA:

4.1. Review and Discuss the 2024 Board Audit Committee (BAC) Work Plan.

Recommendation: Review and discuss topics of interest raised at prior BAC meetings and make any necessary adjustments to the 2024 BAC Work Plan.

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachments 1 and 2.

Darin Taylor was available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and noted the following:

- The Committee noted the new simplified format for the 2024 BAC Work Plan and confirmed support of the more detailed work plan available upon request.

4.2. Discuss Comments Received Regarding 2023 Risk Assessment; Discuss Proposed 2024-2026 Annual Audit Work Plan; and Provide Further Guidance.

Recommendation: A. Discuss comments received at the December 12, 2023 Board meeting;
B. Discuss the proposed 2024-2026 Annual Audit Work Plan; and
C. Provide further guidance as needed.

George Skiles reviewed the information on this item, per the attached Committee Agenda Memo, and per information contained in Attachment 1.

George Skiles, Darin Taylor, Cecil Lawson, and Brian Hopper were available to answer questions.

Public Comments:
None.

The Committee received the information and noted the following:

- The Committee noted the Board's comments regarding the 2024 Audits for consideration and discussed the importance of financial transparency, reviewing/identifying compatible auditors, and staggering the initiation of audits in addition to the following:
 1. **Capital Project Delivery** – significant priority and the Committee supports audit proceeding with awareness of potential audit fatigue, mindful of staff's time/workload, utilization of benchmarking and the scope to not include duplicate work
 2. **Board Policies** – important priority and the Committee supports audit proceeding with awareness that the scope may not be broad enough, audit topic to focus on transparency and compliance, and ensuring information is available to public and other agencies
 3. **Human Resources** – significant priority and the Committee supports audit proceeding to assist with ensuring compliance with federal, state, and local laws and attracting, retaining, and motivating a qualified workforce
 4. **Clerk of the Board** – lower priority audit and the Committee supports this audit being deferred for Information Technology
 5. **Information Technology** – potential high security risk and the Committee supports audit proceeding to scope out audit, periodic IT audits are beneficial, and will replace Clerk of the Board as priority #4
- The Committee noted support for staff to discuss possible Management Audits with the CEO.
- The Committee noted support for staff and the CAE to coordinate the addition of a breakdown of the number of budgeted staff by audit & function to be provided as a future supplemental non-agenda item per approval from the CEO.
- The Committee expressed their gratitude for the hard work from staff and the CAE for this agenda item.

It was moved by Director Santos and seconded by Vice Chairperson Beall and carried by unanimous vote that the BAC Committee recommend the following performance audit topics of Capital Project Delivery, Board Policies, Human Resources, and Information Technology to be approved by the full Board as the 2024 Annual Audit Work Plan at the January 23, 2024 Board meeting.

5. 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.

Nicole Merritt confirmed the Committee reviewed and noted the new simplified format for the 2024 BAC Work Plan and the availability of the detailed workplan upon request under Item 4.1; approved by unanimous vote to recommend the the audit topics of Capital Project Delivery, Board Policies, Human Resources, and Information Technology to be approved by the full Board as the 2024 Annual Audit Work Plan and the noted support for the addition of a breakdown of the number of budgeted staff by audit & function per approval from the CEO under Item 4.2.

6. ADJOURN:

6.1. Adjourn to Regular Meeting at 2:00 p.m. on January 17, 2024.

Chairperson Keegan noted Director Santos' request for an earlier meeting start time for future BAC meetings.

Chairperson Keegan adjourned the meeting at 3:12 p.m., to the regular meeting at 2:00 p.m. on January 17, 2024.

Date Approved:

Nicole Merritt
Assistant Deputy Clerk II



Santa Clara Valley Water District

File No.: 24-0032

Agenda Date: 1/17/2024

Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Receive Progress Report on Implementing the Grants Management Performance Audit Recommendations.

RECOMMENDATION:

Receive progress report on implementing the Grants Management Performance Audit recommendations.

SUMMARY:

On February 17, 2021, the Board Audit Committee accepted the Grants Management Performance Audit Report by TAP International's subcontractors, Greta MacDonald and Drummond Kahn. Subsequently, the Grants Management Performance Audit Report was accepted by the Board of Directors on March 23, 2021. Since then, staff has continued implementing the 11 recommendations as described in the Management Response to the audit report, and will provide progress updates to the Board Audit Committee semi-annually. The last progress update to the Board Audit Committee was on May 15, 2023.

Of the 11 audit recommendations, seven were achieved and four remain in progress. A summary of the 11 recommendations and an update on the four recommendations that are in progress is included as Attachment 1. The remaining four recommendations will be achieved upon the completion of the grants redesign, which is anticipated to be approved for implementation this spring.

The grants redesign has progressed significantly, and the approach includes two parts with a separate consultant on each:

- **Grants administration redesign** - This part focuses on right-sizing the grants administration for grant applications, agreements, reporting and invoicing processes and requirements. This part will directly address the four remaining audit recommendations (#1, #5, #6, and #7).

Arabella Advisors is leading this part of the redesign. They have experience in executing

equitable grantmaking projects across a wide variety of issues, as well as redesigning internal processes to make them more streamlined, inclusive and effective.

- **Standard grants project criteria redesign** - This part focuses on updating the standard grant project types and criteria to align with the expanded Safe, Clean Water and Natural Flood Protection Program under Measure S; match current industry standards; and accommodate innovation and new ideas through multi-benefit projects. It will address the audit recommendations that apply to standard grants, especially audit recommendation #1, which is scaling the application and reporting requirements to fit the size, risk and complexity of each individual grant.

Duckler Consulting is working on this part of the redesign. Duckler Consulting is a local subject matter expert on the types of projects that are funded by Valley Water grants. Duckler Consulting has extensive prior knowledge of Valley Water and a strong understanding of Valley Water processes.

Both consultants approached the redesign with a similar methodology. The process started with gathering information, such as reviewing documents, interviewing staff and grantees, benchmarking with other government grantmakers, and researching industry best practices; then identifying themes and findings; and finally, developing recommendations that align with the recommendations from the audit, grantee feedback and the Valley Water Five-Year Diversity, Equity, and Inclusion Strategic Master Plan.

Grants Administration Redesign

Arabella Advisors developed seven priority #1 recommendations to help Valley Water achieve industry-standard grant timelines with its existing staffing levels, and five priority #2 recommendations to enable additional improvements to the grants program and grantee experience. All twelve recommendations below are ranked by impact.

Priority #1 Recommendations:

1. Right size CEQA process to align with peer best practices.
2. Streamline the legal review process.
3. Delegate oversight and revisions of grants program and amendments to lower levels.
4. Fully fund standard grant requests, even if that means funding fewer projects.
5. Align and simplify grant application questions with grant agreement templates.
6. Raise the mini-grant threshold from \$5,000 to \$10,000.
7. Eliminate match funding requirement for mini-grants and revise match funding requirement for standard grants.

Priority #2 Recommendations:

8. Develop a formal due diligence policy and procedure to assess financial risk and other risks based on grant type and grant amount.
9. Revise reporting requirements to better facilitate data reporting for impact assessment and consider revising or eliminating quarterly progress reports for standard grants.
10. Revise and rely on the indemnification clauses in grant agreements instead of requiring

burdensome insurance requirements.

11. Consider establishing a new grant cycle (e.g., every other year vs. annually) for standard grants based on grant complexity and staff capacity.
12. Optimize the use of grant management technology to improve grantee data collection, analysis and process management.

Standard Grants Project Criteria Redesign

Duckler Consulting proposed a right-sized standard grant process that scales the requirements based on risk and allows for flexibility in the project types accepted to adapt to the community's needs. The proposed changes will simplify the application process, support innovative community projects, and meet new grant requirements under Measure S.

The main recommendations for the standard grants project criteria redesign include:

- Restructuring the grant types into four categories based on project complexity and budget; size of risk based on CEQA requirements, permits and feasibility; and the types of activities.
- Setting minimum and maximum amounts per category and awarding 100% funding.
- Removing the match requirement for Education and Planning projects, which tend to be lower risk, and reduce the match requirement to 15% of the total project cost for Program and Implementation projects.
- Requiring grantees to identify the CEQA lead agency for implementation projects at the time of application. This specifies Valley Water's role as the responsible agency. If the grantee is a government agency, it can serve as the CEQA lead agency. If the grantee is a non-government agency, it must partner with a public agency to serve as the CEQA lead agency.
- Considering an annual grant cycle with alternating categories each year (Education, Planning and Program alternating with Implementation).
- Continuing to allow all project types, with multiple benefits, except Trails and Open Space projects, which will remain eligible for partnerships. Water conservation, pollution prevention, volunteer cleanups and education, and wildlife habitat restoration remain eligible for standard grants.
- Updating the eligible applicant types to include 501(d) religious organizations and removing for-profit entities which will be eligible for mini-grants and bottle refill station grants.

A table of the proposed standard grants framework is shown below.

Categories	Education	Planning	Program	Implementation
Request Range	\$10,001 to \$150K	\$10,001 to \$150K	\$10,001 to \$150K	\$50K to \$500K
Project Description	Strictly educational: presentations, curriculum / material development, videos, field trips / tours, etc. No physical change to the environment.	Planning, design, or feasibility studies only. Projects that will become CEQA compliant. No physical work.	For smaller-scale implementation projects (e.g., cleanups, gardens, minor restoration work, research that requires physical manipulation of land, etc.)	Capital / construction projects; other projects that require greater CEQA review

Agreement Term	Three years	Three years	Five years	Five years
CEQA Requirements	None	None	Subject to categorical exemption or deemed "not a project." Projects with greater CEQA review will be referred to Implementation. Valley Water may serve as the lead agency.	Will require a thorough CEQA review. Valley Water serves as the responsible agency. Grantee serves as the lead agency or partners with a lead agency.

Next Steps

Staff will continue to work with the consultants, grantees and internal Valley Water units to refine and update the redesign recommendations. Staff plan to present the redesign recommendations and associated policy decisions for consideration to the Valley Water Board of Directors and Board Policy and Planning Committee, which previously reviewed changes to grants administration.

ENVIRONMENTAL JUSTICE IMPACT:

There are no environmental justice and equity impacts associated with the grants audit progress report. This action is unlikely to or will not result in adverse impacts and is not associated with an equity opportunity.

ATTACHMENTS:

Attachment 1: Grants Audit Progress Report
Attachment 2: PowerPoint

UNCLASSIFIED MANAGER:

Donald Rocha, 408-630-2338

Grants Management Performance Audit Progress Report – January 2024 Update

#	Audit Recommendation	Implementation Status
1	Valley Water should consider developing clear guidelines for “right-sized” application and reporting processes, meaning that application and reporting requirements should be scaled to fit the size, risk, and complexity of each individual grant: - Valley Water should develop a formal due diligence policy and perform a due diligence review for high risk grant projects. A due diligence review of applicants determines the reasonableness of the grant and grantee’s ability to perform and assess the extent of the grantee’s reliance on grant funds. This would include analysis of managerial and fiscal capacity and past performance. For example, verify grantees have the requisite financial management systems that will produce invoice detail required by the grant agreement, or, gain an understanding of the type of system capabilities the non-profit has to assess whether they can comply with financial reporting required by the grant agreement. - For high-risk grants where financial statements are required, analyze fiscal health indicators of the entity and formalize the analysis within the grant file. For areas where Valley Water already implements a number of best practices such as checking GuideStar to verify the non-profits current status and to view the grantee’s IRS Form 990, staff should also memorialize its analysis in the grant file. - For smaller non-profits or community groups, based on risk, Valley Water should consider simplifying reporting requirements or developing alternative requirements for projects under a dollar threshold, like \$25,000, or establish a tiered structure and treat smaller projects similar to mini-grants.	In Progress – Target Completion FY24 Staff is working with two consultants to redesign the grants administration and the standard grants project criteria to address this recommendation. The grants redesign recommendations are anticipated to be approved for implementation in Spring 2024. In the meantime, staff continues to simultaneously implement other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects. To address item c. of this recommendation, currently the only reporting requirement for mini-grant projects is a one-page final project fact sheet that summarizes the project outcomes upon completion. No receipts or other supporting documentation is required. Staff also implemented an insurance waiver request form and process for low-risk grant projects. Staff launched the Refill Station grant funding opportunity to include a shorter/simpler agreement, fewer required reviewers and a shorter approval routing time, a streamlined CEQA review using a checklist, and an insurance waiver. The only reporting required from Grantees is to submit a photo of the final, installed station.
2	As new grants are awarded, an orientation for new grantees should be mandatory, and Civic Engagement should provide an electronically accessible grantee guide, outlining all requirements for programmatic and financial reporting compliance. This can be as simple as compiling existing documents, developing reporting templates and developing a process map and including instructions on who to call based on the nature of the question.	Achieved – November 2022 Staff began implementing kick-off/orientation meetings with all new standard grantees and partners after agreement execution in early FY21. Staff send an onboarding email to mini-grantees with the grant information as part of the award notification. Staff remain available and accessible to all grantees throughout the process. A consultant was hired to create a Grantee Guide to outline processes and procedures for applicants and grantees. These

		documents were completed and are being formatted for posting on the website. The documents will be continually updated as changes are made to the program.
3	Best practices suggest utilizing a grant management information system to run regular reports to track timeliness and to conduct other monitoring activities. While many monitoring functionalities for FLUXX remain in progress, we recommend, at a minimum, adding another column to the Grant Tracker spreadsheet to track the 45-calendar day payment window once initial contact has been made with the grantee. These payment cycle time metrics should be tracked and reported internally monthly, and to the Board Audit Committee quarterly.	Achieved – September 2021 Staff continue to track the timeliness and monitoring of grants activities. Staff continue to process invoices within the 30-day payment deadline once an invoice is approved. Since May 2023, 45 invoices were processed and approved for payment within 14 days, on average, after being submitted by the grantee.
4	Monitoring should be conducted, either manually or through automated reminder emails in FLUXX, to ensure that a progress report, or another form of communication from a grantee, is submitted quarterly ensure that Valley Water is kept apprised of project status and to ensure that work is aligned with the grant agreement.	Achieved – September 2021 Staff set up automatic reminders in the Fluxx grants management system, and continue to monitor grant projects by reviewing project status reports and following up via email.
5	In addition to right sizing invoicing requirements based on the grant’s risk level, Valley Water should right-size the level of progress reporting detail required for smaller dollar value standard grants, for example, under \$25,000.	In Progress – Target FY24 Staff is working with two consultants to redesign the grants administration and the standard grants project criteria to address this recommendation. The grants redesign recommendations are anticipated to be approved for implementation in Spring 2024. In the meantime, staff is simultaneously working on other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects. Currently, the only reporting requirement for mini-grant projects is a one-page final project fact sheet that summarizes the project outcomes upon completion. No receipts or other supporting documentation is required. Staff also implemented an insurance waiver request form and process for low-risk grant projects. Staff launched the Refill Station grant funding opportunity to include a shorter agreement, fewer required reviewers, and a shorter routing time, a streamlined CEQA review using a checklist, insurance waiver, and a photo of the final, installed station as the only reporting requirement.

6	Valley Water should explore where, within existing District policies, it can augment grant requirements for grant agreements and invoicing for certain grantees based on risk: partnerships, repeat grantees, establish grant value thresholds, and determine whether the number of approvals and signatures for payments are appropriate. At a minimum, for smaller, lower risk grants, Valley Water should re-assess its reporting and invoicing requirements based on risk, dollar value, and project complexity. - For example, Valley Water could treat grant agreements up to \$25,000 like mini-grants and expedite payment for low-risk grants and low dollar amount invoices from trusted long-term grantees. Valley Water could consider paying unquestioned amounts earlier, and focus more scrutiny on riskier, larger dollar amount invoices from new grantees. - Valley Water could also consider reimbursing expenses when invoiced and then using the closeout process to reconcile remaining amounts below a reasonable threshold. For example, if a grantee bills \$10,000 for its performance, and Valley Water questions \$500 of that amount, it could consider paying the unquestioned amount first, then resolve the questioned amount by project. - Staff should focus their review on whether grantee costs are reasonable, allocable and allowable in accordance with the project budget and grant agreement guidelines. Spot checks would be performed to ensure calculations are correct and that receipts match the totals. The level of scrutiny applied and depth of review would be based on the grant and grantee risk factors, as determined by management.	In Progress – Target FY24 Staff is working with two consultants to redesign the grants administration and the standard grants project criteria to address this recommendation. The grants redesign recommendations are anticipated to be approved for implementation in Spring 2024. In the meantime, staff is simultaneously working on other ways to “right-size” the grants guidelines and simplify reporting requirements for smaller projects. Currently, staff is approving partial payment for unquestioned amounts in invoice reimbursement requests or withholding a 10 percent retention that is approved for payment after the required supporting documentation has been submitted.
7	Should Valley Water decide to continue to require the same information for progress and invoice submission, they should: - Confirm the integrity of grantee financial management system data used for review before award. - Include language in the grant agreement such as, “Failure to submit an accurate financial invoice in a timely manner may result in payments being withheld, delayed, or denied, and will result in payment delays”.	In Progress – Target FY24 Staff is working with two consultants to redesign the grants administration and the standard grants project criteria to address this recommendation. The grants redesign recommendations are anticipated to be approved for implementation in Spring 2024. Since September 2021, the auditor’s suggested language has been incorporated into the agreement templates for standard grants and partnerships.

8	Valley Water should solicit grantee and partnership feedback regularly, conducted by an independent third party, as best practices suggest. In addition to assessing satisfaction with the program, inquiries should be made to determine the extent to which partial funding has impacted the grantee and the project.	Achieved – September 2021 A consultant conducted an anonymous survey of grantees in July 2021 and results were presented to the Board Audit Committee in September 2021. The 2022 grantee and partner survey was conducted by an independent third party in November 2022 and the results were presented to the Board Audit Committee in December 2022. Staff will use the survey results to improve the program as part of the redesign effort and plans to continue to annually collect feedback from grantees. Staff is embarking on the 2023 grantee and partner survey and expects to launch it in early 2024.
9	Valley Water should determine a reasonable goal and timeline for final closeout and final payment, including the release of retention. The established dates and timelines should be monitored in the Grant Tracker and when possible, included in any automated flags and alerts that FLUXX can provide.	Achieved – September 2021 Staff established a 60-day timeline to close out a project after the final invoice is paid in full, and continue to track and monitor it the grants tracking sheet on a weekly basis.
10	Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.	Achieved – November 2022 A consultant was hired to work on the Grants Manual to outline processes and procedures for staff. These documents were completed and are being formatted for posting on the internal website for staff. The documents will be continually updated as changes are made to the program.
11	To ensure that staff understand and carry out their internal control responsibilities, and to promote accountability, Valley Water should consider reconfiguring job assignments to enhance the grants management function once the backlog has been addressed and policies and procedures are developed: a. Option 1: Assign Staff by Priority Area and Specific Grants. This would allow staff to become familiar with the priority area, programs and grantees, as well as create a balanced number of programs a grant manager is expected to manage. This would benefit the grantee with the assignment of a single point of contact for questions at any phase of the project. This would allow for important information concerning a grantee, and project details learned in the application stage to transfer to active project management and throughout the life of the	Achieved – September 2021 The staff positions have designated roles and responsibilities. However, one position was recently promoted out of the grants program to another Valley Water division, and recruitment efforts are underway to fill the vacancy as soon as possible. The grants team continues to meet weekly to ensure sufficient cross-training on all grants management tasks and active items to ensure cohesive, consistent, and uninterrupted customer service to all grantees. The grants team identified individual training opportunities through the Valley Water annual goal-setting process to continue learning industry best practices and expand knowledge of grants

	project. The downside to this option is that grant managers would still be required to perform duties that they might not have the technical capacity, knowledge or authorization to properly perform, such as a subject expert having responsibility for invoice processing, or a finance and accounting expert having responsibility for program oversight. b. Option 2: Split Application and Active Grant Management Duties. Civic Engagement may consider dividing the work performed during the application cycle and work performed during the active project management cycle into two separate positions or teams. From an efficiency perspective, this delineation could improve overall workflow by decreasing bottlenecks that occur during certain times of the year (e.g., the allocation/application cycle) and ensure that a sufficient number of staff remains focused on active grant management, such as invoice review processing and monitoring. Additionally, with such a delineation of duties, one individual could be assigned to or specialize in contracts and billings for all grants. c. Once job assignments are determined, the Supervising Program Administrator and Unit Manager should develop a training manual and schedule that clearly identifies the type of training needed to effectively perform specified job duties to address any gaps in staff knowledge, skills and abilities. d. As the Safe, Clean Water grants program grows, and the grants management function within Civic Engagement expands, develop grants management position descriptions.	management. Staff continues to explore and participate in additional grants training to ensure best practices continue to be updated and implemented.
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Valley Water

Clean Water • Healthy Environment • Flood Protection



Safe, Clean Water Grants Management Performance Audit Progress Report

Board Audit Committee
January 17, 2024

Progress Update

Of the **11** recommendations:

- **7** recommendations were **achieved**
- **4** recommendations are **in progress**, and on target to be achieved in **FY24** with the completion of the grants redesign and right sizing.

4 Recommendations In Progress

- #1 - Scale the application and reporting requirements to fit the size, risk, and complexity of each individual grant
- #5 - Base invoice requirements on the grant's risk level
- #6 - Re-assess reporting and invoicing requirements based on risk, dollar value, and project complexity
- #7 - If continuing as is, should confirm the grantee's financial management system data before award.

Grants Redesign Approach

Grants Administration

- Focus on right-sizing the grants administration for the application, agreement, reporting, and invoicing.
- Address the audit recommendations.

Standard Grants Project Criteria

Focus on updating the project types and criteria to:

- align with the expanded Measure S program;
- match current industry standards; and
- accommodate innovation and new ideas through multi-benefit projects.

Grants Redesign Methodology

6

Information Gathering

- Review documents and desk research
- Internal staff interviews
- External grantee interviews
- Benchmarking with other government grantmakers
- Research industry best practices



Identify Themes and Findings



Develop Recommendations

- Align with audit recommendations
- Align with DEI Master Plan recommendations

valleywater.org

Grants Administration Redesign

Recommendations

- **7 priority #1 recommendations** will help Valley Water achieve industry-standard grant timelines with its existing staff.
- **5 priority #2 recommendations** will enable additional improvements to the grants program and grantee experience.

Priority #1 Recommendations

1. Right size CEQA process to align with peer best practices.
2. Streamline the legal review process.
3. Delegate oversight and revisions of grants program and amendments to lower levels.
4. Fully fund standard grant requests, even if that means funding fewer projects.
5. Align grant application questions with the grant agreement template.
6. Raise the mini-grant threshold from \$5,000 to \$10,000.
7. Eliminate match funding requirement for mini-grants and revise match funding requirement for standard grants.

Priority #2 Recommendations

8. Develop a formal due diligence policy and procedure to assess financial risk and other risks based on grant type and grant amount.
9. Revise reporting requirements to facilitate the gathering of data for impact assessment and consider revising or eliminating quarterly progress reports for standard grants.
10. Revising and relying on the indemnification clause in the grant agreements instead of requiring burdensome insurance requirements.
11. Consider establishing a new grant cycle (e.g. every other year vs. annually) for standard grants based on grant complexity and staff capacity.
12. Optimize the use of grant management technology to improve grantee data collection, analysis and process management.

Standard Grants: Project Criteria

10

- Moving away from limited, singular benefit categories to a “right-sizing” approach based on project features
- Four grant categories based on:
 - Size of project and budget
 - Size of risk: CEQA, permits, feasibility
 - Activity type: educational, planning, implementation, etc.

Categories	Education	Planning	Program	Implementation
Request Range	\$10,001 to \$150K	\$10,001 to \$150K	\$10,001 to \$150K	\$50K to \$500K
Project Description	Strictly educational: presentations, curriculum/material development, videos, field trips/tours, etc. No physical change to the environment.	Planning, design, or feasibility studies only – to become CEQA compliant. No physical work.	For smaller-scale implementation projects (e.g., cleanups, gardens, minor restoration work, research that requires physical manipulation of land, etc.)	Capital/construction projects; other projects that require greater CEQA review
Agreement Term	Three years	Three years	Five years	Five years
CEQA	None	None	Subject to categorical exemption or deemed “not a project.” Projects with greater CEQA review will be referred to Implementation. Valley Water may serve as the lead agency.	Will require a thorough CEQA review. Valley Water serves as the responsible agency: Gov’t agency grantees will be lead agency; Non-gov’t grantees must partner with a public agency to be lead agency.

Next Steps

12

Board of Directors review	Target: early 2024
Board Policy and Planning Committee review	Target: early 2024
Board of Directors review and adoption	Target: Spring 2024
Implement the recommendations and release the next standard grant cycle	Target: Fall 2024

QUESTIONS



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Santa Clara Valley Water District

File No.: 24-0033

Agenda Date: 1/17/2024

Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Discuss the Board Audit Committee's (BAC) Annual Self-Evaluation Process of Calendar Year 2023 Activities; Provide Guidance Regarding Preferred Method to Conduct Process; and Request the Chief Audit Executive (CAE) to Conduct Self-evaluation Process and Return to Provide Summary of Discussions.

RECOMMENDATION:

- A. Discuss the BAC's annual self-evaluation process of calendar year 2023 activities; and
- B. Provide guidance regarding preferred method to conduct process; and
- C. Request the CAE to conduct self-evaluation process and return to provide summary of discussions.

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 December 12, 2023, the Board approved the latest revision of the BAC Audit Charter that provides detailed guidance regarding how the BAC should carry out its functions and to guide the work of the CAE, Sjoberg Evashenk Consulting, Inc.

According to Article 10, paragraph 4 of the BAC Audit Charter, the BAC shall conduct a self-evaluation of its performance annually. The Committee shall conduct the evaluation of its performance to determine whether it is functioning effectively and to discuss with the Independent Auditor any observations related to the effectiveness of the Committee. The Committee shall prepare a formal report based upon each such self-evaluation and shall provide such report to the full Board following its adoption by the Committee.

In previous years, the self-evaluation process was initiated when BAC members were given an

evaluation template to consider, complete, and return to the CAE for analysis and summary.

However, for calendar year 2022, a revised process was utilized in which the CAE conducted interviews with the Committee members to obtain insight regarding the Committee's performance as well as opportunities for improvement.

For reference purposes the results of the calendar year 2022 self-evaluation revealed that BAC members generally agreed that the overall governance and activities of the committee were aligned with its charter. However, members did raise specific areas where improvements may be achieved, and value added. These included:

- Enhancing the BAC's approach and consideration of emerging risks, including revisiting the 2021 Risk Assessment and considering risk factors that may pose future threats
- Promoting transparency by developing a repository of Board-commissioned audits
- Maintaining and increasing open communication between Board directors and the Chief Audit Executive
- Continuing to emphasize Valley Water's collaborative approach to audits, focusing on continuous improvement while minimizing the potentially adversarial nature of audits and building buy-in from management and staff

The purpose of this agenda item is to discuss the initiation of the annual self-evaluation process of calendar year 2023 activities and provide guidance to the CAE regarding the BAC's preferred method to conduct the process.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item.

ATTACHMENTS:

None.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



Santa Clara Valley Water District

File No.: 24-0034

Agenda Date: 1/17/2024

Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Request Chief Audit Executive (CAE) Activity Report from Sjoberg Evashenk Consulting, Inc. to Evaluate CAE Performance, and Direct CAE to Return to Present Report at a Later Date.

RECOMMENDATION:

- A. Request CAE activity report from Sjoberg Evashenk Consulting, Inc. to evaluate CAE performance; and
- B. Direct CAE to return to present report at a later date.

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.

Per the BAC Charter, Article III, Paragraph 9, the BAC is tasked annually with evaluating Board Auditor performance. The purpose of this agenda item is to request the Board Auditor Activity Report from the CAE to assist in performing the evaluation.

Past activity reports from the CAE provided a summary of accomplishments and activities, meeting attendance, task order completion, and a financial overview.

For this agenda item, the Committee may request the CAE to report on similar areas as addressed in past reports or on areas as determined by the Committee.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item.

File No.: 24-0034

Agenda Date: 1/17/2024
Item No.: 4.3.

ATTACHMENTS:

None.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



Santa Clara Valley Water District

File No.: 24-0031

Agenda Date: 1/17/2024

Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Discuss Proposed 2024 Annual Audit Work Plan and Provide Further Guidance as Needed.

RECOMMENDATION:

- A. Discuss the proposed 2024 Annual Audit Work Plan; and
- B. Provide further guidance as needed.

SUMMARY:

On November 15, 2023, the Chief Audit Executive (CAE) presented the 2023 Risk Assessment Final Report (Attachment 1) to the Board Audit Committee (BAC) assessing operational risks to the Santa Clara Valley Water District ("Valley Water"). The Risk Assessment analysis helped to develop heat maps of Valley Water operational areas based on risk impact (low, moderate, and high risk). The results of the risk assessment included input from Valley Water's Board of Directors (the Board), executives, and management and was used to help develop the proposed 2024-2026 Annual Audit Work Plan, included as Appendix B of Attachment 1. The CAE identified and discussed with the BAC the 12 audit topics identified as the highest priority in the Risk Assessment. The BAC then instructed the CAE to present the same information to the full Board for discussion and feedback.

On December 12, 2023, the 2023 Risk Assessment Final Report was presented to the Board for discussion. The CAE received comments/feedback from the Board and discussed that feedback at the December 20, 2023, BAC meeting. The BAC members agreed on the following four (4) audit topics as the Proposed 2024 Annual Audit Work Plan, which will be recommended to the full Board for approval at their January 23, 2024, meeting:

- 1) Capital Project Delivery
- 2) Compliance with and Progress Toward Meeting Board Policies
- 3) Human Resources
- 4) Information Technology

During the December 20, 2023, BAC meeting, the CAE recommended staggering the start dates for these audits to and the assignment of a portion of the audit engagements to the pool of firms

available to the BAC. Toward this end, the CAE proposes the following schedule for consideration. This schedule is intended to achieve the completion of each performance audit by December 2024, with the potential that one audit, the performance audit of Valley Water's compliance with and progress toward meeting board policies, may extend into early 2025. The CAE also proposes that Sjoberg Evashenk Consulting conduct two performance audits-Capital Project Delivery and Board Policies-and the other two firms available to the BAC perform the remaining two performance audits.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Capital Project Delivery												
Information Technology												
Human Resources												
Board Policies												

The CAE will also discuss the concerns of the Board regarding the timing of the Capital Project Delivery performance audit, as well as the scope of work to be defined versus the scope of work from prior audits such as the recently conducted CIP audit.

The purpose of this agenda item is to discuss the proposed 2024 Annual Audit Work Plan, and the potential schedule of upcoming audits.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. The Annual Audit Workplan serves as a tool for communicating audit priorities as determined by the BAC and the Board of Directors.

ATTACHMENTS:

Attachment 1: 2023 Risk Assessment Final Report

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

Santa Clara Valley Water District Independent Board Auditor

Districtwide Risk Assessment – 2023

November 2023



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Introduction

The Santa Clara Valley Water District (Valley Water or District) asked Sjoberg Evashenk Consulting to conduct a districtwide risk assessment as part of a long-term internal audit planning process. A fundamental component of a successful internal audit function requires determining which departments, programs, or activities to audit—and allocating scarce audit resources in a way that adds the greatest value to the District. As such, the purpose of this project was to identify key organizational units, programs, or operations of Valley Water and to assess each in terms of the potential risk factors that could impede the effective delivery of services, reduce operational efficiency, or impair transparency and public accountability. As the relative magnitude and prevalence of potential risk factors associated with key programs increase, so too does the potential value a performance audit of the program will be to Valley Water.

Background

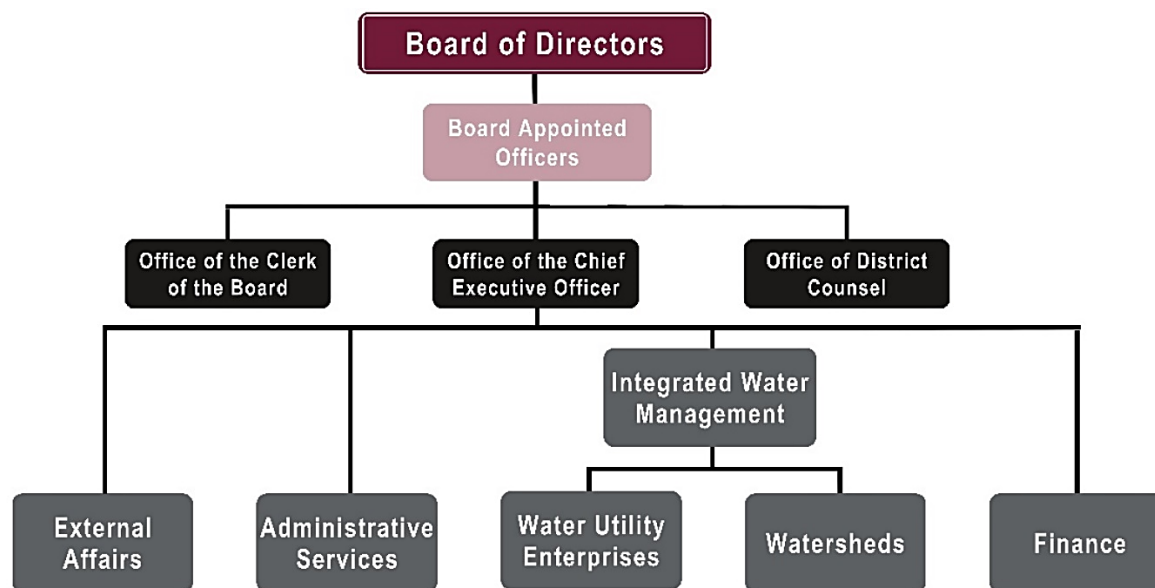
The Santa Clara Valley Water District (Valley Water) is Santa Clara County's water resource management agency responsible for providing safe, clean water, flood protection, and stewardship of streams through its management of water treatment and distribution systems, construction and maintaining flood control channels, and overseeing water rate setting and conservation efforts. The mission of Valley Water is to provide safe, clean water for a healthy life, environment, and economy.

Valley Water is led by a seven-member Board of Directors (Board), with each Board director representing one of seven equally-divided districts in the Silicon Valley. The Board is responsible for establishing policy, adopting resolutions, and establishing the directives, goals, and objectives that guide all the work of Valley Water employees—including the overall vision for the District. These are documented in three formal types of policies:

- Board Governance Policies—policies which guide the practices of the Board itself.
- Executive Limitations Policies—policies which establish the responsibilities of the Chief Executive Officer and delegations of authority.
- Ends Policies—policies that establish the goals and objectives that the Board has for the District, and the ends toward which the Chief Executive Officer is charged to achieve.

Three District officers are appointed by and report directly to the Board: The Chief Executive Officer (CEO), District Counsel, and the Clerk of the Board. The Office of District Counsel serves as legal counsel to the Board and advises the Board and Valley Water management regarding all legal matters. The Clerk of the Board staffs all Board and committee meetings and serves as the District's election official and the custodian of official records of the District. The CEO oversees all executive operations of Valley Water, including Integrated Water, which is managed by the Assistant Chief Executive Officer and includes the Water Utility and Watershed business areas, as well as several units that collectively support Valley Water's capital infrastructure plan. In addition to Integrated Water, the CEO also oversees three critical departments: the Financial Planning and Management Services Department, Office of Administrative Services, and the Office of External Affairs. Valley Water's organizational chart is depicted in Exhibit 1.

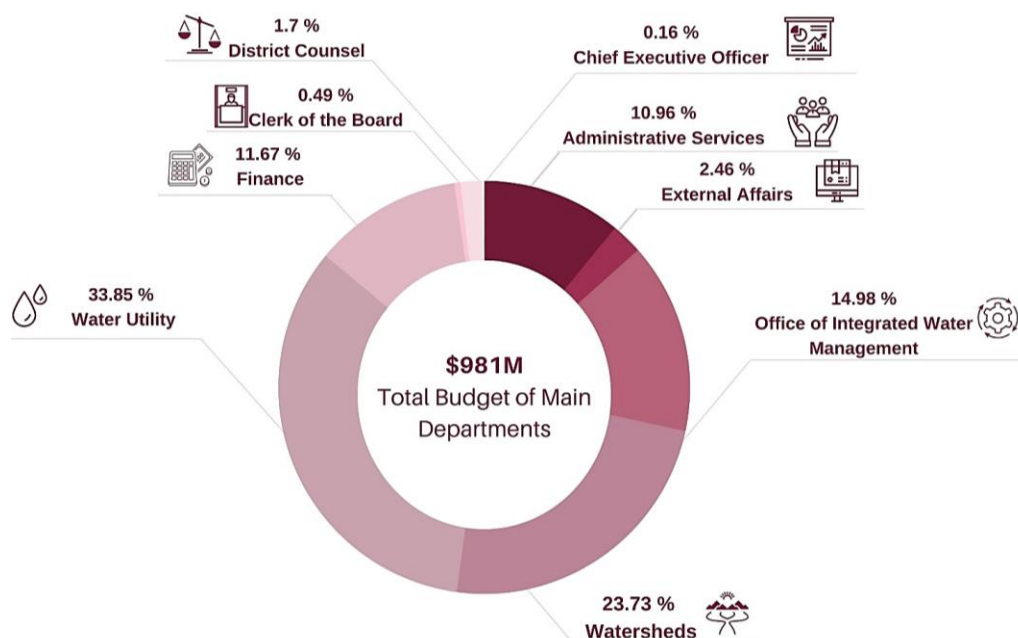
EXHIBIT 1. VALLEY WATER ORGANIZATION CHART



Source: Official Valley Water Organization Charts

As illustrated below, Valley Water's Fiscal Year 2023-24 budgeted operating expenses totaled approximately \$857 million,¹ of which Integrated Water, Watershed, and Water Utility Enterprise business areas comprise roughly 80 percent of all District expenditures.

EXHIBIT 2. ALLOCATED BUDGETED EXPENDITURES BY DEPARTMENT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

¹ Elsewhere in this report, we refer to approximately \$981 million in budget appropriations. The difference between Valley Water's total \$857 million budget and individual department appropriations of \$981 million, which includes intra-district reimbursements of \$124.9 million, and these net to total operating and capital outlays of \$856.6 million.

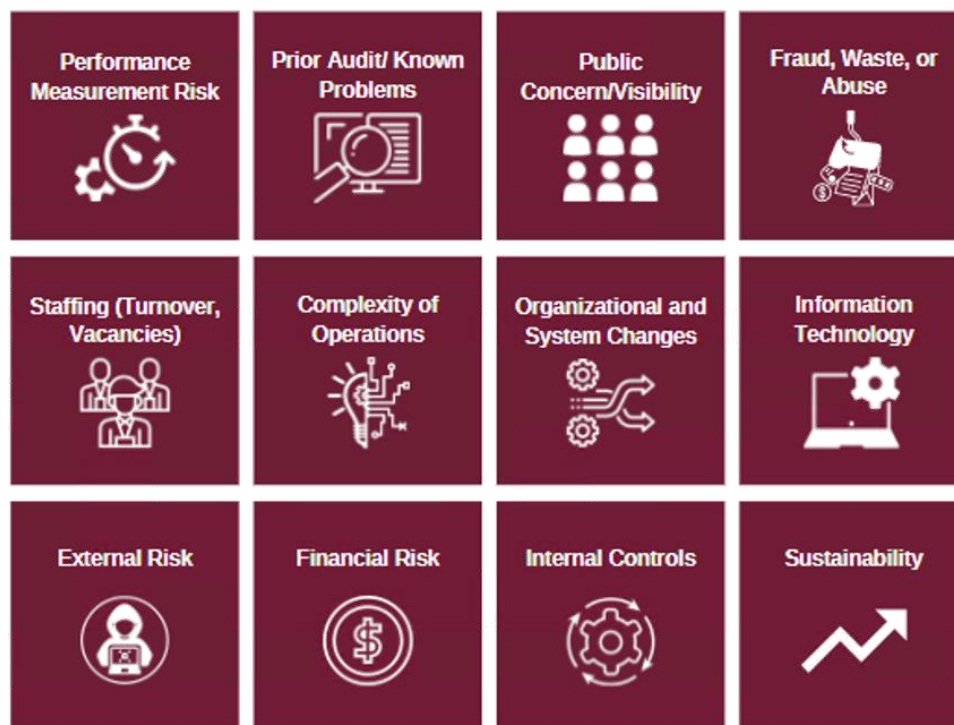
Risk Assessment Approach

The Charter of the Board Audit Committee (BAC) states that the BAC shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, tri-annually, and that the full Board shall approve an annual audit plan. Audit standards issued by the Institute of Internal Auditors require that the chief audit executive establish a risk-based plan to determine the priorities of the management audit activity, and that the plan be consistent with the organization's goals. The purpose of a risk assessment is to help ensure that limited audit resources are deployed in a manner that fulfills the purpose of Valley Water by identifying inherent risks to the successful execution of district operations, programs, and services; and differentiating between all the potential risks and areas of interest and prioritizing them based on the potential value that the audit may provide to Valley Water. This process is intended to facilitate a deliberative approach to directing limited audit resources and to inform management of potential areas of risk for which it may wish to take action; it is not intended to provide specific conclusions regarding an organization's operations or programs, or to present specific recommendations for improvement.

To fulfill the strategic purpose of a districtwide risk assessment, our team interviewed nearly 30 District officers and managers to gather information about Valley Water operations, programs, and functions; to identify potential and inherent risks to the achievement of the missions, objectives, and goals of each; and to discuss current initiatives and activities of the departments. We also obtained and evaluated current and historical background information for each office, department, and program, including information available through Valley Water's website, program descriptions, budget documentation, strategic plans and annual reports, policies and procedures, and other relevant documentation, etc. In doing so, we identified the audit universe and auditable units, including District departments and the defined programs, services, and functions carried out by each department, and identified the sources and types of risks associated with the missions, objectives, and goals of each.

Some information was obtained directly from objective reporting of past and current performance. This includes the relative size of one department's budget or workforce in relation to other departments, one department's financial exposure resulting from claims filed as compared to other departments, the number of contracts or capital projects managed by one department as compared to others, as well as key performance indicators and departmental performance reports. Other information was obtained through subjective analyses of current issues and trends affecting each department. This includes understanding and assessing public concern related to certain programs, services, or functions of District government; determining the extent to which certain problems are already known, such as through the press or previously completed audits or studies; or the extent to which previously manual activities have been automated. Both subjective and objective risk categories drive the ultimate calculated risk score for each department and program area, and the relative risk associated with each when compared to other Valley Water departments or program areas. Exhibit 3 illustrates the types of risk factors considered as part of this risk assessment.

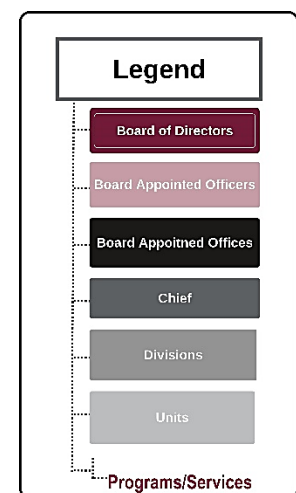
EXHIBIT 3. RISK SOURCES & TYPES RELATED TO THE ADMINISTRATION OF DISTRICT DEPARTMENTS AND PROGRAMS



Based on information provided and auditor judgement, we assessed each organizational unit and program in terms of the potential risks that could impede effective delivery of services, reduce operational efficiency, or impair transparency and public accountability. In doing so, we prepared “risk profiles” for each department, which include an organizational chart for each department that reflects the functional responsibilities of each department, division, unit, and program. The structure of the appropriate department will be displayed in an organizational chart reflecting the legend on the right. The risk profiles also include general indicators of the size of the division, a description of the core functions of the division and inherent risks and general concerns associated with the division’s operations. In short, inherent risks are factors that may impede the ability of the division to achieve, in an effective or efficient manner, its core functions.

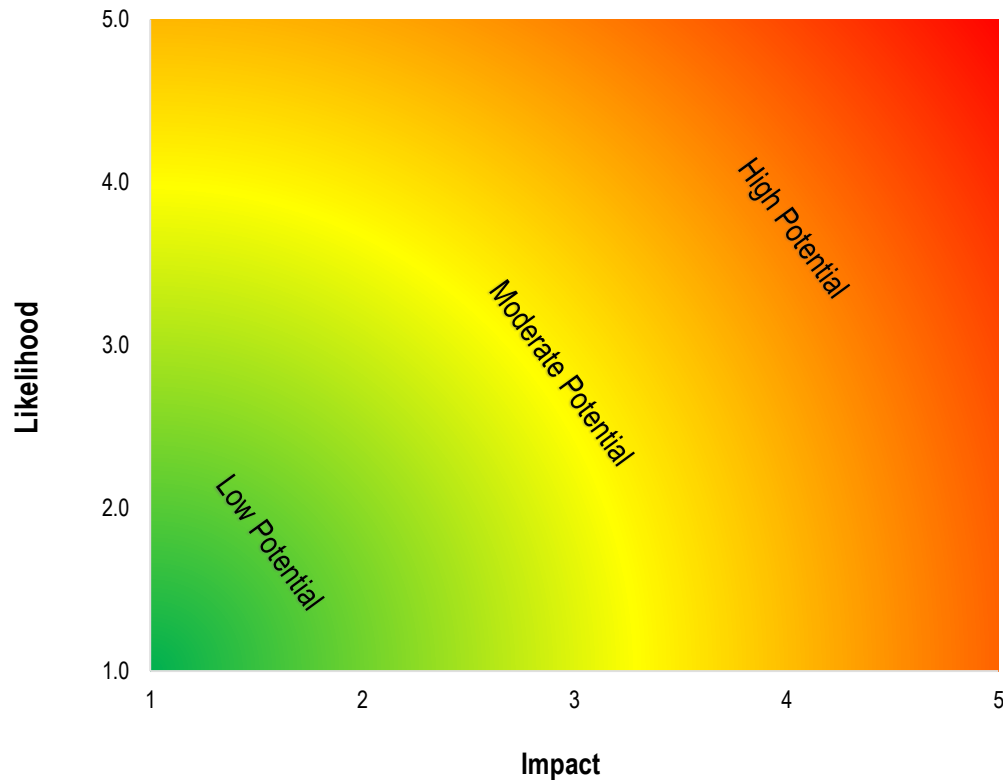
While this report presents risk ratings for key departments, divisions, and programs, it is important to note that a high-risk score is not indicative of poor performance, lacking internal controls, or bad business practices. Rather, risk scores indicate the extent to which key programmatic or operational areas within District departments present sufficient inherent risks to warrant audit resources, and the extent to which we believe a performance audit of that area will yield value to Valley Water.

To illustrate our assessment of risk associated with the auditable units within each department as compared to each other and to other divisions throughout Valley Water, we include in each department profile a heat map similar to that shown in Exhibit 4. This is meant to illustrate the extent to which, or



likelihood that, inherent risks associated with core District functions warrant audit resources and the potential impact that such an audit could have in assisting Valley Water to address current and emerging challenges—that is, the relative value of spending audit resources in one business area of the District versus another area.

EXHIBIT 4. SAMPLE HEAT MAP



Based on our assessment of risk, we present numerous audit topics related to each division and/or program. A larger audit could include each of these as a specific audit objective; smaller audits could address just one or two of the topics listed in each profile.

This approach is designed to provide Valley Water with information necessary to develop an audit plan that focuses on those areas within District government that are most likely to benefit from a performance audit. It is also designed to present the rationale behind our risk ratings to the BAC, and to facilitate an open and deliberative forum to discuss audit priorities and to determine the focus of limited audit resources.

Department Risk Profiles

This section presents background information and risk profiles for each of Valley Water's key departments, including offices reporting directly to the Board of Directors—the Chief Executive Officer, District Counsel, and Clerk of the Board—as well as the departments reporting directly to the Chief Executive Officer: Administrative Services, External Affairs, Financial Planning and Management Services, and Integrated Water. Each profile includes a discussion of a Valley Water department; background information, core functions, key statistics and characteristics, inherent risks, and challenges associated with each; and potential audit topics designed to address those areas where internal audit resources could prove most valuable.

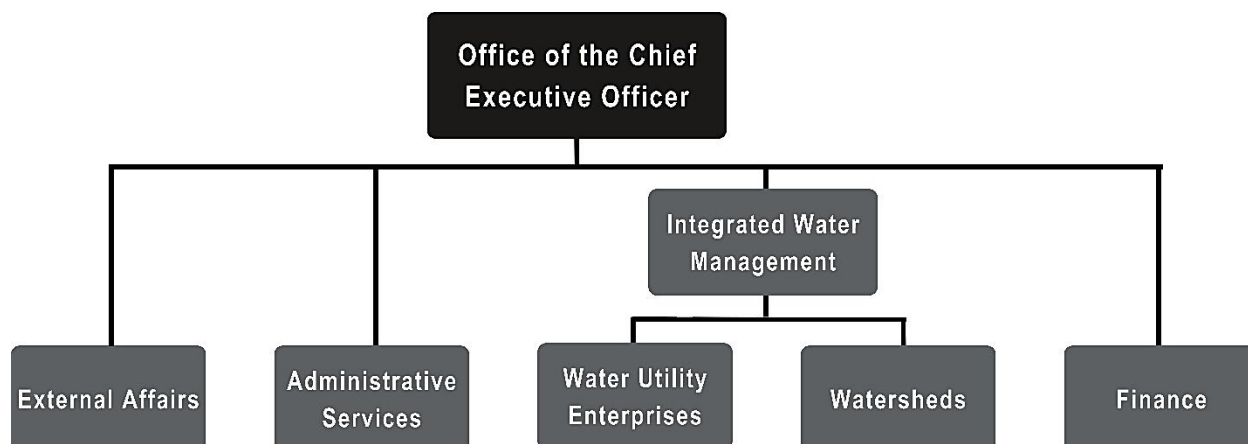
Office of the Chief Executive Officer

With a Fiscal Year 2023-24 budget of approximately \$1.5 million and a staff of 3 FTE positions, the Office of the CEO represents less than one (1) percent of the District's overall budget. The Office of the CEO is responsible for all operations of the District, carrying out policies and direction of the Board, making recommendations to the Board on a variety of issues, appointing and supervising subordinate officers of the District, ensuring compliance with Board policies, being responsive and available to the community, and achieving Valley Water's objectives, goals, and mission. The Assistant Chief Executive Officer, Chief Financial Officer, Chief Operating Officer of External affairs, and Chief Operating Officer of Administration all report directly to the CEO.

The Office of the CEO provides strategic direction and supervision to guide the organization in fulfilling Valley Water's mission, achieve the Board's Ends Policies, support the Board of Directors, and comply with the Board's Executive Limitations Policies. During Fiscal Year 2023, the Office of the CEO reported achieving several notable accomplishments, including continuing to lead the Valley Water throughout the ongoing drought and the COVID-19 pandemic; prioritizing investments in critical infrastructure and the safety of Valley Water staff; and delivering safe, clean, and reliable water to Santa Clara County. Exhibit 5 illustrates the distribution of the CEO's direct reports.



EXHIBIT 5. OFFICE OF THE CHIEF EXECUTIVE OFFICER ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of the CEO, on its own, has a relatively low budget and FTE allocation when compared to other organizational units. However, its role in implementing Board policy and strategic initiatives, developing budgets, monitoring resource allocation, and framing and messaging District priorities and communications place the Office in a position of strategic importance and high public visibility. The CEO's role is multifaceted, as they must balance the District's Ends Policies to serve the needs of Santa Clara County while adhering to executive limitations that set specific boundaries on the Office's authority. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

Office of the Chief Executive Officer		
The CEO is responsible for the success of Valley Water. This includes successfully providing safe, clean water for a healthy life, environment, and economy. It also includes doing so in a manner that is responsible, sustainable, and alignment with Board policies. The CEO employs experts to directly manage distinct business areas within the District, including Finance, Administration, External Affairs, and the core operations of the District: Integrated Water Management, including Water Utility Enterprises and Watersheds. This encompasses supply management, flood protection, environmental stewardship, and more, all aimed at serving Santa Clara County's 1.9 million residents as well as a significant and diverse business community. The CEO coordinates the flow of information between management, the Board, and various committees, and provides administrative and logistical support to the Board.	Budget: \$1,579,221	
	FTE: 3	
	Inherent Risks: As the leader of Valley Water, the greatest risk facing the CEO relates to the successful delivery of safe, clean water, consistent with the mission of Valley Water. From the perspective of the Board, however, the question is not limited to whether the CEO achieves this mission, but it is also essential that the CEO so in a manner compliant with established policies—both Ends Policies and Executive Limitations. This requires transparency in management reporting, goal-driven performance measurement and evaluation, and assurances of compliance with Executive Limitations Policies.	

Risk Summary

The operational responsibilities of the Office of the CEO are typically addressed by performance auditors by focusing on specific programs under the purview of the CEO, such as programs administered by

Finance, Administration, External Affairs, Integrated Water Management, Water Utility, or Watersheds. The Officers overseeing each major program area would address potential audit findings, recommendations, and corrective action.

There are certain performance audits, however, that go beyond the purview of any particular departmental officer or manager, and those pertain primarily to matters of governance: reporting to the Board of Directors; establishing policies and procedures; establishing a sound tone-at-the-top that focuses on the importance of achieving goals and the organizational mission while also emphasizing the importance of internal control, transparency, and accountability; establishing and monitoring systems of performance measurement and evaluation; and ensuring compliance with Board policies and other legal or regulatory requirements.

Based on this assessment, there are two audit topics that ranked the highest and warrant consideration for future audit planning. These include:

- 1) The District's overall approach to performance measurement, the purpose of which would be to identify ways to build upon exiting performance metrics in a manner that provides the Board reasonable assurances that metrics exist to evaluate progress to achieving Ends Policies, as well as to evaluate the overall efficiency and effectiveness of Valley Water operations.
- 2) The Districts overall compliance with Board policies, including Board Governance Policies, Ends Policies, and Executive Limitations Policies.

Office of the Clerk of the Board

With an approximate Fiscal Year 2023-24 budget of \$5.6 million—representing 0.6 percent of the District's overall budget—and 15 FTE positions, the Office of the Clerk of the Board supports the Board of Directors and serves the public by providing records maintenance and management services, staffing Board and committee meetings, serving as Valley Water's election official, and overseeing the Records & Library Services Unit. These services include directly supporting the work of the Valley Water Board of Directors; preparation, posting and maintenance of agendas, minutes, ordinances, resolutions and contracts of the Board of Directors; coordinating advertisement of legal notices; maintaining and updating Board resolutions and policies (including Board Governance Policies, Ends Policies, and Executive Limitations Policies); managing and publishing Board and committee agendas and minutes in accordance with the Brown Act; receiving official records; responding to public records requests in a timely manner, and ensuring compliance with the Public Records Act; coordinating with the County of Santa Clara



Key Statistics and Responsibilities

FY 2023/24

FTEs:	15		0.49%
Budget:	\$4.8M	 Total Budget \$981M	Total Budget

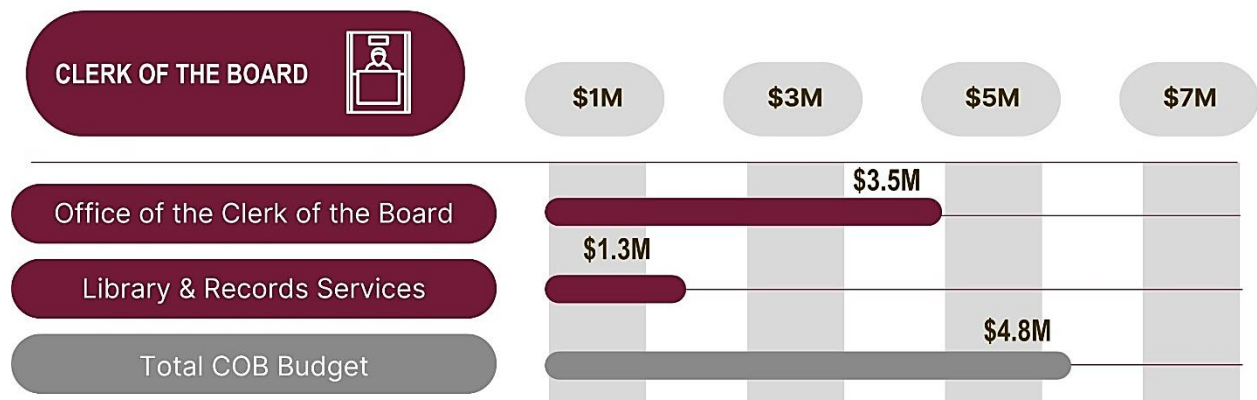
- Oversees the Records & Library Services Unit.
- Directly supports the work of the Board of Directors, facilitating the public's access to Board information, and monitoring the Board budget and Board members' expenses.
- Serves as Valley Water's election official.

on all matters related to elections; and monitoring the Board budget and Board members' expenses in accordance with District Ordinance 02-01, Resolution 11-73, Board Governance Policy GP-10.

In Fiscal Year 2023, the Office of the Clerk of the Board cites various accomplishments, including having successfully managed over 33 Regular Board Meetings and over 100 Board Committee Meetings in accordance with the District Act, Board Policies, and the Brown Act; successfully scheduled over 1,000 meetings for individual Directors; and tracked, monitored, and reported on the registration of external lobbyists in accordance with Ordinance 10-01.

The Office of the Clerk of the Board is organized into two units: the Clerk of the Board and the Records & Library Services. Exhibit 6 below is a breakdown of each division's budgeted expenses for Fiscal Year 2023-24.

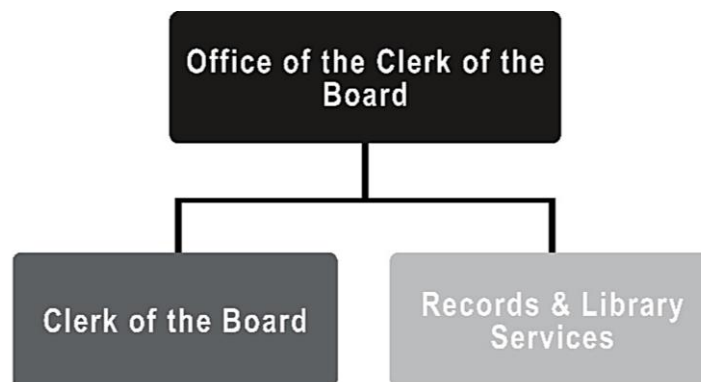
EXHIBIT 6. BUDGET BREAKDOWN BY DEPARTMENT



Source: FY 2022-23 & Fiscal Year 2023-24 Operating and Capital Rolling Biennial Budget

The Office of the Clerk of the Board allocates functional responsibilities to each of the two units as depicted in Exhibit 7 below.

EXHIBIT 7. OFFICE OF THE CLERK OF THE BOARD DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of the Clerk of the Board plays a pivotal role in Valley Water's governance, but it faces inherent risks that require careful management. Chief among these risks is the potential for improper documentation and minute-taking during Board meetings, which could compromise transparency and governance procedures. The evolving landscape of governance procedures necessitates continuous compliance efforts. Efficient management of a large volume of documents, including publicly recorded ones, is essential to prevent delays and resource misallocation.

Moreover, tracking lobbying activities demands vigilance to ensure compliance and accurate reporting. Lastly, the office must balance its involvement in policy reviews and maintain a high-level perspective to mitigate risks related to inefficiency or insufficient support of core operations. To successfully navigate these challenges, the Clerk of the Board should maintain meticulous record-keeping, stay current with governance procedures, and continually evaluate and optimize their operations while upholding the transparency and integrity of Valley Water's governance processes. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

OFFICE OF THE CLERK OF THE BOARD	
The Office of the Clerk of the Board oversees the Records & Library Services Unit as well as completing work regarding coordinating information between the Board Committees and the Board, and Committee Oversight Manager; providing administrative and logistical support to the Board committees; managing Board committee membership; ensuring agenda and meetings are in compliance with the Brown Act; coordinating, posting and distributing Board committee and Board agenda items; supporting and assisting Board committee chairs during meetings; managing Board committee work plans; tracking and managing Board committee attendance; managing historical records of Board committees; keeping accurate records of the proceedings of the Board and all committees; keeping a record of all Board resolutions and actions of the Board of Directors in such manner that the information contained therein will be readily accessible to the public; and managing Board committee web pages.	Budget: \$ 3,517,767 FTE: 10 Inherent Risks: Inefficiencies that could impact the receipt and recording of publicly recorded documents, as well as the availability of records; cost-effective administration of document requests; potentially inefficient or insufficient support of the Office's core operations. Further, Board Governance Policies have not been fully reviewed or updated in six or more years.

RECORDS & LIBRARY SERVICES

The Records & Library Services is responsible for the administration of the Records Management Center and the Valley Water Library, administration of the Valley Water Records Management Program; and the provision of Valley Water's responses to legal demands for records.

Budget: \$ 1,316,042

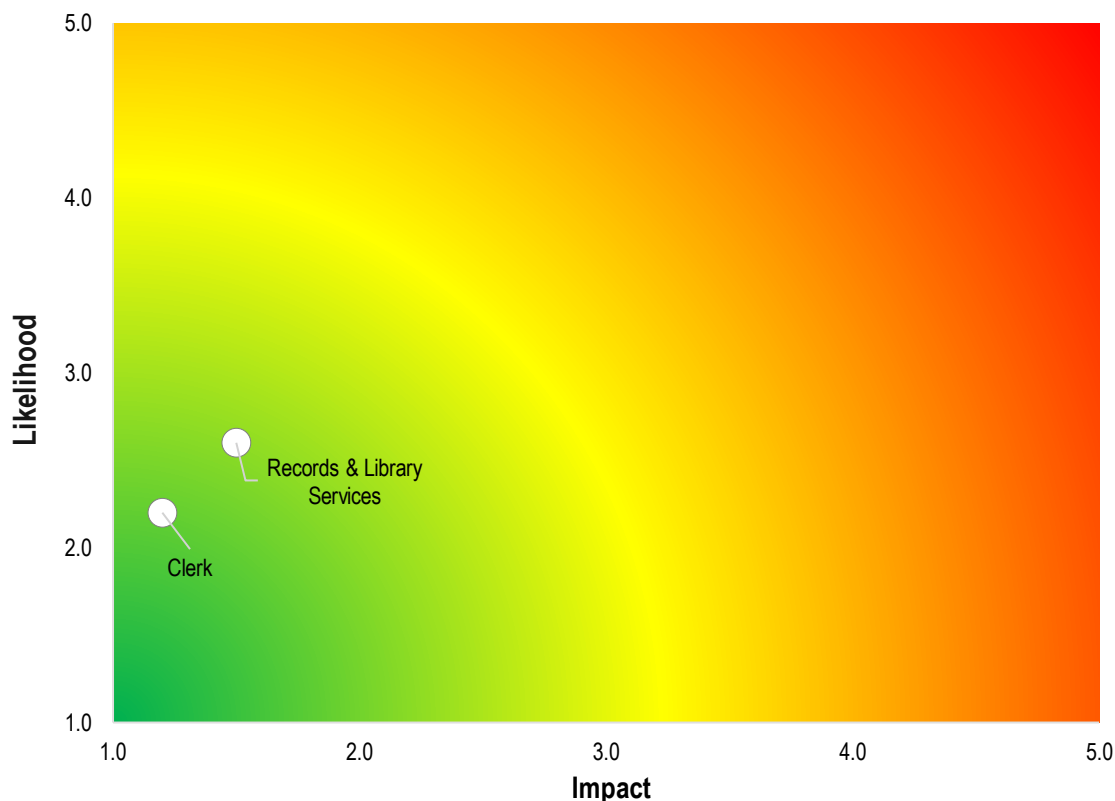
FTE: 5

Inherent Risks: Inefficiencies that could impact the receipt and recording of publicly recorded documents, as well as the availability of records; cost-effective administration of document requests; potentially inefficient or insufficient support of the Office's core operations.

Risk Summary

The Office of Clerk of the Board has a relatively low budget and FTE allocation when compared to other Valley Water departments, and generally represents relatively low risk when compared to other departments based on our assessment of a variety of risk factors. Despite this, the Clerk of the Board serves an essential function facilitating the work of the Board and ensuring transparency into Board and District activities. Because of this, the potential benefits of a performance audit of the Clerk of the Board are likely to be in assessing the overall efficiency and effectiveness of the Office's day-to-day operations. With this in mind, we illustrate below the risk rankings of each unit or program area in relation to one another.

EXHIBIT 8. PROGRAM RISK RATINGS



This risk assessment revealed the following potential audit objective:

- 1) Evaluate the Office's business processes, information systems, and workload management practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Office of District Counsel

With an approximate Fiscal Year 2023-24 budget of \$15 million—representing less than one (1) percent of the District's overall budget—and fourteen (14) FTE positions, the Office of District Counsel is managed by the District Counsel, a Board-appointed officer of Valley Water. The Office is responsible for general legal advice and services, personnel, litigation, and specialty advice including but not limited to land use, the environment, eminent domain, and real estate, among others. The Office advises the Board of Directors on all legal matters, and manages Valley Water's Risk Management Unit.

The Office of District Counsel at Valley Water is a critical component with eight attorneys specializing in labor and employment, California Environmental Quality Act (CEQA), and water law. They handle in-house legal matters such as public works contracting, municipal law, water law, and real estate while engaging external counsel for large projects. Notably, they address the complex issue related to Santa Clara Valley's unhoused population, a challenge with potential legal and environmental risks. The absence of an electronic calendaring system is a notable efficiency concern, with plans to introduce document management and automated calendaring tools. However, inherent risks include legal challenges, non-compliance with governance procedures, and document management challenges. The influx of new managers and a risk-averse culture also challenge organizational cohesion. The Office handles all items going to the Board, albeit with constraints due to a risk-averse culture that leads to extensive reviews.

In Fiscal Year 2023, the Office cites various accomplishments, including having provided timely legal advice to Valley Water, the Board, and Valley Water's officers and employees when acting in their official capacities; provided representation to Valley Water relating to annual groundwater production charges and to the update of Valley Water's groundwater charge zones; and served as counsel or co-counsel in all Valley Water litigation matters.



Key Statistics and Responsibilities

FY 2023/24

**FTEs:
Budget:**

**14
\$16M**

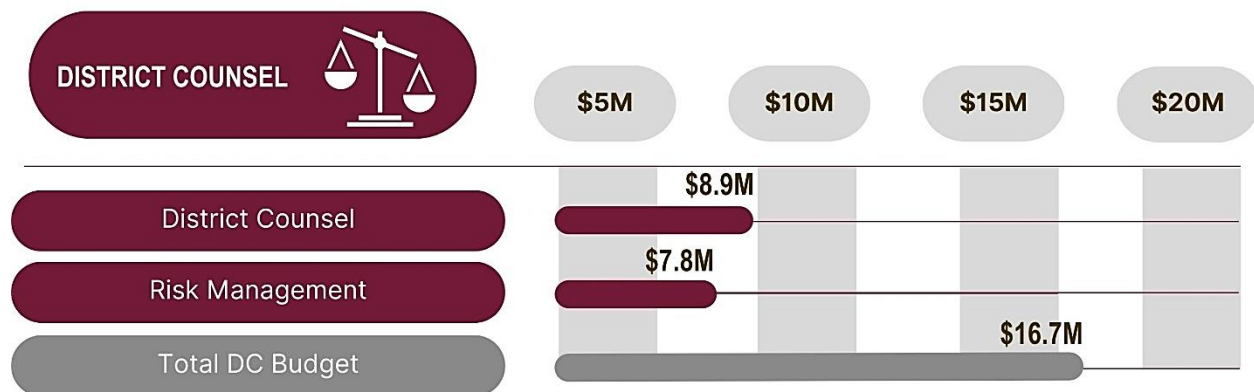


**1.7% Total
Budget**

- Provided timely legal advice to Valley Water, the Board, and Valley Water's officers and employees when acting in their official capacities.
- Includes both internal legal services and management of the external legal services provided to Valley Water.
- Served as counsel or co-counsel in all Valley Water litigation matters.
- Oversees the Risk Management Program.

The Office of District Counsel is organized into two units: The Office of District Counsel and the Risk Management Unit. Exhibit 9 provides a breakdown of each division's budgeted expenses for Fiscal Year 2023-24.

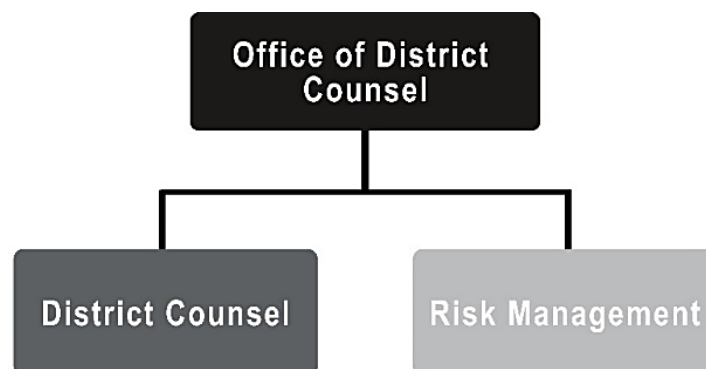
EXHIBIT 9. BUDGET BREAKDOWN BY DEPARTMENT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

The Office of District Counsel allocates functional responsibilities to each of the two units as depicted in Exhibit 10 below.

EXHIBIT 10. DISTRICT COUNSEL ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & 2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of District Counsel is integral to the organization's legal affairs yet confronts various inherent risks. The foremost concern lies in the efficiency of legal services provided, given the substantial and diverse operational and administrative responsibilities of Valley Water. The Office has a relatively low level of funding and FTE allocation when compared to other departments, as well as relatively low level of cash or other high-risk assets. Inherent risks associated with the District Counsel remain relatively low, but include continued adherence to professional standards, the efficient use of professional service contracts for outsourced legal services, balancing differing perspectives on risk mitigation, and the implementation of business processes and controls to mitigate risk and prevent the loss of District assets. Following is an

evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

OFFICE OF DISTRICT COUNSEL	
The Office of District Counsel provides professional, timely, and strategic legal advice to and representation of Valley Water and its Board of Directors, officers, and employees. It includes both internal legal services and management of the external legal services provided to Valley Water.	Budget: \$ 8,885,440 FTE: 11 Inherent Risks: Efficiency in delivering professional services considering the significant budget allocation, the effective and efficient management of third-party contracts, records management, and the ability to provide timely review and advice regarding a wide range of topics to District employees and the Board, along with reviewing items presented to the Board, are critical areas of focus.

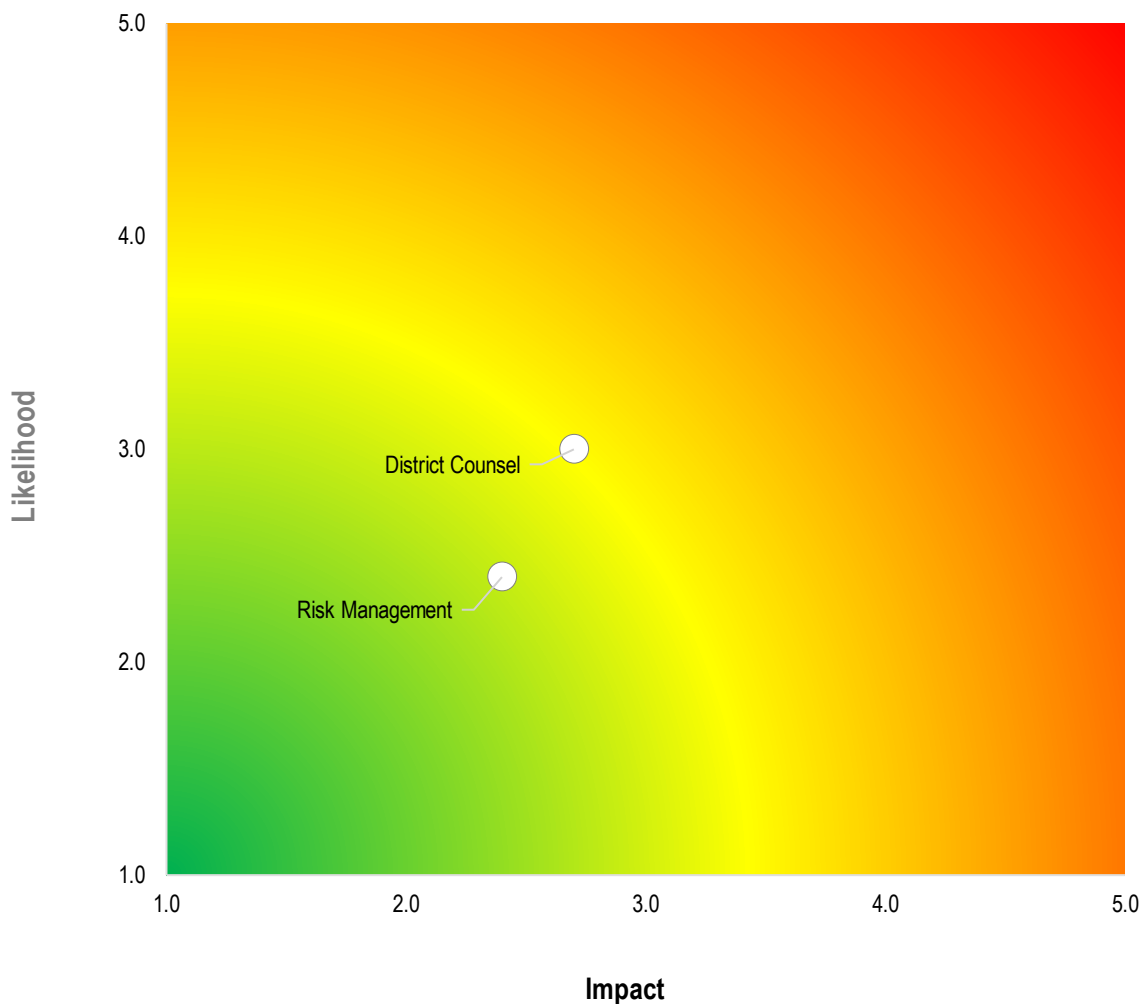
RISK MANAGEMENT UNIT	
The Risk Management Unit at Valley Water is primarily tasked with identifying and evaluating loss exposures to protect the organization's assets. This involves overseeing the Workers' Compensation program and implementing risk retention (self-insurance) and risk transfer (insurance) programs to maximize cost-effective coverage and ensure compliance with Board Governance policies. Additionally, the division is vital in maintaining a proactive stance toward risk management within the organizational structure to mitigate inherent risks effectively.	Budget: \$ 7,783,334 FTE: 3 Inherent Risks: Health and safety risks for employees and the public due to inadequate safety protocols; security risks, such as unauthorized access to facilities or sensitive information; adequacy of risk identification and assessment processes; the necessity for heightened compliance awareness, and the effectiveness of risk mitigation strategies; and the effectiveness of risk mitigation strategies.

Notably, a performance audit of the Office of the District Counsel was recently performed in 2020. It identified issues related to the frequency of communication, timeliness of services, and nonuniformity in service delivery; and it recommended implementing an updated operating model, enhancing policy and procedure development, utilizing tools like workflow management, service level agreements, performance management systems, and gathering multi-source feedback assessments to increase satisfaction.

Risk Summary

Overall, the Office of the District Counsel represents relatively low risk in terms of audit priority when compared to other Valley Water departments and programs, as illustrated in the risk ranking in Exhibit 11.

EXHIBIT 11. PROGRAM RISK RATING



Performance audit topics of the Office generally would not focus on the exercise of professional judgment or legal counsel, but would rather focus on the efficiency with which the Office manages resources. This could include internal business processes related to broader District responsibilities (such as risk management, contract review and processing, record retention and public records requests, etc.) and the Office's administration of legal services contracts.

The Office of District Counsel has recently undergone a performance audit, which examined the Office's operations, including Risk Management, suggesting it may be prudent to hold off on another audit of the Office for the immediate future. Nevertheless, this risk assessment revealed the following potential audit objectives:

- 1) Evaluate the Office's business processes and information systems to identify potential inefficiencies or opportunities for improvement in the Office's administrative functions.
- 2) Evaluate risk management practices, including the District's reliance on third-party administrators and service providers, risk retention and transfer evaluations, claims processing, and workplace

health and safety programs, as well as existing workload demands and future opportunities to enhance risk management operations in a growing District government.

Administrative Services

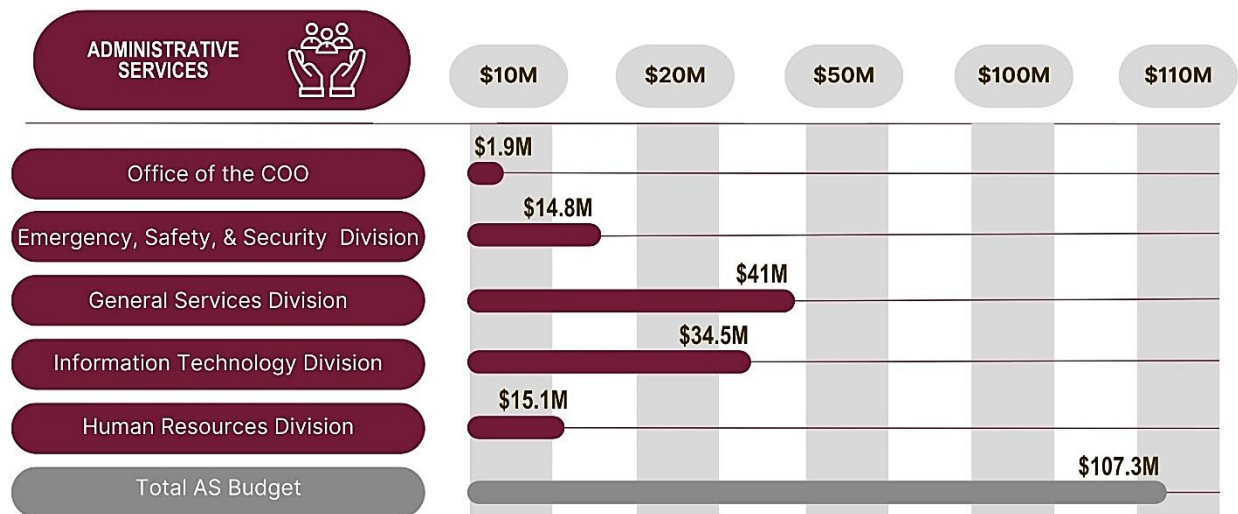
With an approximate Fiscal Year 2023-24 budget of \$107 million—representing approximately 10.96 percent of the District’s overall budget—and 165 FTE positions, the Office of Administrative Services oversees the Emergency, Safety, & Security Division; the General Services Division; the Information Technology Division; and the Human Resources Division. The primary roles of the Office of Administrative Services include supporting the mission of Valley Water—to provide Silicon Valley safe, clean water for a healthy life, environment, and economy—by providing essential business services for Valley Water.

In FY 2023, the Office of Administrative Services cites various accomplishments, including Labor Relations having completed Performance Improvement training for all Managers; the Office of Emergency Services having conducted the Annual Winter Preparedness Workshop with external stakeholders; the Environmental, Health & Safety Services continued and completed multiple facility fall protection engineering projects from the previous fiscal year; the Security Office developed a Security Drone Program; the Construction Contracts and Support Unit from the General Services Division completed the advertisement, bidding, and award of nine capital projects; the IT Division completed the 2019 IT Strategic Plan; and the HR Division updated recruitment and selection processes to incorporate new trends and tools to ensure that it has the ability to recruit a highly qualified and diverse workforce which provided management support for the operational work of the departments.

Directed by a Chief Operating Officer, the Office of Administrative Services is organized into four divisions: Emergency, Safety, & Security Division; the General Services Division; the Information Technology Division; and the Human Resources Division—each of which includes distinct functional units that carry out the work of the division. Exhibit 12 provides a breakdown of each division’s budgeted expenses for Fiscal Year 2023-24.



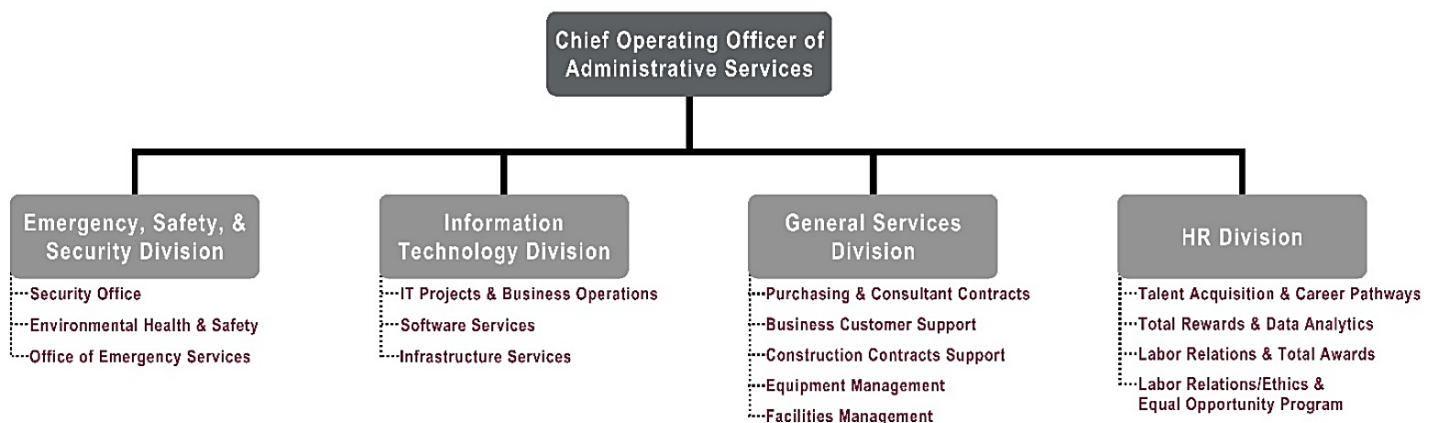
EXHIBIT 12. BUDGET BREAKDOWN BY DIVISION



Source: Fiscal Year 2023-24 & FY 2024-25 Operating and Capital Rolling Biennial Budget

The Office of Administrative Services allocates functional responsibilities to each of the five areas as depicted in Exhibit 13.

EXHIBIT 13. ADMINISTRATIVE SERVICES DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of Administrative Services plays a crucial role in supporting the mission of Valley Water, which is to provide safe, clean water for a healthy life, environment, and economy throughout Silicon Valley. This office is responsible for delivering essential business services to ensure the efficient functioning of the organization. The office oversees multiple units and divisions, including the Emergency, Safety, & Security Division, the General Services Division, the Information Technology Division, and the Human Resources Division. These highly specialized and distinct functions under the umbrella of Administrative Services demonstrates the office's importance and impact on Valley Water's operations and capital programs.

Inherent risks associated with the Office of Administrative Services include the complexity of the responsibilities and functions within the Office; operational risks associated with the efficient execution of critical support functions which could impact the core operations of the District; impacts on employee satisfaction, morale, and productivity; health and safety risks related to safety programs; information technology and cybersecurity risks; and procurement and vendor management risks. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

OFFICE OF THE CHIEF OPERATING OFFICER OF ADMINISTRATIVE SERVICES		
The Office of the Chief Operating Officer (COO) of Administrative Services oversees the General Services division, Human Resources division, Information Technology division, Emergency, Safety & Security division, and Labor Relations department. The COO leads and manages the AS to achieve the Board's Ends Goals and Objectives. This includes providing Administrative Services to leadership, staff, and funding to fulfill the essential functions and responsibilities of the Office. In general, the Office provides for management activities that promote communication, human resources development, budgeting, project efficiencies and process improvement, mentoring and recruitment, and supporting District-wide and special events/efforts that benefit the whole organization.	Budget: \$1,860,646	FTE: 3
	Inherent Risks: Complexity of the Office's diverse administrative responsibilities, the general operational efficiency of managing a broad and diverse span of control, and strategic risks related to the implementation of organizational goals and objectives.	

EMERGENCY, SAFETY, & SECURITY DIVISION		
The Emergency, Safety and Security Division includes the Office of Emergency Services (OES), Environmental Health and Safety Unit (EH&S), and the Security Office (SO). The Division provides a safe and secure environment for Valley Water infrastructure, staff, and facilities, while maintaining a level of preparedness to respond to unplanned incidents and events.	Budget: \$ 14,840,573	FTE: 19
	Inherent Risks: Health and safety risks for employees and the public; security risks, such as unauthorized access to facilities or other physical assets.	

Security Office

The Security Office was allocated a Fiscal Year 2023-24 budget of \$ 7,238,321 for a total of five (5) FTE. This office provides risk-based security capabilities through a preparedness cycle encompassing analysis, development, planning, and verification. Its role involves safeguarding critical infrastructure and personnel against various threats, including terrorism and vandalism, using a guard force, patrols, remote monitoring, and a Security Operations Center. However, it's important to note that the Security Staff and Guard Force do not possess law enforcement powers and are not equipped with firearms, which limits their ability to respond to potential high-order threats effectively. Despite facing challenges relating to the sufficiency of the security office's infrastructure, such as an outdated CCTV and access control system and dealing with

issues related to the unhoused population, the SO serves as a crucial liaison between Valley Water and law enforcement agencies.

Environmental Health & Safety

The Environmental Health & Safety Unit performs a wide range of activities including:

- Workplace Health and Safety, including environmental, health and safety written program development and maintenance, technical and behavioral safety training, incident investigation services, ergonomic evaluations and corrective measures, contractor safety program evaluation, safety inspection and audit services and support, hazard analysis and risk prevention services, fall protection surveys and fall hazard mitigation, OSHA compliance oversight and monitoring, Department of Transportation driver safety program, alcohol and drug abuse prevention and testing services, and industrial hygiene services.
- Hazardous materials management, including storage and disposal management; electronic waste and recycling compliance and annual report submittal; underground and above ground storage tank inspections and permitting; Hazardous Materials Business Plans development and submittal; environmental regulatory facilities permit management; 24/7 hazardous materials emergency response capabilities; Spill Prevention, Control, and Countermeasure Program, which is designed to help prevent the discharge of oil into the water supply; and the California Accidental Release Program, which aims to prevent the accidental release of hazardous substances that could harm the public; among other programs.
- Additionally, the Environmental, Health and Safety Unit responds to requests from customers for specific health and safety services consultation and program assistance to ensure that Valley Water's health and safety programs are functional and sustainable. It also acts as Valley Water's liaison with applicable regulatory agencies when required.

Key inherent risks associated with these roles and responsibilities relate to the health and safety of the public and Valley Water employees, ensuring regulatory compliance regarding the management and control of hazardous substances as well as potential discharge affecting ground and surface water, and managing costs associated with regulatory permit fees, hazardous waste disposal fees, regulatory training costs, and supplies and equipment.

Office of Emergency Services

The Office of Emergency Services Unit is responsible for ensuring comprehensive, integrated, risk-based, emergency management for the personnel and critical infrastructure of Valley Water. Emergency Services manages the Valley Water Emergency Operations Plan, the Business Continuity Program, the FEMA-approved Local Hazard Mitigation Plan, and the development of Stream/Flood Emergency Action Plans. The program is also responsible for maintaining inter-agency relationships, Multi-Agency Coordination systems, Mutual Aid and Emergency Assistance Agreements, managing a Training and Exercise Plan that meets Standardized Emergency Management System (SEMS) and National Incident Management System

(NIMS) requirements, managing a dedicated Emergency Operations Center, and promoting California Office of Emergency Services (CalOES) professional credentialing.

Ultimately, risks associated with the effectiveness of emergency response units are dependent on the extent to which they adhere to best and leading practices in preparing for, responding to, and mitigating the effects of emergencies. This includes mitigating delays in emergency response coordination and communication, adequacy of emergency response plans for water supply interruptions, and ensuring compliance with state and federal emergency management regulations. It also includes seeking accreditation through the Emergency Management Accreditation Program and ensuring adequate emergency and temporary staffing levels to avoid delays and cost overruns.

Information Technology Division	
Provides management oversight, leadership and strategic support for Information Technology Infrastructure, Information Security Services, and Software Services, to ensure operational effectiveness and fiscal accountability. The Information Technology Division serves the technology needs of Valley Water. The division delivers and maintains key information technology services that meet current and future needs of Valley Water. The division also provides oversight of effectiveness, efficiency, and implementation of major Information Technology initiatives.	Budget: \$ 34,798,353 FTE: 39 Inherent Risks: Maintaining cost-efficiency and compliance; improper use of data; the internet of things (IoT) vulnerability; system failures; cybersecurity; reliability and functionality of systems and applications; ensuring proper controls over sensitive assets and data; effective disaster recovery; risks, including data breaches and cyber-attacks; ensuring infrastructure is designed to meet current and future needs of employees, customers, and the public. Staffing challenges arise from both limited human resources and a significant burden of technical debt, primarily driven by the necessity to support legacy, outdated, and redundant applications. These challenges are further compounded by the extensive overlap among various projects, highlighting the critical requirement for centralized IT governance and project approval processes.

Information Technology Projects & Business Operations

The Information Technology Projects and Business Operations Unit is responsible for project management, strategic planning and alignment, complex analysis, program development, compliance, policy development, budget, and reporting and financial planning. It ensures innovative technologies are effectively utilized across the organization; prioritizes and sequences technology projects; and leads, plans, oversees and participates in the more complex and difficult work of staff responsible for providing administrative, human resources, financial, and compliance support to the Information Technology division.

With these roles and responsibilities, the inherent risks include risks associated with Information Technology project management, including scope creep and budget overruns; data breaches or cyberattacks that could compromise sensitive customer and operational data; business continuity planning and disaster recovery for IT systems.

Software Services

The Software Services Unit develops (where appropriate), supports, and maintains Valley Water's business applications. These include Valley Water's Enterprise Resources Planning (ERP) system (Infor), work and asset management system (Maximo), project management system (ProjectMates), resource management system (Vemo), geographic information system (GIS), in-house applications, and the Valley Water's internet and intranet, among many other enterprise-wide or limited use systems.

With these roles and responsibilities, the inherent risks include risks related to software development and customization for critical water management systems; software vulnerabilities and patch management; and ensuring software compliance with regulatory standards.

Infrastructure Services

The Infrastructure Services Unit is responsible for implementing and maintaining the network and data-center infrastructure, cybersecurity posture, telephone systems, communications systems, tablets, workstations, and connectivity (e.g., servers, networks, WIFI, etc.). This unit maintains a help desk and serves as the first point of contact for staff to report issues; troubleshoots, resolves issues, and escalates more significant concerns; and supports Audio/Visual needs enterprise-wide, including the Board Room.

With these roles and responsibilities, the inherent risks include cybersecurity, both with respect to Valley Water's own infrastructure and the many independent cloud-based solutions currently employed by the District. It also includes risks related to the maintenance and security of critical IT infrastructure; system downtime and its impact on water supply and customer service; and infrastructure scalability to accommodate growth and changing technology needs.

General Services Division	
The General Services Division is responsible for purchasing of goods and consultant services, construction contract award and compliance, facility and fleet management, business support, and warehouse services in support of Valley Water's mission and operational needs.	Budget: \$ 40,994,675 FTE: 71 Inherent Risks: Procurement and vendor management risks, including procurement fraud and conflicts of interest.; inventory and asset management risks, including misplacement or loss of assets; ensuring competitive and transparent bidding processes; vendor performance and contract compliance; delays and cost overruns in construction projects; quality control and safety risks in construction; compliance with safety standards for equipment operation; maintenance and safety risks related to district facilities; and energy management and sustainability initiatives.

Purchasing & Consulting Contracts Services Unit

The Purchasing & Consulting Contracts Services Unit provides strategic and technical sourcing for the purchase and acquisition of all goods, services, consulting services and contracts; manages the competitive solicitations for all procurements, including goods and general services, as well as professional

services; and provides guidance related to contract administration and support. As part of this responsibility, General Services also manages Valley Water's Small and Local Business Enterprise Program, which conducts outreach for consultant contracts to tap into the community for small and local business opportunities.

With these roles and responsibilities, the inherent risks include ensuring the availability of efficient and effective procurement and contracting vehicles to meet the needs of Valley Water programs; ensuring the most competitive price for high-quality goods or services, transparency in purchasing decisions, and compliance with relevant laws and regulations; ensuring proper segregation of duties between purchasing and accounts payable functions; ensuring compliance with requirements related to supplier diversity while promoting opportunities for small and local businesses; and avoiding potential conflicts of interest and other forms of fraud, waste, or abuse.

Construction Contracts Support Unit

The Construction Contracts Support Unit is responsible for the development and solicitation of Valley Water's construction contracts, which are typically structured as design-bid-build contracts; providing analytical support for both Water Utility Enterprise and Watershed capital projects; assisting with status reporting related to the contracts; and ensuring labor compliance of construction contractors during construction. With these roles and responsibilities, the inherent risks include potential inefficiencies or delays in contracting that could lead to project delays, the potential that contract language could fail to provide a sound basis for controlling costs or otherwise protecting the interests of the District, and the potential the contract vehicles available to the District are not sufficient to meet Valley Water's needs.

Notably, a Contract Change Order Audit was recently performed in 2019. It identified change order management and administration activities for extremely large capital construction projects as areas of risk and recommended various improvements, including requiring Independent Cost Estimates, establishing a separate advisory body for change order approval, enhancing constructability reviews, centralizing procurement activities, and developing a Resource Services Office (RSO) to support project and construction managers and promote uniform implementation of change order management across all capital projects.

Equipment Management Unit

The Equipment Management Unit is responsible for procuring, maintaining, and managing a fleet of passenger and utility vehicles for use by Valley Water employees; maintaining an inventory of Class IV equipment (construction materials such as fortification and barrier materials), handheld equipment, and other non-information technology tools and assets used by the Water Utility and Watershed operations. Inherent risks include maintaining adequate internal controls over vehicle and maintenance assets; ensuring competitive procurement for all assets; and ensuring an effective preventive maintenance program; and controlling all assets in a manner that prevents theft or misuse.

Facilities Management Unit

The Facilities Management Unit seeks to provide a safe and well-maintained work environment in all facilities owned by Valley Water, apart from water utility facilities. This includes providing customer service

and core maintenance functions such as building repairs, heating, ventilation, air conditioning, plumbing, electrical, life safety, elevator services, and janitorial services. Inherent risks associated with this responsibility include maintaining facilities in a responsive, timely, and cost-effective manner; controlling high-risk assets (tools, equipment, etc.); energy management and sustainability initiatives; workforce safety; managing cost increases stemming from emergency repairs, as well as controlling costs to ensure allowability and avoid cost over-runs; and maintaining an asset inventory system that is up-to-date and reflects reasonably accurate condition assessments of facilities sufficient to enable an effective preventive maintenance program. Like many facilities maintenance programs, deferred maintenance remains a concern.

Business Customer Support & Warehouse Unit

The Business Customer Support & Warehouse Unit provides operational support including staffing the public counter and managing cashiering operations, the switchboard, mail delivery, reprographic, word processing and forms, and inventory control services. It also serves as the central receiving and distribution point for the organization and manages the central stores / warehouse operation as well as distributed storage locations. With these roles and responsibilities, the inherent risks include risks related to customer service; inventory management and control, including the prevention of theft or misuse of Valley Water assets; and timely and accurate fulfillment of customer requests.

Human Resources Division	
The Human Resources Division is responsible for planning, managing, directing, and coordinating the staff and operations to provide Valley Water assistance in the areas of human resources. The Division includes four (4) functional units and eight (8) distinct programs. Human Resources is responsible for strategic planning; identifying workforce requirements needed to achieve goals; analyzing trends with data analytics; ensuring compliance with local, state, and federal regulation; administrative responsibilities (e.g., employee benefits, employee records); employee development; creating an inclusive work culture that thrives on a diverse workforce; succession planning; and maintaining and updating Human Resource policies that comply with the law and meet organizational goals.	Budget: \$ 15,038,569 FTE: 31 Inherent Risks: Effectively recruiting, developing, and retaining a talented workforce that meets Valley Water's needs today and in the future; promoting a culture that fosters a work environment conducive to Valley Water's mission and a safe and healthy work environment; and ensuring compliance with employment laws and regulations.

HR Business Services Unit

The HR Business Services Unit is responsible for updating Human Resource policies, procedures and quality assurance/quality control documents that are currently outdated and will provide dedicated recruitment sourcing services through targeted outreach, developing outreach lists for each classification, and utilizing software solutions to expand recruitment efforts. With these roles and responsibilities, the inherent risks include risks related to HR administration and record-keeping; compliance with labor laws and regulations; and data security and privacy of HR information.

Labor Relations / Ethics & Equal Opportunity Program

The Labor Relations / Ethics & Equal Opportunity Program (EEO) Unit promotes a proactive and positive labor relations program, in compliance with legal mandates, negotiated agreements, and constructive

management principles. Labor Relations represents Valley Water management in all matters involving matters covered under collective bargaining agreements and employee relations involving represented employees. Labor Relations negotiates, interprets, applies, and enforces contracts and regulations, and acts as a resource in the areas of administrative policies and procedures. This program also interprets memoranda of understanding (MOU's) and bargain with labor representatives; conducts EEO investigations; and ensures alignment with ethics. With these roles and responsibilities, the inherent risks include labor relations risks, including labor dissatisfaction, disputes or strikes; ethical concerns and conflicts of interest; ensuring equal opportunity; and compliance risks concerning adherence to labor laws and regulations.

Total Rewards & Data Analytics Unit

The Total Rewards & Data Analytics Unit provides recommendations utilizing multiple data types, business knowledge, and strategic assumptions in addition to data-generated resources to produce decision-making. With these roles and responsibilities, the inherent risks include risks related to employee compensation and benefits; data security and privacy in compensation data; and compliance with reporting requirements.

Benefits & Wellness Program

The Benefits & Wellness Program is responsible for the administration of employee and retiree benefit plans, conducting new hire orientations and separations, processing payroll and HR transactions, and administration of the award-winning Wellness Program (includes fitness reimbursement, ongoing employee education on overall various health initiatives, annual wellbeing fair, lunch and learns, employee rewards, etc.). With these roles and responsibilities, the inherent risks include risks related to employee health and wellness initiatives; benefits administration and compliance with healthcare regulations; and program effectiveness in promoting employee well-being.

HRIS Administration & Data Analytics Program

The HRIS Administration & Data Analytics Program utilizes a Human Resources Information System to record, store, and manage employee data such as payroll, benefits, performance reviews, and training records. With these roles and responsibilities, the inherent risks include risks related to HR information systems, including data security; data analytics accuracy and compliance with privacy regulations; availability and reliability of HR data for decision-making.

Classification & Compensation Program

The Classification & Compensation Program conducts classification reviews, pay practices, salary surveys, annual equity reviews, and the development of incentive programs. With these roles and responsibilities, the inherent risks include risks related to job classification and compensation structures; compliance with wage and hour laws; and ensuring equitable compensation practices.

Talent Acquisition

Within the Talent Acquisition & Career Pathways Unit, Human Resources is responsible for recruiting and developing Valley Water's workforce. This includes administering all recruitment and examination activities for Valley Water positions; facilitating the selection and hiring processes designed to fill vacant positions;

leading and directing internship programs designed to introduce individuals to the work of Valley Water, which may lead to future employees; administering the temporary staffing program; and partnering with community organizations and colleges for workforce planning.

Inherent risks associated with this responsibility is the potential for unsuccessful talent acquisition and management resulting in a District workforce that does not meet the needs of Valley Water, its customers, or the public; unfair interviewing, selection, or hiring practices or favoritism, diminishing District goals related to diversity, equity, and inclusion; diversity in hiring and promotion; compensation levels that are insufficient to attract, retain, and motivate a talented and qualified workforce; a classification system that fails to facilitate the hiring of entry-level positions and the development of the District's future leaders; and the potential that background check practices fail to indicate problematic histories of candidates.

Workforce Development Program

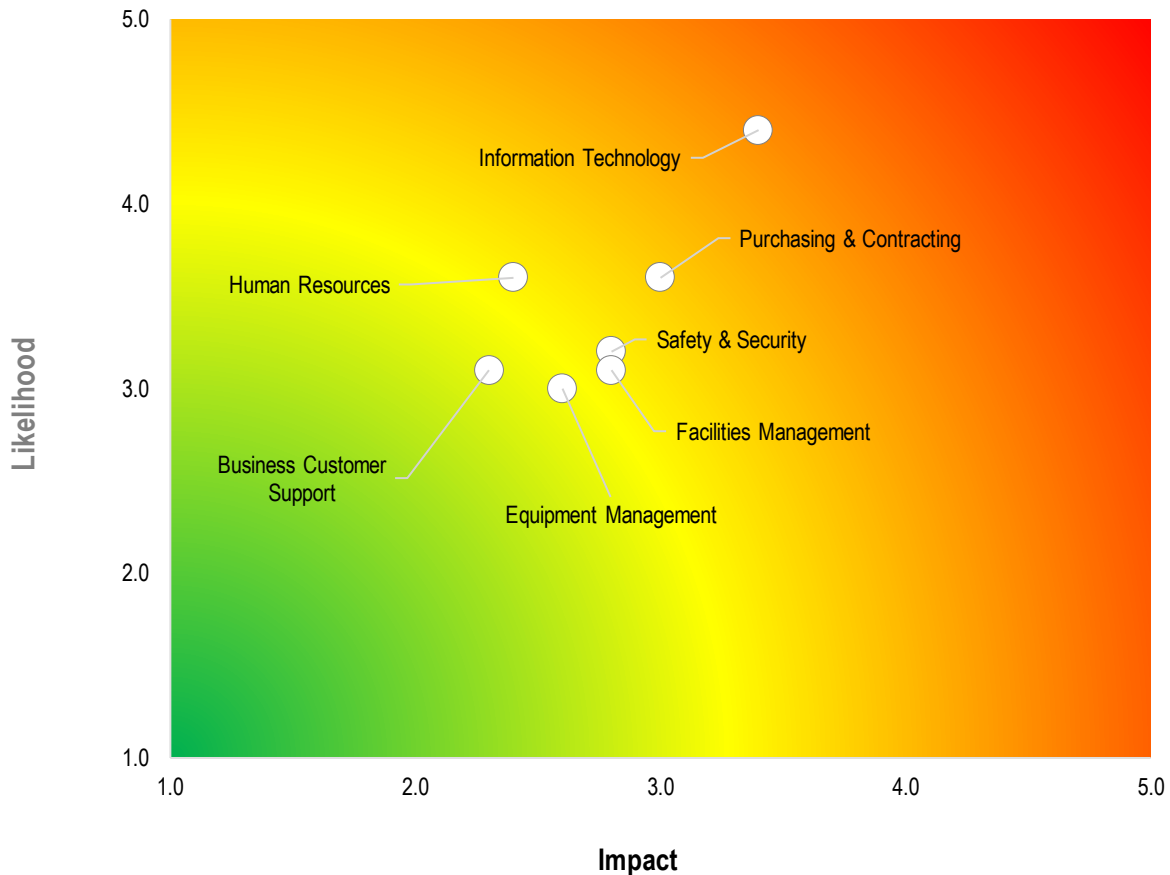
Also, within the Talent Acquisition & Career Pathways Unit, Human Resources is responsible for facilitating the development of Valley Water's future workforce. Its Workforce Development Program helps to guide employees' into the future by administering workforce development and succession planning, developing long-term recruitment strategies within the community, providing technical and non-technical training programs, assessing the needs of Valley Water employees and career goals, identifying current and future business needs, promoting professional development, administering the District's performance evaluation program, and administering wellness activities and events. This Unit is also responsible for developing and administering the NextGen Program, which seeks to develop the next generation of water professionals, the Career and Technical Education (CTE) program, and a roadmap to connect high school and college students to future career goals.

With these responsibilities, inherent risks include consistency in training among divisions; coordination of work-specific or technical training provided by divisions and general workplace training (e.g., supervision, leadership development, skills enhancement, and mandatory training programs) provided by Human Resources to ensure an effective holistic workforce development program; resistance to change; and the potential for misalignment between workforce development and succession plans and Valley Water's strategic goals and objectives.

Risk Summary

Based on this assessment, we find that all key programs and divisions within Administrative Services represent moderate- to high-risk. Districtwide, management expressed general satisfaction with the District's information systems and other business areas within Administrative Services, but also noted opportunities for improvement. Program areas throughout Valley Water depend on Administrative Services in nearly everything they do—recruiting staff to perform critical work, procuring goods and services needed to perform critical tasks, managing the physical assets needed to maintain Valley Water's infrastructure, providing the information systems needed to facilitate and support staff's work, etc. The transactional nature of much of Administrative Services' work, its control of significant physical assets, and its role in procuring goods and services (and expending District monies), all contribute to risk rating that warrant performance audit resources. In Exhibit 14, we illustrate the relative risk ratings of Administrative Service's operating divisions.

EXHIBIT 14. PROGRAM RISK RATINGS



This risk assessment revealed the following potential audits and objectives:

- 1) Information technology is generally considered to be a moderate- to high-risk function in any government organization, and recommended performance audits typically focus on:
 - a. Cybersecurity and network hygiene;
 - b. Data management protocols;
 - c. Customer service efficiency;
 - d. Disaster recovery planning;
 - e. Cost-effectiveness of operations, including contracting and purchasing; and
 - f. Information technology project management policies, processes, and practices, and the consistency of the IT Department's efforts with best practices.
- 2) Determine whether the District's human resources management activities are consistent with industry standards; sufficient to ensure compliance with federal, state, and local laws and regulations; effective in attracting, retaining, and motivating a highly talented, qualified, and effective workforce; and appropriately resourced and right-sized for Valley Water. This should

include key elements of human resources management, such as policies and procedures related to and its administration of the following:

- a. Hiring and recruiting;
 - b. Classification and compensation;
 - c. Employee recordkeeping;
 - d. Human Resources Information System functionality and system controls;
 - e. Employee relations and performance management;
 - f. Benefits administration;
 - g. Workplace investigations;
 - h. Professional and workforce development, training, and succession planning;
 - i. State and federal compliance.
- 3) The administration of compensation practices to ensure employer costs are appropriately controlled by determining whether benefit enrollment processes appropriately control employee enrollment and cost-sharing, including the verification of dependent eligibility, and the recording of employee compensation within Infor to ensure compensation (including bonuses and other differential pay) are appropriately approved and authorized.
 - 4) Cashiering processes, including those performed through differing information and cashiering systems, the impact that staff turnover has had on cashiering operations, and the role of Finance and Administration in ensuring adequate internal and system controls associated with each.
 - 5) Valley Water's facilities maintenance program, including evaluating the Department's ongoing control, monitoring, assessment, and maintenance of Valley Water facilities and properties to identify opportunities to enhance efficiencies and protect District assets.
 - 6) Valley Water's equipment management program, including determining the extent to which the acquisition, maintenance, and control of equipment and fleet vehicles are performed in a manner consistent with best practices, controls over sensitive assets are effective to prevent misuse, routine and preventive maintenance is performed in accordance to acceptable guidelines, the potential for abuse of District vehicles/fuel/equipment is appropriately mitigated, and practices are both efficient and effective.
 - 7) The overall efficiency of the Emergency, Safety, & Security Division, and the extent to which the Division carries out its responsibilities in a manner consistent with best practices and regulatory requirements.
 - 8) Warehouse operations, including the processes and protocols for inventory acquisition and management, conducting inventory audits, and otherwise controlling assets held in inventory, and the efficiency and effectiveness of such processes.
 - 9) The practices of the Business Customer Support program, including its business and workload management practices, to identify potential inefficiencies or opportunities for improvement in the program's operational activities and administrative functions.

- 10) Procurement activities, including General Services' practices relating to the following:
- Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;
 - Proper segregation of duties with accounts payable functions and operational activities;
 - Consistency with best practices;
 - Efficiency in executing procurements in a manner that meets districtwide needs;
 - Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;
 - Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies, professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and
 - Benchmarking research, including the extent to which Valley Water's procurement practices compare with other public sector agencies.

External Affairs

With an approximate budget for the Fiscal Year 2023-24 year of \$ 24.1 million—representing 2.46 percent of the District's overall budget—and 45 FTE positions, External Affairs is managed by a Chief Operating Officer who reports directly to the Chief Executive Officer. External Affairs is responsible for overseeing and coordinating strategic external affairs initiatives, encompassing the Office of Communication, Office of Civic Engagement, Office of Government Relations, and Office of Racial Equity, Diversity, and Inclusion.

The primary roles of External Affairs include actively planning, integrating, and executing external policies, legislation, and communication efforts to address Valley Water's business interests, encompassing media relations, community engagement, government relations, and the promotion of racial equity and inclusion.

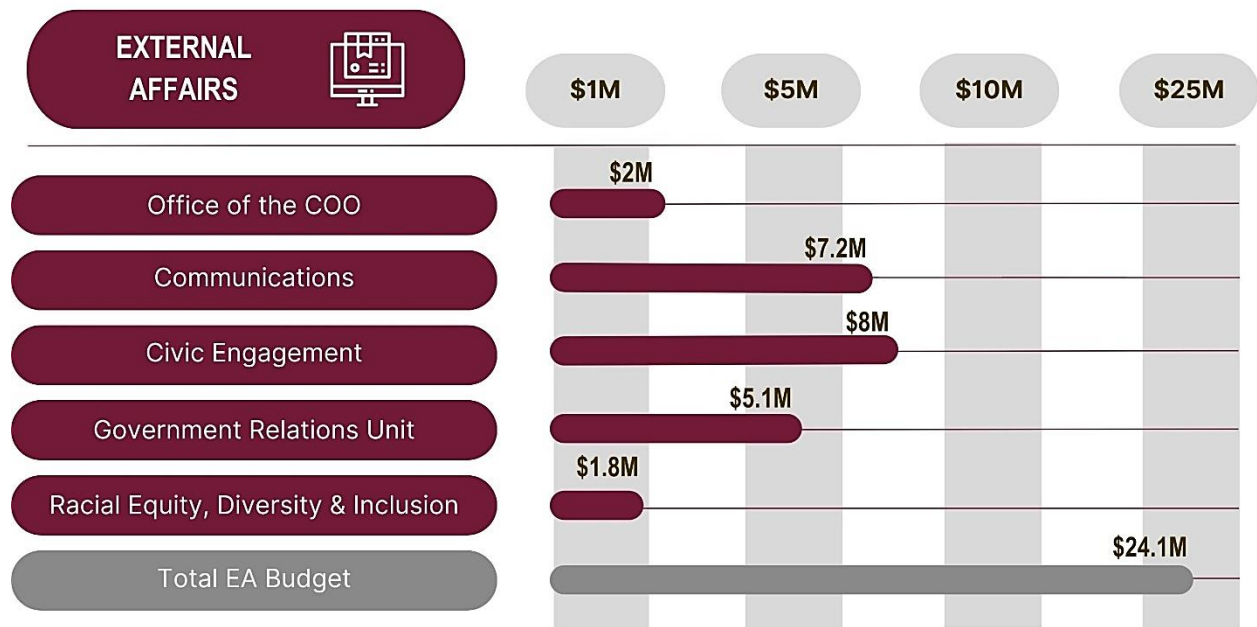
In Fiscal Year 2023, External Affairs cites various accomplishments, including welcoming employees' return to in-person work through over 25 employee resource group-led events, including lectures, cultural celebrations, volunteering, and networking events. Employees enjoyed these opportunities to reconnect with peers after COVID-19. Over 1,100 participants attended these events through Q3; launched two new pilot DEI capacity-building trainings: Conscious Conversations and Uncovering Racism; and adopted first-



time resolutions acknowledging: Filipino American History Month (October), German American Heritage Month (October), Italian American Heritage Month (October), Polish American Heritage Month (October), International Holocaust Remembrance Day (January), Lunar New Year (February) and Genocide Remembrance Day (April).

External Affairs is organized into five units: The Office of the Chief Operating Officer of External Affairs, Office of Communication, Office of Civic Engagement, Office of Government Relations, and Office of Racial Equity, Diversity, and Inclusion. Exhibit 15 provides a breakdown of each unit's budgeted expenses for Fiscal Year 2023-24.

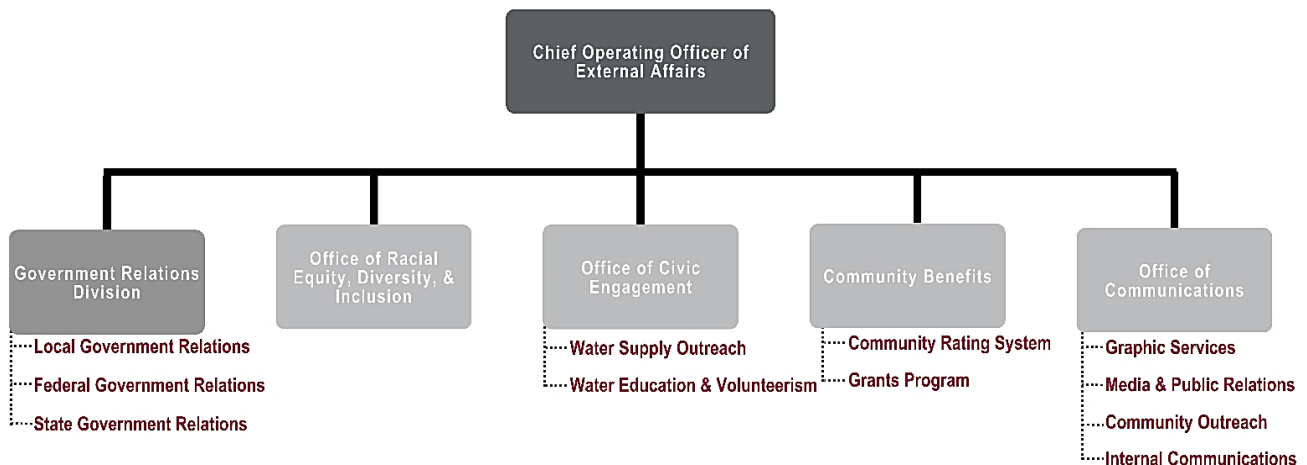
EXHIBIT 15. BUDGET BREAKDOWN BY UNIT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

External Affairs allocates functional responsibilities to each of the five areas as depicted in Exhibit 16.

EXHIBIT 16. OFFICE OF EXTERNAL AFFAIRS ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

The Office of External Affairs is vital to Valley Water's strategic operations, overseeing and coordinating various external affairs initiatives. External Affairs comprises units such as Communication, Civic Engagement, and Racial Equity, Diversity, and Inclusion, as well as the division of Government Relations. Its primary role involves strategic planning and integration of external policies, legislation, and communication efforts to address Valley Water's business interests, including media relations, community engagement, government relations, and promoting equity and inclusion.

Integrating diverse units, such as Communication, Civic Engagement, Government Relations, and Racial Equity, Diversity, and Inclusion, reflects the District's commitment to fostering inclusivity, promoting equity, and addressing community needs. However, the wide range of functions within External Affairs may also pose challenges regarding coordination and resource allocation. Ensuring effective communication and collaboration among units can be complex, potentially leading to inefficiencies or overlapping efforts. Additionally, the Office of Racial Equity, Diversity, and Inclusion's success in promoting a diverse workforce and addressing environmental justice relies on the commitment and involvement of all stakeholders across the organization. Failure to prioritize equity initiatives could hinder progress and impact the District's reputation and social standing.

Inherent risks associated with the External Affairs include strategic risks related to the development and implementation of external affairs plans and initiatives; regulatory and compliance risks due to the changes in legislation and government policies, risks associated with insufficient progress in promoting diversity and inclusion within the District's operations; the effectiveness of civic engagement strategies in connecting with the community; and communication risks related to the accuracy, timeliness, and transparency of information shared with stakeholders. Following is an evaluation of key functions or programs within the Office, along with a description of responsibilities, budget, FTEs, and inherent risks.

Office of the Chief Operating Officer of External Affairs	
External Affairs is responsible for programs that increase employee and community awareness and engagement on Valley Water programs, projects, and challenges. External Affairs provides the strategic planning and integration of external policies and legislation as it relates to the business interests of Valley Water and is responsible for managing Valley Water's relationships with the community, government officials, the media, and other key stakeholders. External Affairs is also responsible for managing racial equity, diversity, and inclusion efforts.	Budget: \$ 1,993,349 FTE: 5 Inherent Risks: Strategic risks related to the development and implementation of external affairs plans and initiatives. Reputational risks arising from external affairs decisions that may be controversial or negatively perceived by stakeholders.

Office of Civic Engagement Unit

Through collaborations, educational initiatives, community service options, and grant programs, the Office of Civic Engagement (OCE) actively fosters connections with the community. Its primary aim is to establish a solid foundation of trust and support for Valley Water's objectives and mission. OCE is responsible for managing several key programs, including the Safe, Clean Water Grants & Partnerships Program, Public Art initiatives, Education Outreach efforts, the Water 101 Academy/Ambassadors Program, Creek Stewardship projects, Water Supply Outreach activities, and the Community Rating System. Additionally, OCE provides programmatic oversight and coordination for the Board Advisory Youth Commission and the Low-income Residential Water Rate Assistance Program.

Budget: \$ 7,959,139

FTE: 13

Inherent Risks: Strategic risks related to the effectiveness of civic engagement strategies, ensuring these strategies genuinely resonate with diverse community members, are crucial to maintaining public trust and credibility. Additionally, community engagement can be challenging, given the need to navigate potential conflicts and competing interests within local communities. OCE also faces risks associated with flood insurance ratings; failure to meet rating criteria could result in reduced discounts for flood insurance, affecting the community. Lastly, budget constraints may limit OCE's outreach and engagement efforts, necessitating effective resource management to fulfill its mission despite potential financial limitations.

Water Supply Outreach Program

The Water Supply Outreach Program focuses on raising public awareness about water supply issues, engaging with the community through events and programs, and building relationships with local governments. Challenges include effectively communicating complex water supply topics to diverse audiences and addressing potential resistance or misunderstandings.

Water Education & Volunteerism Program

The Water Education & Volunteerism Program is responsible for educational outreach programs and fostering community engagement through volunteer opportunities. Challenges involve maintaining sustained interest and participation in educational initiatives and coordinating volunteers effectively for various water-related projects.

Community Benefits Program

The Community Benefits Program works on initiatives to benefit local communities through projects, partnerships, and outreach efforts. Challenges may include balancing the diverse needs and expectations of different communities and ensuring equitable distribution of benefits.

Community Rating System Program

The Community Rating System Program manages efforts to raise community awareness about flood risks and encourages participation in the Community Rating System for potential flood insurance discounts. Challenges include maintaining effective communication channels among key stakeholders and the public, as well as promoting active participation.

Office of Government Relations Unit

The Office of Government Relations advocates at the local, regional, state, and federal levels to promote and advance the water supply, flood protection, revenue enhancement, and environmental stewardship interests of Valley Water and the residents of Santa Clara County, in alignment with the Board's legislative priorities. Government Relations serves as the internal and external connection for legislation, development of strategic support and opposition, and supplemental funding opportunities for Valley Water.

Budget: \$ 5,118,321

FTE: 10

Inherent Risks: Regulatory and compliance risks due to changes in legislation and government policies.

Advocacy risks associated with the representation of the District's interests to government entities.

Local Government Relations Program

The Local Government Relations Program focuses on fostering positive relationships with local government bodies to advocate for water-related projects and initiatives. Challenges may involve navigating competing interests and aligning district goals with local priorities.

Federal Government Relations Program

The Federal Government Relations Program advocates for federal funding and support for district projects, managing relationships with federal agencies and legislators. Challenges include coordinating efforts at the federal level and addressing regulatory hurdles.

State Governmental Relations Unit

The State Governmental Relations Unit is responsible for advocating for district interests at the state level, securing funding and permissions for projects. Challenges include managing relationships with state officials and navigating the complexities of legislative processes.

Racial Equity, Diversity, and Inclusion Unit

The Office of REDI serves to strengthen and expand Valley Water's ability to deliver innovative services through the development, implementation, and oversight of policies to advance equity, diversity, and inclusion (DEI) efforts. Through collaborations with internal stakeholders, REDI works to help attract, retain, and promote a diverse and talented workforce. REDI also helps to promote environmental justice externally to all the communities Valley Water serves, and fosters engagement with local tribal communities. REDI initiates DEI training efforts and hosts cultural speaker engagements to increase staff awareness of underserved communities. REDI also serves to guide and support the work of Valley Water's Employee Resource Groups, of which memberships to a chartered Valley Water ERG is free and open to all employees

Budget: \$ 1,757,075

FTE: 4

Inherent Risks: Risks associated with insufficient progress in promoting diversity and inclusion within the District's operations. Reputational risks if the unit's efforts are perceived as insincere or inadequate by stakeholders.

The Racial Equity, Diversity, and Inclusion Unit was established in Fiscal Year 2020-21 to provide expertise and leadership in the areas of employee relations, employee engagement, diversity and inclusion, and

workplace culture—and to do so from a perspective dominated by the principles of diversity, equity, and inclusion. Since it was established, the role of the Unit has evolved from an internal focus on DEI initiatives to a more externally focused equity assurance effort, guided by the Strategic Master Plan and Equity Action Plans. Key challenges include continuing to refine the unit’s role respective to the District as a whole.

Office of Communications Unit	
The Office of Communications informs, engages, and educates the community, including Valley Water employees, on water conservation, water supply and quality, flood protection and environmental stream stewardship efforts. Communications provides timely responses to media inquiries on relevant topics. Through social media platforms, marketing campaigns and public relations efforts, Communications highlights the work of Valley Water and its Board of Directors.	Budget: \$ 7,274,122 FTE: 15 Inherent Risks: Communication risks related to the accuracy, timeliness, and transparency of information shared with stakeholders. Crisis communication risks if the District faces reputational challenges or public incidents.

Graphic Services

The Graphic Services Program handles visual design and collateral creation for various departments, ensuring consistent branding and effective communication. Challenges may involve managing design requests from different teams and delivering high-quality materials within tight deadlines.

Media & Public Relations

The Media & Public Relations Program is responsible for managing the District's media presence, responding to press inquiries, and promoting district initiatives. Challenges include maintaining a positive public image and effectively addressing media inquiries during crisis situations.

Community Outreach

The Community Outreach Program engages with the community through various programs and initiatives to raise awareness about water-related issues and encourage participation. Challenges include sustaining community interest and involvement over time.

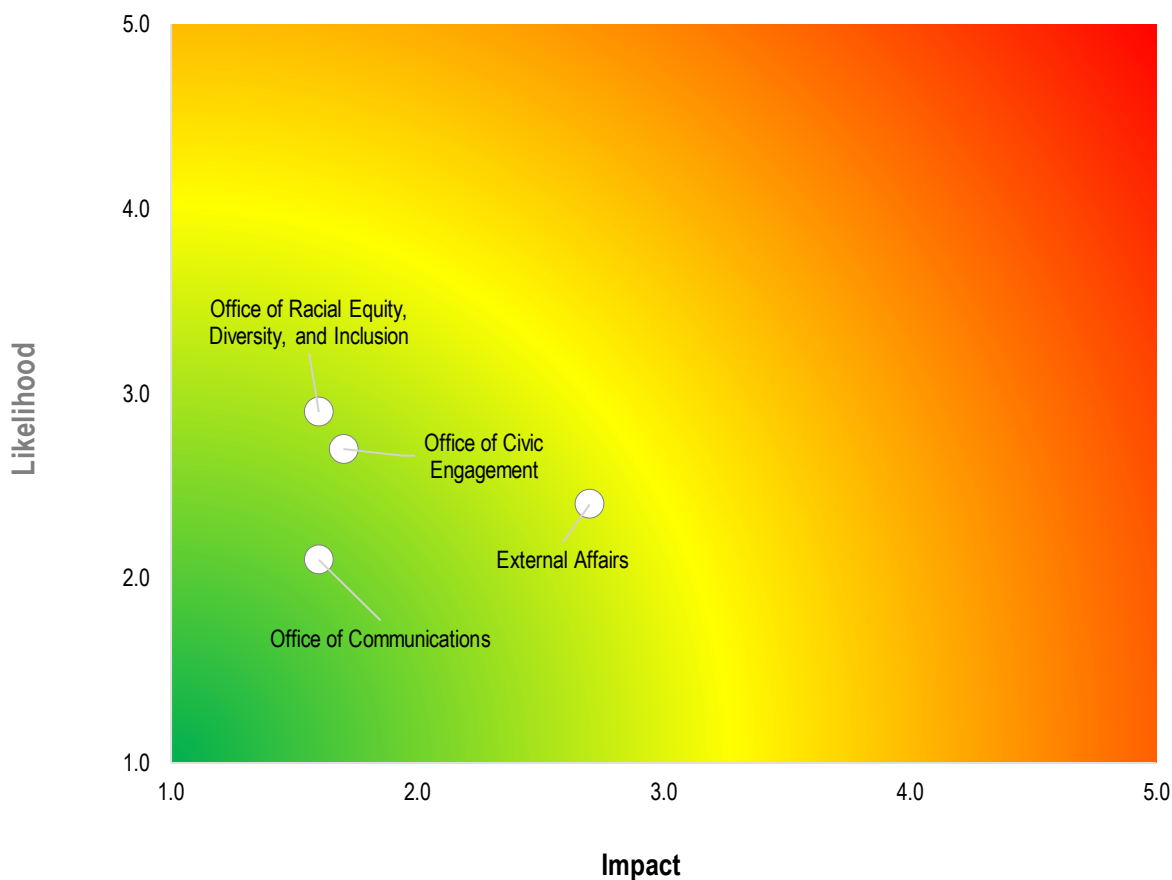
Internal Communications

The Internal Communications Program is responsible for communication within the organization, including employee engagement, events, and surveys. Challenges involve ensuring transparent and effective communication across different departments and addressing employee concerns and feedback.

Risk Summary

The Office of External Affairs has a relatively low budget and FTE allocation when compared to other Valley Water departments, and generally represents relatively low risk when compared to other departments based on our assessment of a variety of risk factors. Despite this, External Affairs is in many ways the public face of Valley Water. Because of this, the potential benefits of a performance audit of External Affairs are likely to be in assessing the overall efficiency and effectiveness of the Office’s day-to-day operations. In Exhibit 17, we illustrate below the risk rankings of each unit or program area in relation to one another.

EXHIBIT 17. PROGRAM RISK RATINGS



This risk assessment revealed the following potential audit objective:

- 1) Evaluate the Office's business processes, information systems, and workload management practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Office of Financial Planning and Management Services

With an approximate Fiscal Year 2023-24 budget of \$98.5 million—representing 9.6 percent of the District's overall budget—and 47 FTE positions, the Office of Financial Planning and Management Services (Finance) is managed by Valley Water's Chief Financial Officer. Finance executes, records, and/or reconciles all financial transactions of the District (including the collection, receipt, disbursement and accounting of all monies received in accordance with Generally Accepted Accounting Principles), provides analyses and recommendations on decisions brought forth by operations, prepares and develops financial statements and other financial programs, manages and invests cash assets of the District, issues and manages debt instruments, prepares and manages the District's budget, conducts financial analysis and forecasting, coordinates all external and internal audits, establishes controls that minimize financial risks, and drives organizational change through a robust continuous improvement program. Finance staff also

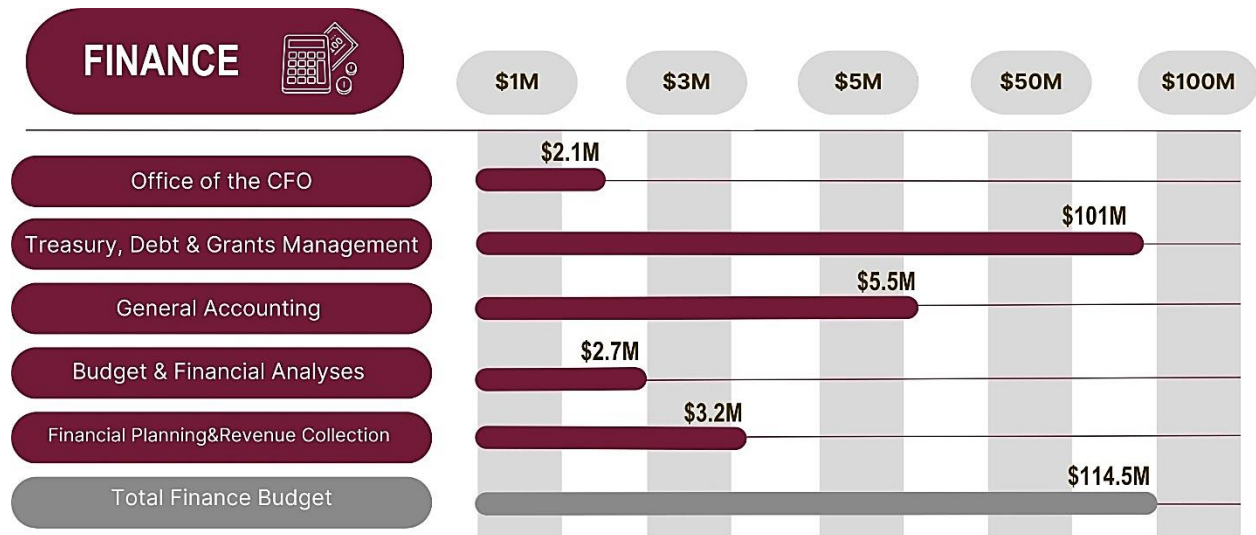
serve as the primary advisors to the Chief Executive Officer and the Board of Directors in financial planning and advice.

In Fiscal Year 2023, Finance cites various accomplishments, including having delivered the PERS/OPEB update to the Board on March 14, 2023; presented 30-year forecast to the Board on March 28, 2023, per Board request; and established a repository for Board and management directed audits conducted in the past 10 years. Prior audit work has also noted generally sound revenue forecasting models, which serve as a basis for determining resources available for planned operating and capital expenditures.

Finance is organized into five units: the Office of the Chief Financial Officer; Treasury, Debt, & Grants Management Unit; General Accounting Unit; Budget & Financial Analyses Unit; and the Financial Planning and Revenue Collection Unit. Exhibit 18 below is a breakdown of each divisions budgeted expenses for Fiscal Year 2023-24.



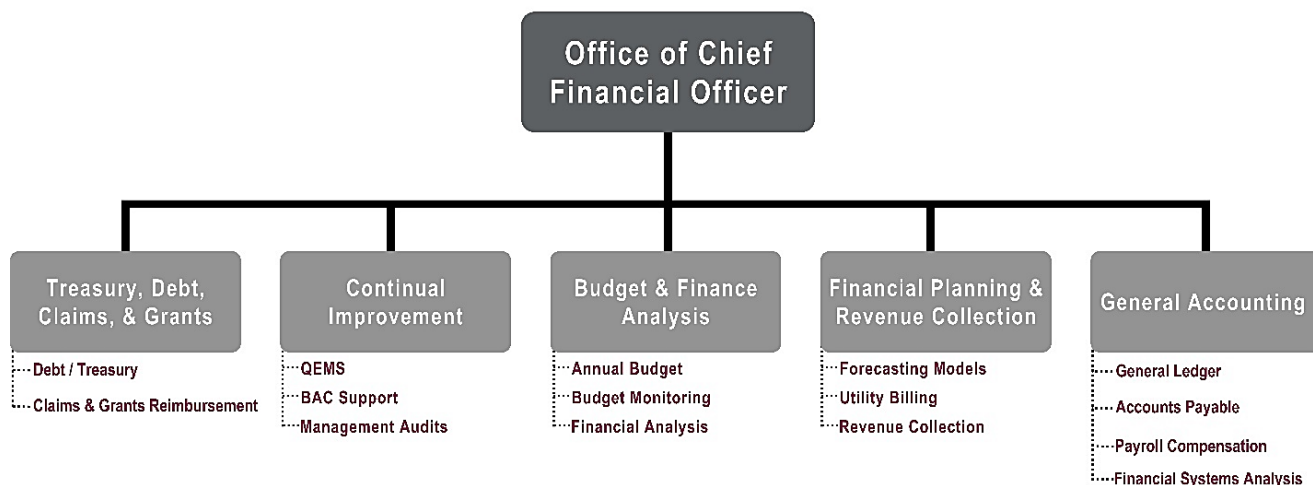
EXHIBIT 18. BUDGET BREAKDOWN BY DEPARTMENT



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Finance allocates functional responsibilities to each of the five units as depicted in Exhibit 19 below.

EXHIBIT 19. FINANCIAL PLANNING & MANAGEMENT SERVICES DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Further, recent legislation AB 939 impacts the District's financing options, particularly concerning the use of ad valorem taxes or assessments to pay for bonds, altering the method for paying the principal, interest, and premiums for bonds. It also removes the previous \$8,000,000 limit on borrowing and extends a provision related to director compensation.

Risk Analysis

Finance has a relatively low level of funding and FTEs as compared to other departments, but is responsible for a significantly high level of cash or other high-risk assets such as revenue collection from various sources, significant cash and debt management responsibilities, and federal and state grant management. Most of the divisions within Finance perform functions that are common subjects of internal and external audit activities: grant management, accounting, cash receipts and disbursements and reconciliations, etc. Generally, each employs systems of internal controls to ensure compliance, fiscal integrity, and the prevention of fraud, waste, and abuse. As is typical in many local governments, Finance is subject to annual external audits, which focus on accounting functions and general financial-related internal controls and has been historically subject to a variety of internal audits over the years.

Inherent risks associated with Finance include ensuring investment policies are fiscally sound and in line with best practices for ensuring compliance with debt and investment policies and asset allocation; engaging in effective cash management practices; complying with grants and increasing grant footprint; preventing and detecting theft; and considering the impact of cashiering operations on general accounting functions. Below, we present the key divisions/programs administered by Finance, the core responsibilities of each, and key factors contributing to the programs' risk rating.

Office of the Chief Financial Officer

Serves as a partner to assist other departments in achieving their objectives. Facilitates necessary financial transactions, provides analyses and recommendations on decisions brought forth by operations, establishes controls that minimize financial risks, and drives change or improvements in business processes or practices in order to improve productivity.

Budget: \$ 2,097,214

FTE: 4

Inherent Risks: Financial sustainability of Valley Water; regulatory compliance; the ability to prevent and detect potential fraud, waste, and abuse, or other misuses of Valley Water assets; and effectively providing reliable and transparent financial analyses to management, the Board, and the public.

Treasury, Debt, Claims, & Grants Unit

Oversees Districtwide treasury operations, debt financing, and grants programs. This involves managing an \$82 million annual debt service budget, and producing required reports for bond covenants and regulatory compliance. Comprising three sections—Treasury, Debt, and Grants—the unit supervises bank accounts, investments, supports small banks, manages short-term and long-term debt, and streamlines compliance and claims processes for improved efficiency.

Budget: \$ 101,057,917

FTE: 9

Inherent Risks: Liquidity risk in managing debt obligations; credit risk associated with debt issuers; compliance risks in managing claims and grants disbursements; potential that investment practices could exceed the bounds of Board-established investment policies; potential for fraud or misuse of grant funds; delays in reimbursement from external grantors.

Debt/Treasury

The Treasury Unit Handles short-term and long-term debt management, including commercial paper programs and revenue-supported long-term projects. It also oversees treasury tasks such as bank account management, investments, cash management, and supporting small banks through Certificate of Deposit purchases. Inherent risks of the Debt/Treasury Services include interest rate, liquidity, credit, and other risks similar to other public sector treasury functions—and compliance with Board-adopted investment policies.

Claims & Grants Reimbursement

The Claims & Grants Unit is responsible for ensuring compliance and efficient processing of claims and grant reimbursements. This includes managing the coordination of claims, overseeing follow-ups, and streamlining the grant application and reimbursement processes. Inherent risks include ensuring compliance with grant requirements relating to timely grant disbursements, allowable uses grant funds, and potential delays in reimbursement from external grantors. To mitigate these risks, Finance is establishing a new division specializing in grant management to better coordinate and streamline the grant application, reporting, and receipting process.

General Accounting Unit

General Accounting includes the responsibility to manage the general ledger, accounts payable, payroll, and Valley Water's enterprise financial system, Infor. General ledger responsibilities generally include all accounting and financial reporting requirements, in accordance with professional standards, and the reconciliation of all accounts. Accounts payable is charged with processing payments to Valley Water's contractors, consultants, vendors, and staff expense claims, as well as administering petty cash and filing payment documents. Payroll processes the bi-weekly payroll for all Valley Water employees, employee benefits accounting, payroll tax withholdings, and submission of Federal and State reporting requirements. Financial Systems provide for the maintenance and security of payroll, benefits, human resources, and financial applications.

Budget: \$5,487,444

FTE: 19

Inherent Risks: High magnitude of financial exposure, including compliance with financial reporting requirements; the ability to provide efficient or effective support of financial support functions; compliance with grants and increasing grant footprint; integrity and effectiveness of internal controls related to fiscal transactions of all types; inefficient or inaccurate payroll processes resulting from reported system limitations of Infor; the potential for fraud, waste, and abuse; and integration issues with other financial systems.

General Ledger

The General Ledger Unit administers all accounting responsibilities for Valley Water, the recording and reconciling of financial transactions; processing payroll, accounts payable, and journal entries; preparing financial statements; coordinating Valley Water's annual financial audit; and managing the Infor system. Inherent risks primarily relate to the potential for inaccuracies in financial records and the potential for fraud, waste, and abuse.

Accounts Payable

The Accounts Payable Unit handles check runs, reviews all expenditures for proper authorization and prior approval, processes incoming requests for payments, manages payment schedules, and maintains accurate financial records while ensuring compliance with approval processes. Inherent risks in accounts payable activities include ensuring the integrity of internal controls over the use and expenditure of District financial resources to prevent and/or detect any potential inappropriate or unauthorized expenditure. This could include the potential for inadvertent or intentional duplicate or erroneous payments, vendor fraud and invoice manipulation, inadequate documentation for expenditures, or the potential for fraud, waste, or abuse.

Payroll Compensation

The Payroll Compensation Unit is responsible for payroll processing, including W-2s and other tax filings. The unit works closely with Human Resources to ensure accurate and timely compensation for employees. Inherent risks include payroll processing errors resulting from erroneous employee timekeeping, erroneous recordkeeping by Human Resources, inappropriate application of compensation rules as set forth in collective bargaining agreements or Valley Water policies (e.g., policies related to overtime or differential pay), or Infor system limitations. Most recently, concerns have been raised regarding the functionality of Infor in processing payroll, which has led to substantial manual processes by this Unit to ensure accurate and timely payroll. As a general rule, the infusion of substantial manual processes into what is normally a highly reliable and automated function introduces the potential for human error and increases the risk of payroll inaccuracies as well as fraud, waste, and abuse.

Financial Systems Analysis

The Financial Systems Analysis Unit works behind the scenes to manage and optimize the financial system, Infor, to ensure data accuracy, perform analyses, generate standard and ad hoc financial reports, and to address system-related challenges. Inherent risks associated with this function relate to maintaining effective segregation of duties (including system access and restrictive user profiles), ensuring the optimal efficiency of the system to enable financial staff to carry out their duties in an effective and efficient manner, and the potential for system failures or data integration problems.

Continual Improvement Unit

Through Valley Water's Quality and Environmental Management System, the Continual Improvement team plays a crucial role in strengthening the CEO's leadership and offering vital support to the Board. This involves conducting audits as directed by the CEO and providing the Board with regular updates on the status of its continual improvement efforts.

Budget: \$782,804

FTE: 3

Inherent Risks: In general, there are not substantial risks associated with continuous improvement programs, at least as they relate to an organization's core operations, because such programs tend to be independent of such programs. However, several factors can impede continuous improvement efforts within organizations, including a lack of independence or objectivity in facilitating improvement efforts, the need to balance potential improvement initiatives with the costs of such initiatives, the potential for continuous improvement processes to become rigid and burdensome, and the potential for change fatigue.

Budget and Finance Analysis Unit

This Unit manages the preparation of the annual operating budget, including Districtwide collaboration on funding strategies, developing, and executing the Annual Budget publication, assisting with the development of the five-year Capital Improvement Plan, maintaining multi-year financial models, forecasting and monitoring revenues and expenditures throughout the fiscal year, and coordinating with program and project managers throughout the year to provide budget and finance analyses on an ongoing basis.

Budget: \$ 2,700,568

FTE: 8

Inherent Risks: Projected growth in operating and capital expenditures, related debt, and overall sustainability; reliability of financial models and forecasts; reasonably accurate budget-to-actual monitoring and reporting; effectiveness of the Valley Water budget as a planning tool and as a basis for performance measurement; and efficiency of the biannual budgetary process.

Financial Planning & Revenue Collection Unit

Financial Planning prepares and manages long term financial plans and forecasts and drives the groundwater production charge setting process. This Unit is responsible for preparing detailed financial plans and forecasting models that both management and the Board rely upon to make long-term planning decisions regarding Valley Water's infrastructure.

Revenue Collection collects water revenue, property tax revenue, and benefit assessments for Valley Water. Water revenue is comprised of charges for groundwater, recycled, surface, and treated water usage. This includes billing and collection processes for various entities, including treated and groundwater retailers, water utility customers, loan owners, and surface water users. Property taxes and benefit assessments collected are the voter-approved Safe Clean Water Special Tax, Flood Control Benefit Assessment, State Water Project levy, and the allocated share of countywide 1% ad valorem property tax receipts.

Budget: \$ 3,177,720

FTE: 7

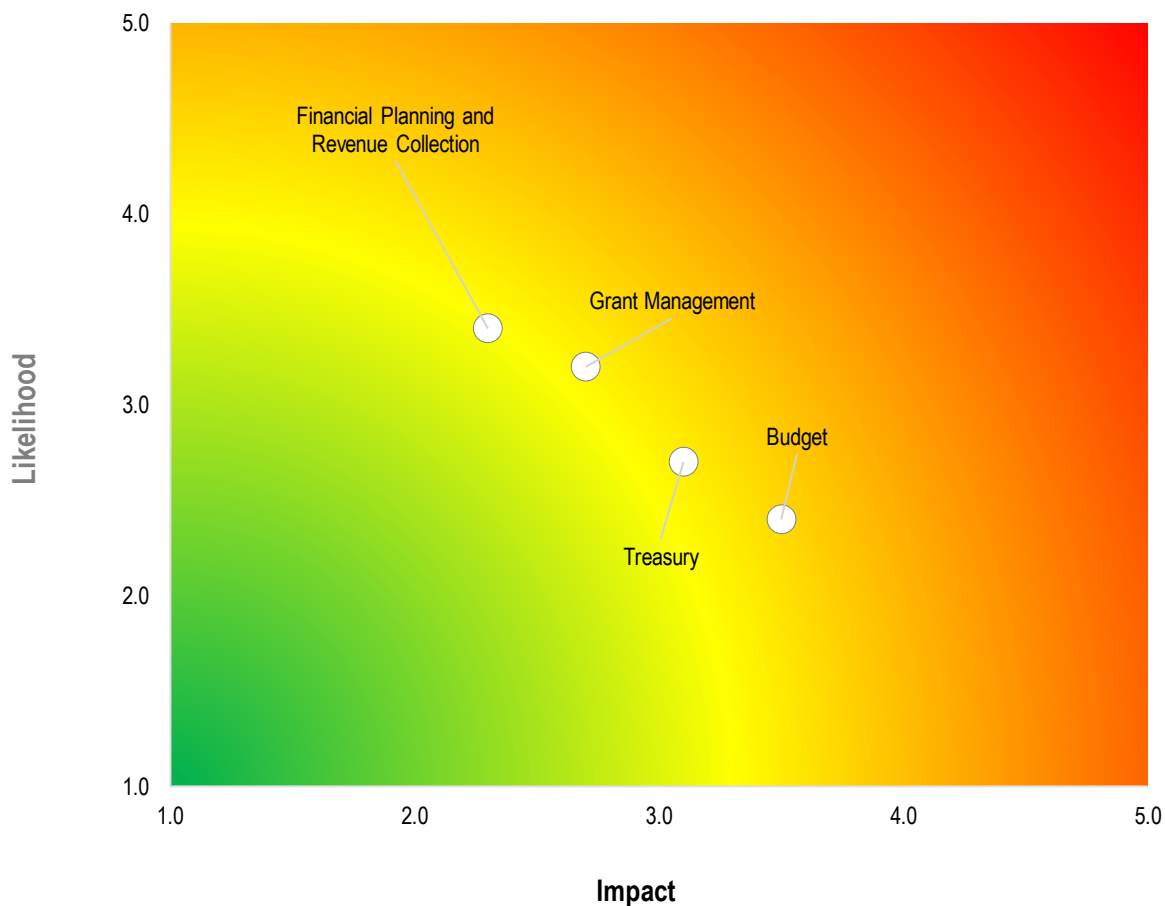
Inherent Risks: The potential, in an environment affected by the Covid pandemic and climate change, that revenue forecasting will become increasing complex and challenging; changes in water demand affecting revenue projections; sustainability given the potential for substantial increases in capital project costs, and limitations on certain revenue streams; and balancing the need for rate adjustments with community and board expectations.

Risks also include the potential that primarily manual and self-reported customer billing processes could lead to errors or otherwise under-collected fees; revenue leakage due to inaccurate metering or billing; collection difficulties for overdue accounts; risk of non-payment or late payment by customers; and the potential for fraud, waste, and abuse.

Risk Summary

Most of the divisions in Finance perform functions that are common subjects of internal and external audit activities: financial analysis, revenue forecasting, accounts payable, accounts receivable, cash management, account reconciliations and accounting practices, grant management, cash investments, cash handling, etc. Generally, each employs systems of internal controls to ensure compliance, fiscal integrity, and the prevention of fraud, waste, and abuse. Nevertheless, given the transactional nature of Finance and the significant responsibility of Finance in managing Valley Water's fiscal assets, much of the operational activities of Finance remains at the moderate-risk level. With these key factors in mind, we illustrate below the risk rankings of each division or program area in relation to one another.

Exhibit 20. Program Risk Ratings



Based on this assessment, there are several potential audit topics that warrant consideration for future audit planning.

- 1) Grant management activities, including determining whether existing policies and procedures; systems of internal control related to the recording, tracking, and monitoring of grant funds to ensure full compliance and recovery; and staffing and system resources are sufficient to administer, optimize, and account for grant monies in an efficient and effective manner.
- 2) Treasury operations, including evaluating cash management, investment, treasury functions, and determining the extent to which investment and cash management activities adhere to best practices and established investment policies.
- 3) Budget processes, including evaluating budget and financial planning protocols and practices, the sufficiency of budgetary tools available to Valley Water management to monitor budget-to-actual performance, and the overall efficiency and effectiveness of the District's biennial budget cycle.
- 4) The efficiency and effectiveness of system integration between the Finance enterprise system, Infor, and other information systems utilized to manage Valley Water fiscal activity.

- 5) The Completeness of policies and procedures, including how they are maintained, updated, made available and communicated to all relevant parties.
- 6) Accounts receivable, including assessing the manual billing processes employed by Finance to bill and collect from utility customers.
- 7) Financial analysis and forecasting practices, including the extent to which revenue forecasting is consistent with best practices in an environment significantly impacted by the pandemic and climate change, and the extent to which forecasting models and fiscal policies provide an effective framework for ensuring long-term sustainability.
- 8) Payroll and compensation practices, including whether practices ensure total compensation and payments to employees, including executive management and Board members, comply with collective bargaining agreements and Board policies.

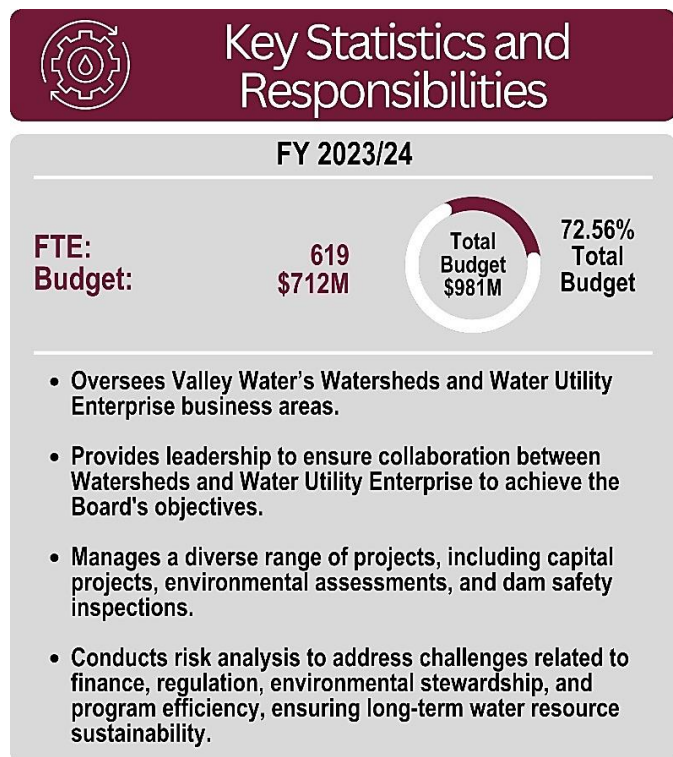
Office of Integrated Water Management

With an approximate Fiscal Year 2023-24 budget of \$783 million—representing 75.8 percent of the District’s overall budget—and 619 FTE positions with Operations, the Office of Integrated Water Management (Integrated Water) is managed by the Office of the Assistant Chief Executive Officer (ACEO). The ACEO directly oversees Valley Water’s Watersheds and Water Utility Enterprise business areas, which are primarily responsible for achieving Valley Water’s primary goals—that is, to:

- 1) To achieve a reliable water supply;
- 2) Improve flood protection; and
- 3) Ensure healthy and resilient ecosystems.

The Office of Integrated Water Management provides focused leadership to ensure a cohesive working relationship between its two major business areas—Watersheds and Water Utility Enterprises—and several cross-functional units, all with the aim of achieving the Board’s Ends Policies and goals.

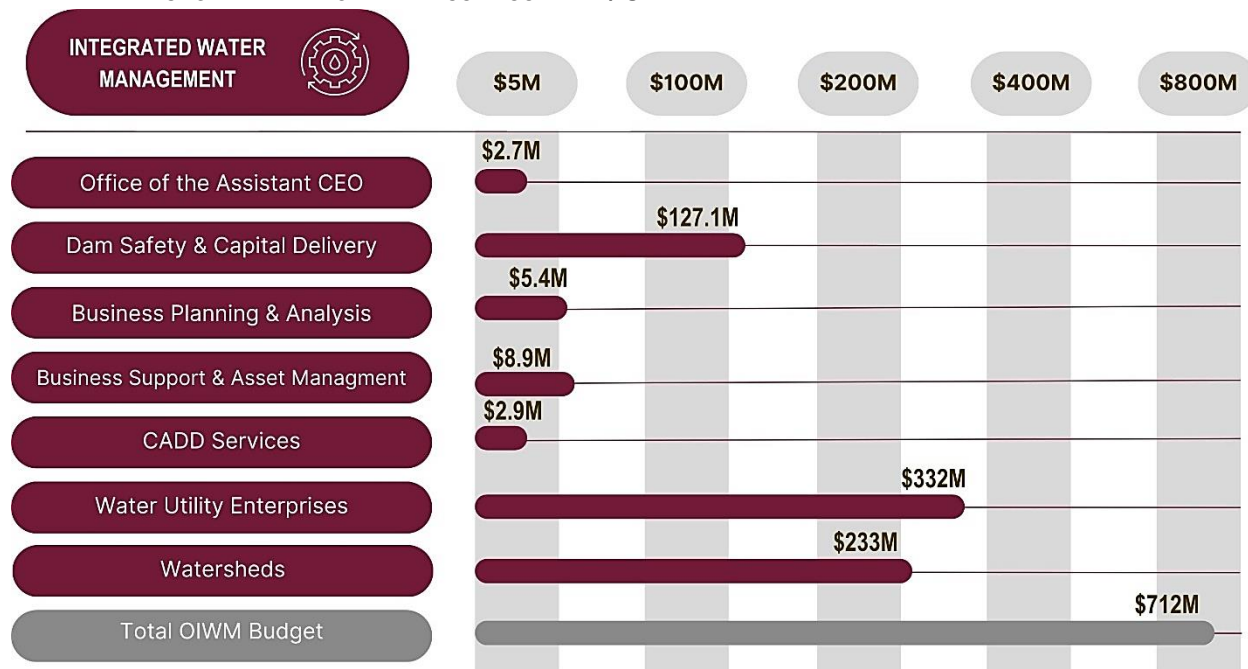
In Fiscal Year 2023-24, Integrated Water reported numerous accomplishments across various business areas. This includes developing the Funding Filters for Prioritization, a tool that aided the Board in making decisions regarding capital project funding; analyzing and prioritizing over 15 creeks for the Safe, Clean Water Project; completing 295 Computer-Aided Design (CADD) requests, nearly 50 percent more than was completed in Fiscal Year 2022-23; maintaining 64.85 acres of mitigation sites; implementing a new project



management software solution for use by the Capital Improvement Program (CIP) and capital project delivery teams; initiating numerous process improvements in conjunction with the recent completion of a performance audit of the CIP process; and, most importantly, meeting or exceeding drinking water standards, ensuring that all treated water delivered to customers surpassed all applicable primary drinking water requirements.

Integrated Water is organized into two primary business areas and several smaller units that support these two business areas. Specifically, Integrated Water includes Valley Water's Watersheds and Water Utility Enterprise business areas, as well as several units that support Valley Water's capital infrastructure development: the Business Planning & Analysis Unit, CADD Unit, Business Support & Asset Management Unit, and the Dam Safety & Capital Delivery Division. Exhibit 21 below is a breakdown of the budget appropriations to each program area for Fiscal Year 2023-24.

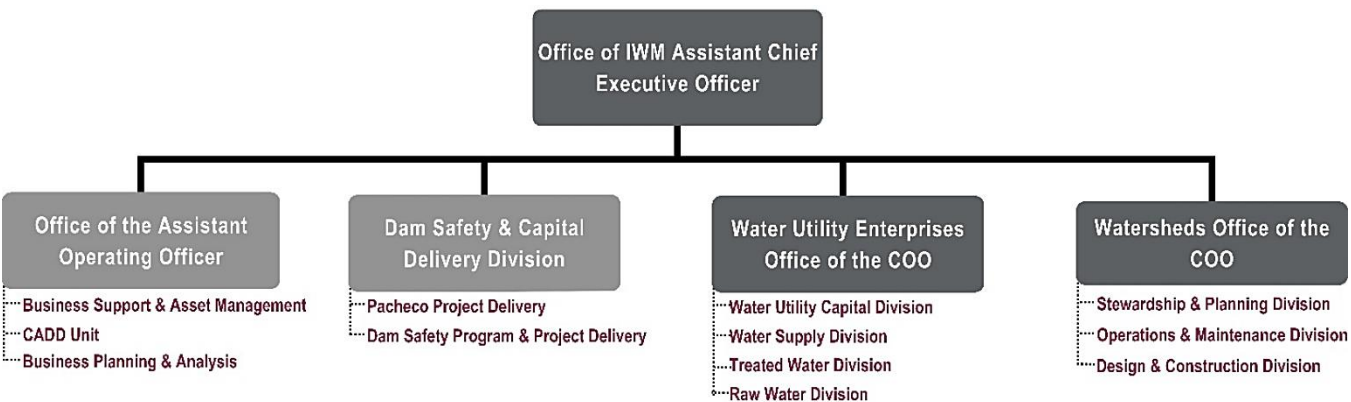
EXHIBIT 21. BUDGET BREAKDOWN BY BUSINESS AREA / UNIT



Source: FY 2022-23 & Fiscal Year 2023-24 Operating and Capital Rolling Biennial Budget

The organizational structure of Integrated Water is depicted in Exhibit 22.

EXHIBIT 22. OFFICE OF INTEGRATED WATER MANAGEMENT DIVISION ORGANIZATIONAL STRUCTURE



Source: Fiscal Year 2023-24 & FY2024-25 Operating and Capital Rolling Biennial Budget

Risk Analysis

Integrated Water plays a pivotal role in managing, safeguarding, and enhancing the region's water resources and infrastructure. It encompasses a wide range of divisions, units, and programs, each with its unique roles and responsibilities. However, this diversity also brings about a complex web of inherent risks that demand careful assessment and mitigation strategies to ensure Valley Water's continued success in its mission. Below, we present the key business areas, divisions, and units administered by Integrated Water, the core responsibilities of each, and key factors contributing to its programs' risk rating.

OFFICE OF ASSISTANT CHIEF EXECUTIVE OFFICER	
The Office of the Assistant Chief Executive Officer leads and manages the Office of Integrated Water Management and facilitates coordination between the Watersheds and Water Utility business areas to achieve the Board's Ends Policies and goals. This Office provides managerial support to ensure Valley Water's projects and programs are achieved in an efficient and effective manner.	Budget: \$ 2,704,478 FTE: 4 Inherent Risks: Challenges related to financial planning and program implementation, the planning and execution of capital projects, the maintenance of existing infrastructure assets, compliance with regulatory requirements, and the efficient operation of both Watersheds and Water Utility programs.

BUSINESS SUPPORT & ASSET MANAGEMENT UNIT

The Business Support and Asset Management Unit implements and continually improves asset management standards and information systems based on industry best practices. The unit manages Valley Water's water utility, watershed, and administration asset management programs, and supports the users of Valley Water's Computerized Maintenance Management System (CMMS), Maximo. In addition, the unit manages three Water Utility infrastructure master planning projects: The Water Treatment Plant, SCADA System, and Distribution System Master Plan Implementation Projects. The unit also manages a Safe, Clean Water project, F-8: Sustainable Creek Infrastructure for Continued Public Safety.

Budget: \$ 8,924,059

FTE: 11

Inherent Risks: Facilitating efficient and effective asset management by ensuring accurate and reliable records of all District infrastructure assets, the condition of all assets, and a reliable plan to maintain all assets to optimize useful life.

CADD UNIT

The CADD Services unit is responsible for producing engineering drafting and design work, plan production standards, and managing computer-aided design (CAD) software in support of Valley Water's water resources facilities, flood management, pipeline infrastructure, and watershed management facilities. The unit develops in-house project design drawings for construction. Services include creating 2D and 3D designs that combine information from different departments such as Survey, GIS, Right-of-Way, and Engineering. Additionally, the unit maintains current CADD Standards for Contractors and Engineers, assists in the quality control of all project drawings for construction, and verifies that CADD Record As-built drawings are completed per Valley Water standards for future project work.

Budget: \$ 2,891,420

FTE: 9

Inherent Risks: If the CADD Services unit fails to produce plans or review the CADD work produced by consultants and contractors in a manner consistent with Valley Water's plan production standards, it could affect the delivery and accuracy of construction and future maintenance efforts, and unnecessarily increase the cost of future capital projects, specifically during the planning phases.

BUSINESS PLANNING & ANALYSIS UNIT

The Business Planning and Analysis unit manages, plans, and oversees four major Valley Water-wide programs. This unit is responsible for Valley Water's implementation of the Five-Year planning process for the Capital Improvement Program (CIP); Capital Project Management and Project Controls (CPMPC) Program; the Safe, Clean Water and Natural Flood Protection Program (Safe, Clean Water Program); and the District Lands Management Program, which was designed to establish and maintain a centralized framework to integrate the management of maintenance obligations on Valley Water-owned lands and easements, as well as those made through contractual commitments.

Budget: \$ 5,459,489

FTE: 12

Inherent Risks: The cost-effective planning, analysis, and reporting related to a wide range of District capital projects; the ability to coordinate with a large number of divisions and units within Integrated Water, Finance, and Administrative Services to ensure accurate reporting and analysis; and the ability to ensure adequate administration of special funded programs to demonstrate that funds were expended in a manner compliant with program requirements.

Capital Improvement Program

The Capital Improvement Program (CIP) serves as the steward of Valley Water's capital funding requirements for projects spanning Fiscal Year 2023/24 through Fiscal Year 2027/28. It plays a crucial role in documenting planned initiatives and aligning Valley Water's planning with the community. This program oversees various infrastructure projects totaling \$9.52 billion, with an estimated \$1.3 billion in external funding through partnerships and reimbursements. Additionally, the CIP requires the accurate management of financial records. Inherent risks associated with CIP programs include financial uncertainty due to reliance on external funding, potential project delays, the reliability of resources to meet project demands, the availability of project financing, and ensuring CIP plans are achievable—all of which could result in capital project costs that exceed District plans, raising sustainability questions.

Safe, Clean Water and Natural Flood Protection Program

The Safe, Clean Water and Natural Flood Protection Program, approved through Measure S in 2020, allocates \$47 million annually for six core priorities: ensuring a safe water supply, reducing waterway toxins, protecting against natural disasters, restoring habitats, providing flood protection, and supporting public health. It operates with oversight from an Independent Monitoring Committee and mandatory audits to assess cost-efficient outcomes.

Notably, a Safe, Clean Water Program Grant Management Audit was recently performed in 2020 that identified delays in grant agreement execution, reimbursement processing, and extensive reporting requirements, along with staffing challenges, prompting recommendations for tailored guidelines, mandatory orientation, streamlined reporting, customized grant requirements, integrity checks, feedback solicitation, goal setting, an operations manual, and potential job assignment reconfiguration to enhance the District's grants management program. Beyond the risks identified by the recent audit, inherent risks include substantially increasing capital project costs, effective project management and delivery protocols, and compliance with Program requirements.

District Lands Management

The District Lands Management Program handles Santa Clara Valley Water District property matters. This includes acquiring properties needed for current and future district projects and programs, establishing clear lands rights and obligations associated with all District real estate, establishing wildfire resiliency plans and policies, and establishing policies and plans for the long-term use of Valley Water properties.

Before projects commence, the program ensures that some properties are leased at fair market rates to external parties. When District purposes require the use of a leased property, the program provides appropriate termination notices as mandated by law to make the property available for District use. Additionally, the program may oversee public auctions to sell District properties. To prevent conflicts of interest, it strictly prohibits leasing District real property to District employees, Board members, or immediate family members. Individuals can contact designated personnel for inquiries about the property leasing program or surplus properties.

Further, recent legislation AB 1469 impacted the District Lands Management Program, which grants the district the authority to take actions in consultation with local entities to assist unsheltered people living within the District's jurisdiction and establishes specific rules for surplus land disposal in such cases.

Inherent risks associated with the District Lands Management Program encompass strategic planning as it relates to the Program's activities, and compliance with conflict-of-interest policies, and potential legal and regulatory obstacles in managing property acquisitions, leases, and sales, which may lead to delays or complications. The program also faces public scrutiny regarding property disposition decisions and must consider the financial implications of property transactions, including revenues from leases or sales. Managing land rights, obligations, and properties, particularly concerning wildfire resilience planning and policy development, is an ongoing risk, and the associated risk assessments can have implications for communities and real estate transactions. Effectively mitigating these risks requires strict adherence to legal requirements, transparent decision-making processes, and proactive measures to address disputes and ensure compliance in the responsible management of District lands.

Capital Project Management & Project Controls Program

Capital Project Management & Project Controls Program is responsible for facilitating integration and configurations of ProjectMates with other systems—Okta, Vena, and Infor—or with a customized training of ProjectMates for project teams and management. The Program is also responsible for delivering the biennial training of workflows related to the Capital Improvement Program (CIP) and Quality and Environmental Management System (QEMS) policies and procedures, as well as maintaining transparent communication through circulating a Quarterly Office of Integrated Water Management Newsletter. Inherent risks include risks associated with the planning and execution of capital projects, including budget control and adherence to project timelines, and the need to strike a balance between internal controls (as defined in QEMS) and efficient project management.

DAM SAFETY & CAPITAL DELIVERY DIVISION		
The Dam Safety and Capital Delivery Division is responsible for planning, implementation, and management of the portion of Valley Water's 5-year Capital Improvement Program (CIP) associated with dam construction and maintenance. This Division consists of two units—the Pacheco Project Delivery Unit and the Dam Safety Program Project Delivery Unit—which are responsible for capital project delivery and maintenance of Valley Water's dams. The Division was moved under the Office of Integrated Water Management in Fiscal Year 2020-21 from the Water Utility Enterprise business area, but Water Utility continues to operate and control the assets.	Budget: \$ 127,068,630	FTE: 21
Inherent Risks: Cost-effective contract, construction, and project management; maintaining the system in a cost-effective manner; aging infrastructure; significant deferred maintenance and workorder backlogs; managing consultants and contractors and controlling project costs; health and safety risks and high level of public interest and visibility; maintaining sufficient staffing resources; compliance and regulatory risks associated with environmental standards, and operational risks related to project execution; and completing projects on-time and within budget.		

Pacheco Project Delivery

The Pacheco Project Delivery Unit is responsible for managing the Pacheco Reservoir Expansion Project. This includes overseeing the expansion of Pacheco Reservoir to increase emergency water supplies, improve water quality, and provide ecosystem benefits to the region and the Sacramento-San Joaquin Delta. The unit collaborates with project partners, including San Benito County Water District and Pacheco Pass Water District, to secure funding and ensure successful project delivery. Their role involves project planning, environmental assessments, permitting, and coordination with state and federal regulators. The Pacheco Project is part of Valley Water's efforts to increase overall water supply but faces numerous challenges, including environmental, legal, and financial challenges, as well as project delays. One such challenge relates to compliance with the California Environmental Quality Act (CEQA), which has led to project delays. To be viable, Valley Water must secure sufficient funding, address legal concerns, and navigate regulatory requirements before construction and overall project delivery can be considered.

Dam Safety Program & Project Delivery

The Dam Safety Program & Project Delivery Unit focuses on ensuring the safety and reliability of the water District's 10 major dams. The Unit conducts periodic special engineering studies, surveillance and monitoring, dam inspections and maintenance, and emergency response and preparedness to safeguard the public from potential dam failures. This unit works closely with regulatory authorities and emergency response partners to meet dam safety goals. Inherent risks include the potential for dam safety issues, such as unexpected dam failures or structural problems, which can have catastrophic consequences. Environmental factors, including climate change and seismic activity, can also pose risks to dam safety. Ensuring a cost-effective maintenance program is essential, including assessing the condition of each asset, ensuring all preventative maintenance, and avoiding the deferral of required maintenance.

WATER UTILITY ENTERPRISES BUSINESS AREA

The Water Utility Enterprise (Water Utility) is primarily responsible for carrying out the core services related to the Board's Ends Policy 2; that is, to provide a reliable, safe, and affordable water supply for current and future generations in all communities served. Directed by a Chief Operating Officer (COO), Water Utility is comprised of four divisions, each of which includes functional units that carry out the work of the division and the enterprise.

The Office of the Chief Operating Officer, Water Utility, oversees the Water Utility Capital, Water Supply, Raw Water, and Treated Water divisions. The Office of the COO was allocated a budget of \$2,208,942 for a total of three (3) FTE. The COO provides for management activities that promote communication, human resources development, budgeting, project efficiencies and process improvement, mentoring and recruitment, and supporting district-wide and special events/efforts that benefit the whole organization.

Budget: \$ 332,304,101 **FTE:** 308

Inherent Risks: Inherent risks include the potential that Valley Water's infrastructure could fail, impacting the quantity or quality of water available for Valley Water customers.

While providing high-quality drinking water to Valley Water customers is regulated by county and state agencies, the delivery and maintenance of the capital infrastructure required to do so is not. Because of this, risks include cost-effective contract, construction, and project management; maintaining the system in a cost-effective manner; aging infrastructure; the potential for deferred maintenance and workorder backlogs; managing consultants and contractors control costs; health and safety risks and high level of public interest and visibility; maintaining sufficient staffing resources; compliance and regulatory risks associated with environmental standards; and completing projects on-time and within budget.

WATER UTILITY CAPITAL DIVISION

The Water Utility Capital Division oversees the planning, management, and execution of crucial capital projects related to water infrastructure. This Division's responsibilities include project management and design, construction oversight, asset management, financial planning, environmental compliance, and community engagement. It is responsible for ensuring the efficient operation of water treatment plants, pipelines, and pumping stations, playing a vital role in delivering safe and clean water to the community. This includes managing and designing capital projects, providing districtwide construction management and inspection services, and implementing asset management programs to optimize asset performance and minimize maintenance costs. Additionally, the Division is tasked with navigating complex environmental regulations, obtaining permits, and engaging with the community to address concerns and obtain necessary approvals.

Budget: \$ 86,604,273

FTE: 68

Inherent Risks: Capital project delivery responsibilities are carried out by several divisions within Valley Water—Dam Safety, Watersheds, and Water Utility. The inherent risks remain the same for each: cost-effective contract, construction, and project management; managing consultants and contractors and controlling project costs; health and safety risks and high level of public interest and visibility; maintaining sufficient staffing resources; compliance and regulatory risks; and operational risks related to project execution and the ability to complete projects on-time and within budget.

Further, the Division provides construction management and inspection services to all capital project delivery units, creating the potential that interdepartmental silos could create an impediment to efficient project delivery.

Construction Services Unit

Construction Services Unit is responsible for managing and overseeing the physical execution of capital projects related to water infrastructure, coordinating and supervising the construction activities, and ensuring all construction activities properly align with approved designs and project plans. The role of this Unit involves managing contracts with construction companies; overseeing contractors' work; and ensuring that projects are executed on time, within budget, and according to the required quality standards. This includes scheduling, cost control, safety compliance, and ensuring construction projects meet all regulatory and environmental requirements. Construction Services are essential in translating the designs and plans into tangible, functional water infrastructure, ensuring Valley Water's water supply remains reliable and resilient.

Inherent risks include construction delays due to unforeseen issues, such as weather events or unexpected site conditions, which can impact project timelines and budgets; concerns related to contractor performance, quality control, and safety compliance; ensuring construction activities align with complex environmental regulations and permitting requirements; and establishing robust protocols to monitor contractor activity, review costs for compliance with contract provisions, and ensure contractor accountability.

Construction Inspection Services

The Construction Inspection Services Unit ensures the quality, safety, and compliance of construction activities related to water infrastructure projects. This Unit is critical in conducting inspections, verifying that contractors adhere to project specifications, and addressing any deviations or issues that may arise during construction. Inspectors are tasked with monitoring work progress, conducting tests and quality checks,

and verifying that the construction process aligns with environmental regulations and permits. They serve as a bridge between the district, contractors, and regulatory bodies, providing real-time oversight to safeguard project integrity and ensure that construction work meets the required standards.

Inherent risks include those associated with the dynamic nature of construction projects and the need for ongoing and thorough. The potential for disputes with contractors, schedule delays, and cost overruns due to unforeseen issues or changes in project scope is a significant concern. Environmental and safety compliance issues could lead to regulatory penalties or legal challenges, emphasizing the importance of thorough inspections and documentation. Staff turnover, staffing shortages, or fluctuations in workload can impact the division's ability to maintain consistent oversight across projects; this is true as it relates to Valley Water's in-house personnel as well as contracted professional services firm.

Treatment Plants Project Delivery

This program is responsible for planning, designing, and implementing projects to improve, expand, or maintain Valley Water's water treatment facilities. This includes potable water treatment plants, purification centers, and recycling facilities. The program manages the entire project life cycle, from initial feasibility studies and design phases to the construction and commissioning of treatment plants. Their role involves coordinating with various internal and external stakeholders, including engineers, contractors, environmental planners, and regulatory agencies to ensure treatment facilities meet water quality standards, environmental regulations, and safety requirements. Additionally, the program is responsible for optimizing treatment processes, responding to changing water quality conditions, and addressing challenges related to droughts, climate change, and evolving water quality regulations.

In addition to the inherent risks associated with capital project delivery, risks also include challenges associated with the water treatment infrastructure's complexity and critical nature. Delays in project timelines due to permitting issues, design changes, or unexpected challenges can impact the District's capacity to provide clean and safe drinking water. Compliance with evolving water quality regulations and adapting treatment processes to changing environmental conditions pose ongoing challenges.

Pipelines Project Delivery

This program focuses on the planning, design, and execution of projects related to water conveyance through pipelines, and oversees the development of new pipelines, rehabilitating existing pipelines, and constructing pumping stations to ensure efficient water distribution throughout the District's service area. Responsibilities include conducting feasibility studies, hydraulic modeling, design and engineering, and project management. The program collaborates with multiple internal and external partners, including engineers, construction contractors, and environmental planners, to meet water supply demands, improve infrastructure resilience, and address the impacts of droughts and climate change.

In addition to the inherent risks associated with capital project delivery associated with Valley Water's critical water conveyance infrastructure, there is the potential for pipeline failures, which can lead to water supply disruptions, property damage, and costly repairs; aging pipelines, which can impact effectiveness, safety, and water quality; permitting delays and environmental concerns; and challenges related to multijurisdictional coordination.

WATER SUPPLY DIVISION

The Water Supply Division is responsible for overseeing various aspects of water supply, including sourcing, treating, and distributing water to meet the demands of the region, as well as identifying future water supply needs, managing imported water supplies, and implementing water conservation and recycled water programs. It manages a diverse portfolio of water resources, including surface water from reservoirs, groundwater, and imported water supplies. The division collaborates with other internal departments and external agencies to ensure a sustainable water supply for the future, especially in the face of challenges like droughts and climate change. Responsibilities also encompass water quality monitoring, water rights compliance, and the development of policies and programs aimed at promoting water conservation and efficient use.

Budget: \$ 123,879,047 **FTE:** 36

Inherent Risks: Ensuring water availability and quality and mitigating the potential for contamination; prolonged droughts that lead to reduced water availability from local sources like reservoirs and groundwater basins; potential supply interruptions and increased costs relating to the District's reliance on imported water; inaccurate water supply forecasting; unforeseen economic consequences resulting from revenue shortfalls caused by inaccurate water supply forecasts and the need for expensive emergency water purchases.

Imported Water

The Imported Water Unit protects, manages, and develops Valley Water's imported water assets. Imported Water meets the operational needs for imported supplies by securing reliable contracts with water agencies, overseeing the conveyance and treatment of imported water, and coordinating the allocation and distribution of imported water to the region's water treatment facilities. The Santa Clara Valley Water District relies on imported water sources, such as the State Water Project and the Central Valley Project, to meet a portion of the region's water demands. Imported Water also involves compliance with regulatory requirements, monitoring water quality, and addressing potential risks associated with delivery interruptions, water quality issues, and changes in state and federal water policies.

Inherent risks include supply reliability, regulatory compliance, potential disruptions caused by drought conditions, competing demands from other regions, and environmental restrictions that can limit water deliveries. Moreover, imported water contracts and agreements are subject to changes in state and federal policies, which can impact the availability and cost of imported water supplies.

Recycled & Purified Water Program

The Recycled & Purified Water Program develops and expands recycled and purified water program as well as leads planning and research studies. This program is responsible for managing and promoting the use of recycled and purified water resources within the District's service area. This program plays a role in diversifying the water supply portfolio and reducing reliance on traditional water sources. The Program is responsible for overseeing the treatment and distribution of recycled and purified water, managing infrastructure needs, ensuring compliance with water quality standards, and engaging in ongoing planning and research studies. The program works to expand the use of recycled water for various non-potable purposes, such as landscape irrigation, industrial processes, and groundwater recharge. Additionally, the Program actively engages with the community and stakeholders to promote water conservation practices.

and raise awareness about the benefits of recycled water. Inherent risks include public perception, infrastructure management, and ensuring the safety and quality of recycled and purified water.

Water Supply Planning & Conservation

The Water Supply Planning & Conservation Unit is responsible for long-term water supply planning, demand forecasting, and implementing conservation initiatives. Their responsibilities include assessing current and future water demands, evaluating available water resources, and developing comprehensive water supply plans to meet the region's needs. Additionally, the Unit actively promotes water conservation efforts to reduce water consumption, protect water quality, and minimize the environmental impact of water use. Inherent risks include uncertainty in water availability due to factors like droughts and climate change, inaccurate demand forecasts, or the failure to consider potential supply constraints, leading to water shortages. The success of conservation initiatives depends on public participation and behavioral changes, which can be challenging to achieve. Additionally, external factors, such as regulatory changes and funding limitations, can impact the implementation of conservation programs.

RAW WATER DIVISION	
The Raw Water Division maintains the Water Utility infrastructure, operates the Raw Water System, and ensures continued groundwater sustainability. The Division maintains Valley Water's three potable water treatment plants, Advanced Water Purification Center, Campbell Well Field, recycled water pipelines in South County, and over 40 miles of large diameter treated water transmission pipelines. The Division provides civil engineering and corrosion control services in support of maintenance of these facilities, prepares the Annual Water Supply Operations Plan for the water supply of the County, performs planning and analysis for the operations of the Raw Water System, manages Valley Water's groundwater basins and local water rights, and submits the regulatory reports needed for operation of the Raw Water System and Sustainable Groundwater Management Act (SGMA) compliance.	Budget: \$62,789,879 FTE: 105 Inherent Risks: Maintaining the system in a cost-effective manner; managing consultants and contractors and controlling operating costs; aging infrastructure; the potential for deferred maintenance and workorder backlogs; and ensuring sufficient staffing resources. The Division's responsibilities, such as permitting private and municipal wells, can be affected by uncertainties in water usage, and the need for expanded metering creates logistical challenges.

Raw Water & Pipeline Maintenance Engineering

The Raw Water & Pipeline Maintenance Engineering team is responsible for ensuring the reliability and integrity of the water distribution system by providing engineering and support services for raw water and pipeline maintenance projects and programs. This team supports the overall maintenance efforts by monitoring ongoing corrosion control services, employing acoustic fiber optics for pipe integrity assessments, and leveraging technical expertise. It is also responsible for assessing the condition of critical assets, implementing predictive and preventative maintenance strategies, and responding promptly to any issues that could compromise the pipeline infrastructure's functionality. Inherent risks include challenges related to the aging infrastructure, the ability to accurately assess the condition of the District's pipeline

infrastructure, and plan maintenance activities to ensure cost-effective and timely maintenance of District assets and the continued functionality and structural integrity of its pipelines.

Raw Water Operations

The Raw Water Operations Unit ensures the effective conveyance and management of water from various sources. This team operates 24/7, monitoring water levels, making real-time decisions on water allocation, and responding to changing conditions by operating the reservoirs, pump stations, and transmission pipelines to effectively manage water supplies. Their work is guided by forecasting and modeling, allowing for efficient water supply management and allocation. Additionally, the Unit is responsible for reporting on water rights to county and state authorities to maintain regulatory compliance and safeguard water resources for the region.

Inherent risks include those primarily related to the region's climate variability and the potential for extreme weather events such as prolonged droughts or severe storms. These weather patterns can significantly impact water availability and necessitate rapid decision-making to meet supply demands while adhering to regulatory obligations. The reliance on imported water sources and surface water introduces challenges associated with supply interruptions and balancing water supply purchases with demand, especially during periods of high-water usage.

Ground Water Management

The Ground Water Management team is responsible for the oversight, protection, and sustainable management of groundwater resources within the region to provide accurate and timely information on current and forecasted groundwater conditions. Through monitoring and regulating groundwater usage, the Unit is responsible for ensuring compliance with state and local regulations, and managing the critical groundwater basins. This Unit is tasked with implementing the Sustainable Groundwater Management Act (SGMA) and developing Groundwater Sustainability Plans (GSPs) to maintain the long-term health and sustainability of groundwater resources. In doing so, the Unit collaborates with other Valley Water divisions and external agencies to address groundwater quality issues and mitigate the risks associated with over-extraction, land subsidence, and declining water tables.

Inherent risks include those associated with water resource sustainability. Over-extraction of groundwater can lead to adverse consequences such as land subsidence, saltwater intrusion, and reduced water quality. Managing groundwater basins to achieve sustainability under SGMA regulations can be challenging, especially during extended drought periods when demand for groundwater increases.

Wells & Water Measurement

The Wells and Water Measurement Unit oversees the regulatory aspects of wells within the region, and is responsible for permitting and inspecting domestic, municipal, and large organization wells to ensure compliance with regulations. This Unit also manages the metering of wells, which is essential for monitoring water usage and maintaining accurate records; oversee the installation and maintenance of meters, ensuring that water users report their usage accurately, particularly for larger users; and manages the notification process for new well drilling and conducts inspections to verify that wells are used as permitted.

This unit also incorporates the responsibility of ensuring that wells/deep excavations do not harm the ground water resources and provides accurate measurements of water production.

Inherent risks include the accurate measurement and reporting of water usage by various stakeholders. Ensuring that wells are metered correctly and that water users comply with reporting requirements can be challenging, particularly for domestic and small-scale users where the District is reliant on self-reported water usage data.

Field Operations & Pipeline Maintenance

The Field Operations & Pipeline Maintenance Unit is responsible for the reliable conveyance of raw water from various sources to treatment plants and other destinations. This division operates 24/7, overseeing the daily pumping and discharge of water, monitoring reservoir levels, reporting on water rights to regulatory authorities and ensuring compliance, and ensuring that water is efficiently moved to recharge basins, treatment plants, and reservoirs. Its work is guided by real-time data, forecasts, and modeling of storm events. Additionally, this division is involved in maintenance activities related to the water supply infrastructure that includes completing all mechanical, electrical, and control system maintenance of the distribution system infrastructure. Inherent risks are generally associated with the availability of reliable and accurate data to inform timely decision making, particularly when faced with extreme weather events that can impact the availability and quality of raw water.

Treatment Plant Maintenance

The Treatment Plant Maintenance Unit is responsible for the upkeep and efficient operation of treatment plants and treated water turnout facilities. This involves ensuring that treatment plants, which aid in the purification of raw water, are well-maintained to deliver high-quality treated water to customers. Maintenance activities include inspecting, repairing, and servicing various components of treatment plants, such as pumps, filters, chemical dosing systems, and control systems. Additionally, the unit monitors plant performance, conducts preventive maintenance to prevent breakdowns, and responds swiftly to address any operational issues. Inherent risks include the potential for equipment failures or malfunctions, which could disrupt the treatment process and impact the quality of treated water, as well as cause cost overruns. Such failures may result in service interruptions or compromised water quality, leading to public health concerns and regulatory violations.

TREATED WATER DIVISION

The Treated Water Division is responsible for ensuring the high-quality treatment and distribution of potable water to the community. This division oversees the operation and maintenance of three potable water treatment plants and one purification center, as well as the Campbell Well Field to provide emergency backup supply to the treated water system. These facilities treat and purify surface water from reservoirs, ensuring it meets strict water quality standards. The Division works continuously to optimize water treatment processes, maintain equipment, and monitor water quality parameters to provide safe and reliable drinking water to the region. The Division provides technical expertise and leadership for all commissioning-related work to improve overall safety, quality, and reliability upon capital construction handover to Operations and Maintenance (O&M). In addition, the Division communicates regularly with water retailers, and maintains communication and conducts annual check-ins for ongoing and annual updates of drinking and recycled water regulations with the State Water Resources Control Board.

Budget: \$56,821,960

FTE: 93

Inherent Risks: Ensuring the quality and reliability of the drinking water supply, compliance with stringent and evolving water quality standards; and ensuring the resilience of the water treatment facilities.

Plant Maintenance Engineering & Commissioning

Plant Maintenance Engineering and Commissioning is responsible for overseeing the commissioning of new facilities and equipment, ensuring they meet design specifications and function correctly. The Unit also provides ongoing engineering support for maintenance activities, helping to plan and execute maintenance projects to keep treatment plants in optimal condition. Inherent risks include ensuring compliance with stringent regulations and ensuring data used to evaluate and report on compliance is accurate and reliable.

Water Quality

The Water Quality Unit is responsible for ensuring that treated water meets or exceeds stringent water quality standards and regulations set by state and federal agencies. This Unit conducts in-depth water quality analyses, monitors critical parameters, oversees the disinfection and chemical treatment processes at treatment plants, and provides recommendations and tracks drinking water-related regulatory development. Similar to the Plant Maintenance Engineering and Commissioning Unit, inherent risks include ensuring compliance with stringent regulations and ensuring data used to evaluate and report on compliance is accurate and reliable. Any deviation from these standards, whether due to source water changes, equipment malfunctions, or human error, can have serious public health consequences and regulatory implications.

Laboratory Services

The Laboratory Services Unit conducts extensive water quality testing and analysis to monitor various parameters, assess the effectiveness of treatment processes, and detect any contaminants or anomalies. It

provides valuable data and insights through analytical and sampling services that inform treatment plant operations and support compliance with regulatory requirements, and manages the laboratory that tests water from the treatment plants, Silicon Valley Advance Water Purification Center, surface water reservoirs, and groundwater basins.

Inherent risks relate to factors that could diminish the accuracy or reliability of reported results, such as failure to follow established protocols or laboratory contamination. Any errors or inconsistencies in the testing process can lead to incorrect assessments of water quality, potentially compromising public health. The unit must also keep pace with evolving water quality standards, emerging contaminants, and advances in analytical methods. Additionally, resource constraints can impact the capacity to conduct extensive testing and analysis, particularly during periods of increased demand or emergencies.

Utility Electrical & Control Systems Engineering

The Utility Electrical & Control Systems Engineering Unit is responsible for managing the electrical and control systems that govern the operation of treatment plants and water distribution facilities within the Santa Clara Valley Water District. This unit ensures the reliable and efficient functioning of critical infrastructure by overseeing electrical systems, instrumentation, and control systems, and plays a key role in optimizing energy usage, enhancing system automation, and ensuring that water treatment and distribution processes run smoothly. Inherent risks include risks associated with the reliable operation of electrical and control systems. Failures or disruptions in these systems can lead to operational inefficiencies, downtime, and potential impacts on water quality and supply.

North and South Water Treatment Operations

The North Water Treatment Operations and South Water Treatment Operations Units are responsible for the day-to-day operation and maintenance of water treatment facilities located in the northern region of the Santa Clara Valley Water District, including Penitencia Water Treatment Plant, Silicon Valley Advanced Water Purification Center, San Francisco Public Utilities Commission-Valley Water Intertie facility, Santa Teresa Water Treatment Plant, Rinconada Water Treatment Plant, Campbell Well Field, the West and Snell/East Pipeline turnouts, and the East/Milpitas Pipeline turnouts. These facilities are essential for treating raw water from various sources and ensuring its quality before distribution to consumers. Both units operate around the clock to provide a consistent and reliable supply of treated water to the community.

Inherent risks include risks associated with the consistent delivery of treated water to a dynamic and growing region. Variations in raw water quality, natural disasters, or equipment failures can disrupt the treatment process and impact water quality and supply. Ensuring that the treatment process consistently meets stringent water quality standards is essential, as any lapses can pose public health risks. The units must also manage the challenges of maintaining aging treatment infrastructure and adapting to changing regulatory requirements. Balancing the need for operational efficiency with emergency preparedness is crucial.

WATERSHEDS BUSINESS AREA

The Watersheds Business Area is responsible for the stewardship and management of the region's watersheds and associated natural resources. The responsibilities include watershed protection, environmental conservation, flood risk reduction, and ecosystem restoration. Watersheds actively manages and maintains the region's creeks, rivers, and reservoirs to mitigate flood risks, promote water conservation, and preserve the ecological health of the area. This division also plays a role in ensuring water quality and availability for the community by managing source watersheds and undertaking projects that enhance the sustainability and resilience of the local ecosystem.

The Office of the Chief Operating Officer leads and manages Watersheds to achieve the Board's Ends, Goals, and Objectives. This includes providing Watersheds the leadership, staff, and funding to conduct the administrative aspects of Watersheds functions. In general, this provides for management activities that promote communication, human resources development, budgeting, project efficiencies and process improvement, mentoring and recruitment, and supporting Valley Water-wide special events/efforts that benefit the whole organization.

Budget: \$ 1,365,782

FTE: 2

Inherent Risks: The management and conservation of natural resources and the mitigation of flood risks. Climate change, including the increasing frequency and intensity of extreme weather events, presents a significant challenge in terms of flood control and watershed management. Balancing the ecological health of watersheds with flood risk reduction efforts can be complex, as it requires careful planning to minimize adverse environmental impacts. Additionally, competing demands for water resources, land use changes, and habitat degradation pose ongoing challenges. Ensuring the long-term sustainability of water sources, maintaining infrastructure, and addressing water quality concerns within watersheds are essential tasks.

OFFICE OF WATERSHEDS STEWARDSHIP & PLANNING DIVISION

The Office of Watersheds Stewardship & Planning Division is responsible for maintaining and preserving the ecological health of watersheds, ensuring flood risk reduction, and facilitating sustainable water resource management. It collaborates with various teams to conduct comprehensive environmental analyses, assess hydrological and hydraulic factors, and implement mitigation measures. Additionally, the division is responsible for reviewing community projects to ensure compliance with environmental regulations and the conservation of natural resources.

The Division provides project and long-range planning for flood protection and stewardship; develops and oversees the integration of biological, hydrological, water quality, and geomorphological data into the planning, design, and construction of capital projects and operational programs; provides environmental planning, permitting, and monitoring services; ensures Valley Water's compliance with the regional stormwater quality permit; protects Valley Water's streams and other assets through implementation of the Water Resources Protection Ordinance, and collaborates with municipalities in the County to ensure development projects minimize impacts to Valley Water's mission. In addition, the Division co-leads the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE) and the Climate Change Action Plan, and ensures timely completion of Key Performance Indicators for the Safe, Clean Water and Natural Flood Protection Program's surface water quality, environmental monitoring, and habitat enhancement and restoration priorities.

Budget: \$ 47,484,824

FTE: 82

Inherent Risks: The management of environmentally sensitive areas, flood risk reduction, and the conservation of natural resources. Environmental planning and mitigation require navigating complex regulatory frameworks, including the California Environmental Quality Act (CEQA), ensuring compliance with various state and federal environmental regulations, and managing and mitigating the impact of climate change, extreme weather events, and natural disasters on watersheds.

In addition to the environmentally-focused work of the Division, the Division is also responsible for the Community Projects program, which requires the evaluation of land use permit applications. The Program must review permits in a manner that safeguards environmental integrity, which can lead to potential conflicts with stakeholders and regulatory authorities.

The changing dynamics of climate patterns and increasing environmental pressures further amplify the risks associated with watershed management. Additionally, resource allocation and budget constraints may impact the ability to implement comprehensive watershed management plans and projects.

Environmental Planning

The Environmental Planning Unit is responsible for conducting environmental impact assessments, environmental reviews (including Environmental Impact Reports or EIRs), and managing the permitting process for various projects. Environmental planners are tasked with ensuring that all activities within the jurisdiction of the Santa Clara Valley Water District comply with environmental regulations, particularly CEQA. They work closely with regulatory agencies, stakeholders, and project proponents to evaluate the potential impacts of projects, develop mitigation measures, and provide recommendations to minimize adverse environmental effects.

Inherent risks relate to the complexity of environmental regulations and the potential for disputes and legal challenges. Projects in environmentally sensitive areas or those with the potential to impact natural resources can face scrutiny and opposition from concerned communities or environmental organizations. Ensuring the accuracy and thoroughness of EIRs is essential to avoid legal complications and regulatory

setbacks which can result in increased costs, and further construction delays. In light of recent events of the failure to adequately perform and assess the need for an environmental review, there is a risk of delayed construction, increased project costs, and the possibility of undue damage to the environment, contrasting the District's mission "to provide Silicon Valley safe, clean water for a healthy life, environment, and economy."

Hydrology, Hydraulics, & Geomorphology

The Hydrology, Hydraulics, & Geomorphology Unit specializes in the scientific assessment of water inflow and outflow patterns within watersheds. It is responsible for conducting hydrological and hydraulic analyses to predict and manage flooding events, support the water utility's functions, and calculate water capacity in reservoirs. Furthermore, this unit plays a significant role in studying geomorphological features, such as river channels and landforms, to understand their evolution and impact on water flow. By employing data-driven methods and models, it contributes to informed decision-making and long-term planning to ensure the efficient management of water resources and the protection of communities from flooding.

Inherent risks include risks related to the accuracy of predictions, the unpredictability of weather events, and evolving regulatory requirements. Incorrect predictions or incomplete assessments can lead to inadequate flood protection measures, potentially putting communities at risk during extreme weather events, which can increase costs associated with unplanned mitigation efforts. Additionally, climate change introduces uncertainties in precipitation patterns and water flow, which can challenge existing models and flood management strategies.

Environmental Mitigation & Monitoring

The Environmental Mitigation & Monitoring Unit consists of biologists and specialists responsible for overseeing and implementing mitigation efforts to offset the environmental impacts of various projects undertaken by the Santa Clara Valley Water District. It conducts comprehensive surveys, monitor mitigation efforts, and report their findings to regulatory agencies and other stakeholders. Inherent risks relate to ensuring the effectiveness of mitigation measures, meeting regulatory obligations, and addressing unexpected ecological changes. If mitigation measures are not adequately planned or executed, there is a risk of not achieving the desired ecological outcomes. The unit must also navigate a complex web of environmental regulations, and non-compliance can lead to regulatory sanctions, increased costs, and project delays.

Community Projects Review

The Community Projects Review Unit is responsible for evaluating and processing requests from various entities to work on properties within the jurisdiction of the Santa Clara Valley Water District. These requests often involve land use changes, permits for working on district-owned properties, or projects that may impact watersheds and water resources. The unit assesses the proposed projects to ensure they align with environmental regulations, land management policies, and the District's conservation objectives. They also engage in discussions with project proponents, regulatory agencies, and stakeholders to address potential issues and ensure that projects adhere to established guidelines. Notably, an Opportunities to Improve Permit Processing Audit was recently performed in 2021 that identified challenges in the Community

Projects Review Unit's permit processing and recommended several measures to streamline related services, enhance customer communication, and optimize workflow processes.

Inherent risks include risks related to balancing land use needs, environmental protection, and regulatory compliance. Conflicting interests among project proponents, environmental advocates, and regulatory authorities can create challenges in reaching consensus and obtaining necessary approvals. Moreover, processing a large volume of project requests may strain available resources and potentially lead to delays in project reviews and increased project costs. The team must also remain vigilant in evaluating the potential ecological impacts of proposed projects and ensuring that mitigation measures are implemented effectively.

WATERSHEDS OPERATIONS & MAINTENANCE DIVISION	
The Watersheds Operations & Maintenance Division provides field maintenance, engineering support, vegetation management, and environmental services management for Water Utility Facilities and the Stream Maintenance Program (SMP) in the Lower Peninsula, West Valley, Guadalupe, Coyote, and Uvas/Llagas watersheds. The Office of Watersheds Operations and Maintenance provides administrative leadership and support for the four units that comprise the Division. The Division objective is to ensure that maintenance work is performed in accordance with regulatory permits and maintenance guidelines and is coordinated and consistent throughout the Division.	Budget: \$ 64,544,832 FTE: 120 Inherent Risks: Infrastructure risks associated with the maintenance and upkeep of watershed facilities, such as dams, reservoirs, and flood control structures; safety risks due to potential hazards during operations and maintenance activities.

Watersheds Field Operations

The Watersheds Field Operations Unit is responsible for a wide range of outdoor tasks, including clearing small debris, adding vegetation, and performing other essential activities to preserve the health and integrity of the watershed environment. By ensuring that the watersheds are well-maintained, this unit contributes to the protection of water quality, flood control, and overall ecosystem health. They often work on-site, directly interacting with the natural landscape to keep it in optimal condition.

With these roles and responsibilities, inherent risks involve exposure to environmental elements, physical hazards, and potential weather-related challenges. Employees working outdoors may encounter wildlife, unpredictable weather conditions, and rugged terrain, posing risks to their safety. Ensuring that workers have the necessary training and safety equipment is crucial to mitigate these risks. Moreover, the team must be attentive to potential environmental impacts of their activities, such as unintentional disturbances to sensitive habitats. Careful planning, adherence to best practices, and ongoing environmental monitoring are essential for minimizing these impacts.

Operations & Maintenance Environmental Support

The Operations & Maintenance Environmental Support Unit assists the field operations staff in ensuring that maintenance activities within Watersheds align with environmental regulations and standards. This unit

conducts surveys, gathers data, and offers support in assessing the environmental impact of maintenance projects. They also collaborate with regulatory agencies, monitor mitigation efforts, and help maintain the ecological balance of watershed areas, making sure that maintenance activities are carried out responsibly and sustainably.

With these roles and responsibilities, inherent risks involve navigating complex regulatory frameworks, assessing potential environmental impacts, and ensuring compliance with ecological guidelines. Failing to adhere to environmental regulations or properly assessing the environmental consequences of maintenance activities can lead to regulatory violations and potential harm to the environment, as well as increased costs due to unplanned delays. Therefore, the team faces the inherent risk of regulatory non-compliance and environmental damage.

Operations & Maintenance Engineering Support

The Operations & Maintenance Engineering Support Unit plays a critical role in providing engineering assistance and guidance to the operations and maintenance staff within the watershed areas. They help plan and execute maintenance projects, ensuring that they are carried out efficiently and effectively. By leveraging engineering expertise, this unit contributes to the long-term sustainability of watershed assets and infrastructure.

With these roles and responsibilities, inherent risks include those primarily related to the successful execution of maintenance projects. These risks include project delays, cost overruns, and potential disruptions to watershed operations. Inaccurate project planning or engineering assessments can lead to unforeseen issues during project implementation, which may affect both the environment and operational efficiency.

Vegetation Field Operations

The Vegetation Field Operations Unit specializes in managing vegetation within watershed areas to reduce the risk of wildfires and ensure the overall health of the ecosystem. Their responsibilities include clearing and managing vegetation, particularly in high-risk areas where wildfires could pose a threat to water resources and infrastructure. By implementing effective vegetation management strategies, this team helps safeguard the watershed environment and minimize the risk of wildfire events that could impact water quality and availability.

With these roles and responsibilities, inherent risks include risks related to the use of equipment like chainsaws, herbicides, and prescribed burns. There is a risk of physical injury to personnel during field operations, as well as potential environmental risks if herbicides are not used properly or if prescribed burns are not carefully controlled. Additionally, the team must consider the ecological impacts of vegetation management and ensure that it aligns with conservation objectives. To mitigate these risks, the team must follow strict safety protocols, conduct regular training, and employ environmentally responsible practices to manage vegetation effectively while safeguarding both personnel and the environment.

WATERSHEDS DESIGN & CONSTRUCTION DIVISION

The Design & Construction Division within the Office of Watersheds is responsible for planning, designing, and overseeing construction projects aimed at enhancing and maintaining the Santa Clara Valley Water District's watershed infrastructure. This includes delivery of projects in Valley Water's rolling 5-year Capital Improvement Program (CIP) and Safe, Clean Water and Natural Flood Protection Program. This division manages various units that focus on different geographic regions and aspects of design and construction. Their responsibilities encompass project planning, design development, cost estimation, contractor management, and project execution. They work closely with multiple stakeholders to ensure that watershed projects meet environmental, regulatory, and operational requirements. The objectives of the Watersheds Design and Construction Division are to provide natural flood protection for residents, businesses, and visitors; and to protect and restore creek, bay, and other aquatic ecosystems. This Division also provides organization-wide support services for Surveying and Real Estate needs.

Budget: \$ 119,509,222 **FTE:** 65

Inherent Risks: Include those related to project delays, cost overruns, environmental compliance, and regulatory approvals. The division must effectively manage complex construction projects that may involve various contractors, designs, and environmental considerations. Delays in project completion or unexpected issues during construction can result in increased costs and potential regulatory non-compliance. There is the possibility of environmental risks related to mitigating potential impacts on natural ecosystems during construction. Additionally, the division must navigate regulatory agencies and meet stringent environmental standards to ensure that projects do not harm sensitive ecosystems within the watershed areas.

Design & Construction Unit

The Design & Construction Unit is divided into six distinct units, each responsible for specific geographic regions and aspects of watershed design and construction. These units handle a wide range of projects, from infrastructure improvements to environmental enhancements, within their designated areas. They manage the entire project lifecycle, from initial planning and design to construction oversight and project completion. Each unit collaborates with local communities, regulatory agencies, and other stakeholders to ensure that projects are executed effectively and in compliance with relevant standards.

With these roles and responsibilities, inherent risks for all Design & Construction Units include risks related to project complexity, resource allocation, and compliance with environmental regulations. Managing a diverse portfolio of projects across different geographic regions requires effective resource allocation and coordination. Delays, budget overruns, or issues with project execution can pose risks to project success. Moreover, ensuring that projects align with environmental standards and community expectations is a constant challenge. Failure to meet these requirements can result in regulatory penalties, environmental harm, and reputational damage.

Notably, a performance audit of the Lower Silver Creek Flood Protection Project Consultant Agreement with RMC (A3277G) and its related amendments was recently performed in 2018. This audit addressed issues related to conflicts of interest, financial review, fund reallocation, sole sourcing, and performance; and it included recommendations for improvements in disclosure and management of conflicts of interest, enhancing financial and fund reallocation procedures, formalizing and documenting review processes,

strengthening project document controls and change management practices, and adopting best practices for firewall and background checks.

Land Surveying & Mapping

The Land Surveying & Mapping Unit provides essential support for accurate surveying, mapping, and geospatial data management. This unit is responsible for ensuring that project designs are based on precise spatial information and that construction activities are executed with accuracy. They are also responsible for maintaining up-to-date land records, property boundaries, and geospatial data, which are essential for project planning and execution.

With these roles and responsibilities, inherent risks primarily include the accuracy and integrity of spatial data. Errors or inconsistencies in surveying and mapping can lead to costly design modifications, construction issues, and disputes over property boundaries. Moreover, keeping geospatial data up to date is a continuous challenge, as environmental changes and new developments can impact the accuracy of existing records.

Real Estate Services

Real Estate Services Unit is responsible for managing land acquisition, easements, property rights, and other real estate-related matters for watershed projects. This unit is responsible for acquiring the necessary land and property rights to carry out construction and environmental initiatives within the watershed areas. They work closely with property owners, negotiate agreements, conduct appraisals, and oversee land transactions to ensure that projects have the required access and rights to carry out work. Notably, a Real Estate Audit was recently performed in 2020 that identified challenges in property acquisition timelines, fiscal sustainability assessment, and operational efficiency and recommended enhancing transparency, accountability, and property management practices, providing more training on real estate acquisition processes, improving performance measurement, risk assessment, and financial analysis, facilitating communication with property owners, and expanding public information about real estate services.

With these roles and responsibilities, inherent risks include those that primarily relate to property negotiations, legal complexities, and budget considerations. Acquiring land and property rights can be a time-consuming process, and negotiations may encounter resistance from property owners or regulatory hurdles. Budget overruns can occur if property values are higher than anticipated or if negotiations stall. Additionally, legal challenges related to eminent domain or property disputes can pose significant risks.

Risk Summary

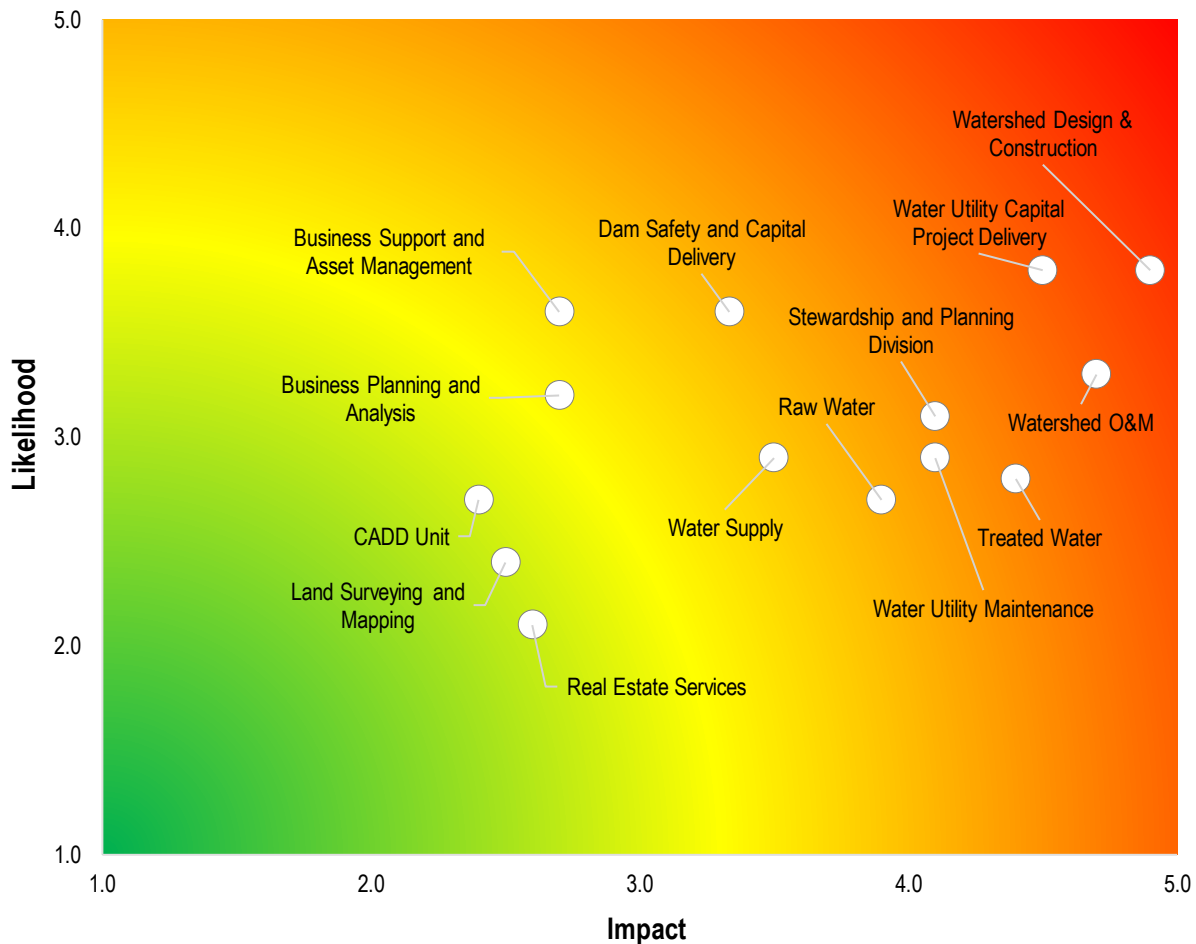
Most of the divisions and programs within Integrated Water perform functions that are central to the mission and purpose of Valley Water, and would be characterized as moderate- to high-risk. Ultimately, this risk assessment identified a small number of audit topics that would cover the bulk of Integrated Water's operations. Integrated Water consumes 80 percent of Valley Water's budget, with substantial resources dedicated to the District's capital infrastructure, including capital project delivery and maintenance. Specifically, capital project delivery encompasses six distinct organizational units within Integrated Water and maintenance operations encompass three organizational units. Decentralization can prove problematic in a variety of ways: project management practices could be inconsistent; parties fulfilling different roles,

such as construction managers and project managers, may not be on the same page in working with contractors; communication could falter; and it could constrain flexibility in assigning personnel across functional lines.

Further, with substantial resources dedicated to capital project delivery, a 2023 performance audit of the Capital Improvement Program raised concerns regarding the availability of staffing resources to carry out the capital projects planned for the District. Hiring substantial project delivery personnel will require additional support and administrative personnel (Human Resources, Facilities, Information Technology), and even if Valley Water outsources project delivery activities, additional in-house staffing resources may be required to manage and oversee the consultants to ensure cost and quality control.

Finally, Integrated Water is responsible for achieving Valley Water's core mission and goals. The Office of Integrated Water Management faces a range of interconnected risks that stem from the complexity of its responsibilities, regulatory compliance demands, and financial considerations. Addressing these risks requires a holistic approach that emphasizes effective communication, robust project management, environmental stewardship, and sound financial planning. Because of this, we find it prudent to prioritize performance audits related to the operations of Integrated Water. With this in mind, we illustrate below the risk rankings of each division or program area in relation to one another.

EXHIBIT 24. PROGRAM RISK RATINGS



Based on this assessment, there are several potential audit topics that warrant consideration for future audit planning.

- 1) Valley Water's capital project delivery activities, including the District's overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.
- 2) Valley Water's infrastructure maintenance programs, including assessing Valley Water's methods for developing and maintaining asset inventories; determining the condition of existing assets; scheduling predictive and preventative maintenance; monitoring maintenance backlogs; work order scheduling; the extent to which Valley Water relies on outsourced service providers to augment in-house resources; how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies; the use of asset management software or systems to extend the lifespan

of critical infrastructure while minimizing operational costs; and the allocation of resources for ongoing maintenance to ensure the continued functionality and safety of infrastructure assets.

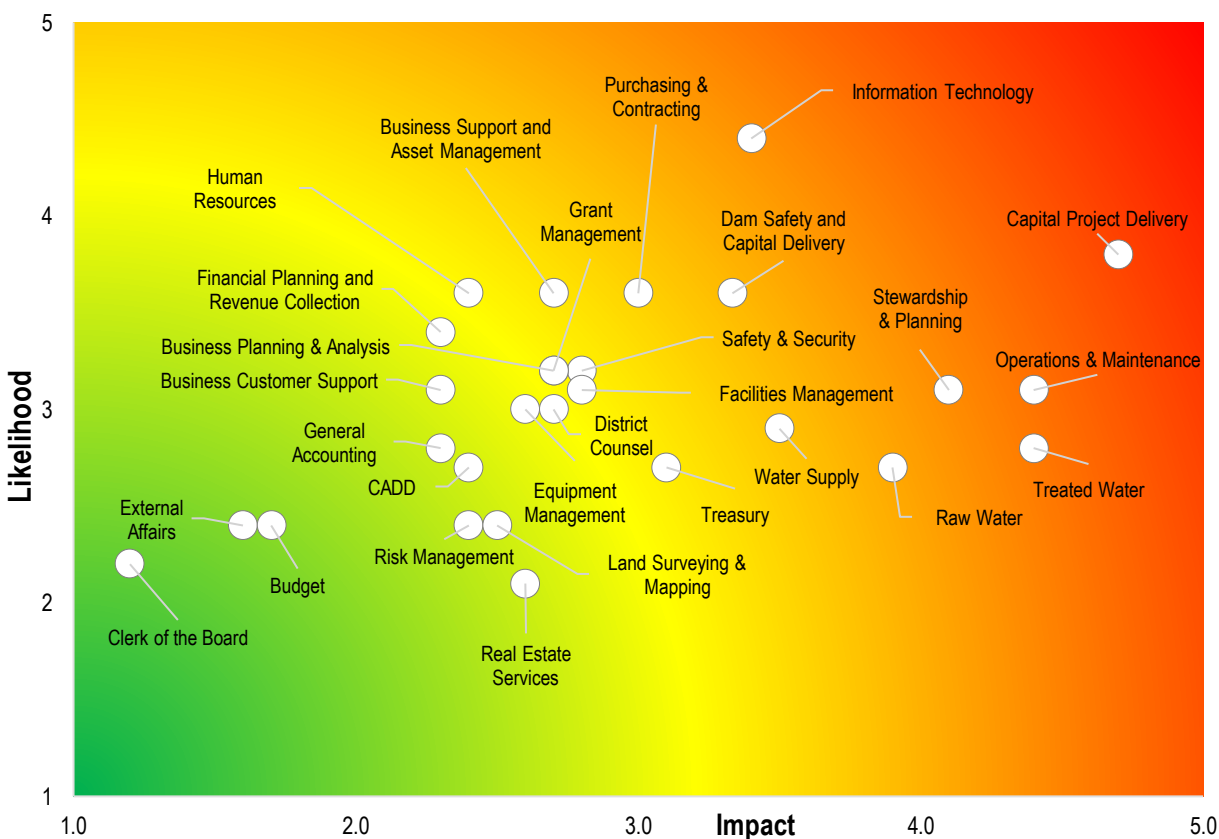
- 3) The Community Projects Unit's processes for receiving applications for permits, processing and issuing permits, and measuring performance in meeting established goals.
- 4) Valley Water's real estate management activities, including the responsibilities of both the Real Estate Unit within Watersheds and the District Lands Management Program within Integrated Water Management, with the intent to evaluate Valley Water's overarching approach to managing real estate assets.
- 5) Valley Water's Watershed management practices, including the effectiveness of Watersheds in managing and preserving natural resources within the region's watersheds. This may cover evaluating the impact of environmental conservation efforts, flood risk reduction measures, and ecological restoration initiatives.
- 6) Valley Water's flood control infrastructure, focusing on the maintenance and performance of flood control infrastructure such as dams, reservoirs, and levees. This could involve assessing the condition of these structures, compliance with safety standards, and preparedness for extreme weather events.
- 7) Valley Water's environmental compliance may include examining the District's adherence to environmental regulations and permits concerning watershed management. This might involve evaluating how well Valley Water manages ecological preservation, land use, and habitat protection within the watersheds.
- 8) Valley Water's emergency response and preparedness, concentrating on the readiness and effectiveness of Water Utility Enterprises' emergency response and preparedness plans. It would assess the procedures in place to respond to natural disasters, water supply disruptions, and other emergencies, such as COVID-19, including communication protocols, resource allocation, and coordination with local authorities to ensure uninterrupted service during crises.

Risk Assessment Results

A Risk Assessment for audit planning purposes is intended to identify ways to optimize the value of limited audit resources. This includes identifying “high-risk” programs or operations—e.g., those involving the most resources, impacting the most residents, experiencing the greatest challenges, etc.—but it is not limited to identifying “high-risk” programs or operations. In addition to identifying Valley Water programs that are considered to be high- or moderate-risk for inclusion in the audit plan, consideration must also be given to ensuring broad coverage over a defined period of time. Below, we provide recommendations for the consideration of the Valley Water Board of Directors in the development of the Fiscal Year 2023-24 through Fiscal Year 2025-26 Three Year Audit Plan.

In considering the departmental profiles described in the prior section, we shift to a broader view of our assessment of risk throughout the District. In Exhibit 25 we provide a districtwide heat map, differentiating our assessment of risk among each of Valley Water’s key programs and operations. In the lower left corner, we have several units or programs that present relatively low risk, including certain departmental administrative operations, the Office of the Clerk of the Board, the Office of the District Counsel, and other lower-risk operations. In the upper right corner, where the yellow meets the red, we find several divisions or programs for which we find reason to prioritize a performance audit. These include those programs or operations involving the most resources and having a substantial impact on Valley Water. The District’s internal service programs tend to fall within the moderate-risk category.

EXHIBIT 25. DISTRICTWIDE PROGRAM RISK RATINGS



It is important to recognize, however, that effective audit plans do not solely focus on program areas that fall into the high-risk category. If this were the case, the same programs would be audited year after year. Rather, an effective audit plan ensures adequate coverage throughout the Valley Water's departments and programs. To achieve this, we recommend establishing an auditing cycle that ensures that the performance, programs, and/or activities of every department or office are audited, at least in part, on a periodic basis—such as on a three- to five-year cycle.

This risk assessment identified a total of 33 potential audit topics, which are presented in **Appendix A** of this report, which we present as the complete Fiscal Year 2023-24 through Fiscal Year 2025-26 Three Year Audit Plan. This list of audit engagements addresses every department within Valley Water, and provides a balance between internal service programs and those departments that fulfill Valley Water's core responsibilities—the Integrated Water, Watershed, and Water Utility business areas.

This, of course, is more than what can be achieved by Valley Water during any three-year period, both in terms of available audit resources and scheduling logistics. While the budget for Independent Board Audit Services will ultimately determine the number and scope of audits that can be completed in a given year, we understand that existing resources exist to perform up to three or four performance audits in a given year. With this in mind, we prioritize 12 audit engagements that we recommend for the three-year period between Fiscal Year 2023-24 and Fiscal Year 2025-26, as shown in Appendix B of this report. The ability to perform all 12, however, will be dependent on available resources and logistical considerations. Should the Board Audit Committee determine that it is not feasible to complete all 12 under current conditions, options available include reducing the number of priority audits, increasing budget resources, or extending the period to conduct the audits from three years to up to four or five years.

These audit topics are proposed as audit priorities for the Board Audit Committee's consideration. It is recognized, however, that prior to establishing each annual audit plan, the Independent Board Auditor will seek input from the Board Audit Committee and members of the Board to obtain input before determining the specific audits to be included in each annual audit plan. This allows for continued input and routine updating to the Three Year Audit Plan as a way to ensure it addresses current and emerging challenges faced by Valley Water.

Appendix A. Proposed Three-Year Audit Plan

This risk assessment resulted in the identification of 33 potential audits for consideration of the Valley Water Board of Directors. The Independent Board Auditor recommends the inclusion of these audit topics in the 2024-2026 Three-Year Audit Plan.

Office of the Chief Executive Officer

- 1) The District's **overall approach to performance measurement**, the purpose of which would be to identify ways to build upon existing performance metrics in a manner that provides the Board reasonable assurances that metrics exist to evaluate progress to achieving Ends Policies, as well as to evaluate the overall efficiency and effectiveness of Valley Water operations.
- 2) The District's **overall compliance with Board policies**, including Board Governance Policies, Ends Policies, and Executive Limitations Policies.

Office of the Clerk of the Board

- 3) Evaluate the Office's **business processes, information systems, and workload management** practices to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Office of District Counsel

- 4) Evaluate the Office's **business processes and information systems** to identify potential inefficiencies or opportunities for improvement in the Office's administrative functions.
- 5) Evaluate **risk management practices**, including the District's reliance on third-party administrators and service providers, risk retention and transfer evaluations, claims processing, and workplace health and safety programs, as well as existing workload demands and future opportunities to enhance risk management operations in a growing District government.

Administrative Services

- 6) **Information technology** is generally considered to be a moderate- to high-risk function in any government organization, and recommended performance audits typically focus on:
 - a. Cybersecurity and network hygiene;
 - b. Data management protocols;
 - c. Customer service efficiency;
 - d. Disaster recovery planning;
 - e. Cost-effectiveness of operations, including contracting and purchasing; and
 - f. Information technology project management policies, processes, and practices, and the consistency of the IT Department's efforts with best practices.

- 7) Determine whether the District's **human resources management** activities are consistent with industry standards; sufficient to ensure compliance with federal, state, and local laws and regulations; effective in attracting, retaining, and motivating a highly talented, qualified, and effective workforce; and appropriately resourced and right-sized for Valley Water. This should include key elements of human resources management, such as policies and procedures related to and its administration of the following:
- a. Hiring and recruiting;
 - b. Classification and compensation;
 - c. Employee recordkeeping;
 - d. Human Resources Information System functionality and system controls;
 - e. Employee relations and performance management;
 - f. Benefits administration;
 - g. Workplace investigations;
 - h. Professional and workforce development, training, and succession planning;
 - i. State and federal compliance.
- 8) The **administration of compensation** practices to ensure employer costs are appropriately controlled by determining whether benefit enrollment processes appropriately control employee enrollment and cost-sharing, including the verification of dependent eligibility, and the recording of employee compensation within Infor to ensure compensation (including bonuses and other differential pay) are appropriately approved and authorized.
- 9) **Cashiering processes**, including those performed through differing information and cashiering systems, the impact that staff turnover has had on cashiering operations, and the role of Finance and Administration in ensuring adequate internal and system controls associated with each.
- 10) Valley Water's **facilities maintenance program**, including evaluating the Department's ongoing control, monitoring, assessment, and maintenance of Valley Water facilities and properties to identify opportunities to enhance efficiencies and protect District assets.
- 11) Valley Water's **equipment management program**, including determining the extent to which the acquisition, maintenance, and control of equipment and fleet vehicles are performed in a manner consistent with best practices, controls over sensitive assets are effective to prevent misuse, routine and preventive maintenance is performed in accordance to acceptable guidelines, the potential for abuse of District vehicles/fuel/equipment is appropriately mitigated, and practices are both efficient and effective.
- 12) The overall efficiency of the **Emergency, Safety, & Security Division**, and the extent to which the Division carries out its responsibilities in a manner consistent with best practices and regulatory requirements. As well as assessing the adequacy of emergency preparedness in the face of situations such as unusual weather events, COVID-19, strikes, recessions, and climate change.

- 13) **Warehouse operations**, including the processes and protocols for inventory acquisition and management, conducting inventory audits, and otherwise controlling assets held in inventory, and the efficiency and effectiveness of such processes.
- 14) The **practices of the Business Customer Support program**, including its business and workload management practices, to identify potential inefficiencies or opportunities for improvement in the program's operational activities and administrative functions.
- 15) **Procurement** activities, including General Services' practices relating to the following:
 - a. Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;
 - b. Proper segregation of duties with accounts payable functions and operational activities;
 - c. Consistency with best practices;
 - d. Efficiency in executing procurements in a manner that meets districtwide needs;
 - e. Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;
 - f. Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies, professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and
 - g. Benchmarking research, including the extent to which Valley Water's procurement practices compare with other public sector agencies.

External Affairs

- 16) Evaluate the **Office's business processes, information systems, and workload management practices** to identify potential inefficiencies or opportunities for improvement in the Office's operational activities and administrative functions.

Finance

- 17) **Grant management activities**, including determining whether existing policies and procedures; systems of internal control related to the recording, tracking, and monitoring of grant funds to ensure full compliance and recovery; and staffing and system resources are sufficient to administer, optimize, and account for grant monies in an efficient and effective manner.
- 18) **Treasury operations**, including evaluating cash management, investment, treasury functions, and determining the extent to which investment and cash management activities adhere to best practices and established investment policies.
- 19) **Budget processes**, including evaluating budget and financial planning protocols and practices, the sufficiency of budgetary tools available to Valley Water management to monitor budget-to-actual performance, and the overall efficiency and effectiveness of the District's biennial budget cycle.
- 20) The efficiency and effectiveness of **system integration** between the Finance enterprise system, Infor, and other information systems utilized to manage Valley Water fiscal activity.

- 21) The **Completeness of policies and procedures**, including how they are maintained, updated, made available and communicated to all relevant parties.
- 22) **Accounts receivable**, including assessing the manual billing processes employed by Finance to bill and collect from utility customers.
- 23) **Financial analysis and forecasting** practices, including the extent to which revenue forecasting is consistent with best practices in an environment significantly impacted by the pandemic and climate change, particularly within Water Supply, and the extent to which forecasting models and fiscal policies provide an effective framework for ensuring long-term sustainability.
- 24) **Payroll and compensation** practices, including whether practices ensure total compensation and payments to employees, including executive management and Board members, comply with collective bargaining agreements and Board policies.

Integrated Water Management

- 25) Valley Water's **capital project delivery** activities, including the District's overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.
- 26) Valley Water's **infrastructure maintenance programs**, encompassing various elements related to **operations and maintenance**, including assessing Valley Water's methods for developing and maintaining **asset inventories**, determining the condition of existing assets, scheduling predictive and preventative maintenance, monitoring maintenance backlogs, work order scheduling, the extent to which Valley Water relies on outsourced service providers to augment in-house resources, and how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies. As well as including evaluation of the use of asset management software or systems to extend the lifespan of critical infrastructure while minimizing operational costs. Maintenance assessments may include focusing on maintenance schedules, preventive maintenance programs, inspection procedures, and the allocation of resources for ongoing maintenance to ensure the continued functionality and safety of infrastructure assets.
- 27) The **Community Projects Unit's** processes for receiving applications for **permits**, processing and issuing permits, and measuring performance in meeting established goals.
- 28) Valley Water's **real estate management** activities, including the responsibilities of both the Real Estate Unit within Watersheds and the District Lands Management Program within Integrated Water Management, with the intent to evaluate Valley Water's overarching approach to managing real estate assets.
- 29) Valley Water's **Watershed management practices**, including the effectiveness of Watersheds in managing and preserving natural resources within the region's watersheds. This may cover

evaluating the impact of environmental conservation efforts, stewardship efforts, flood risk reduction measures, and ecological restoration initiatives.

- 30) Valley Water's **flood control infrastructure**, focusing on the maintenance and performance of flood control infrastructure such as dams, reservoirs, and levees. This could involve assessing the condition of these structures, compliance with safety standards, and preparedness for extreme weather events.
- 31) Valley Water's **environmental compliance** may include examining the District's adherence to environmental regulations and permits concerning watershed management. This might involve evaluating how well Valley Water manages ecological preservation, land use, and habitat protection within the watersheds.
- 32) Valley Water's **emergency response and preparedness**, concentrating on the readiness and effectiveness of Water Utility Enterprises' emergency response and preparedness plans. It would assess the procedures in place to respond to natural disasters, water supply disruptions, and other emergencies, such as COVID-19, including communication protocols, resource allocation, and coordination with local authorities to ensure uninterrupted service during crises.
- 33) Valley Water's operations of the **Raw and Treated Water Divisions**, including evaluating both Division's practices and strategies to maintain and ensure long-term sustainability, assessing the efficiency and effectiveness of core business operations, and adhering to leading industry practices.

Appendix B. Prioritized Audit Topics for the Board’s Consideration

We recognize that the actual audit plan will be determined, in part, by the budgetary resources available for the Independent Board Auditor, which currently allow for a maximum of four audits per year. Nevertheless, for the Board’s consideration, we present the following 12 audit engagements that we believe can be completed during the three-year period between Fiscal Year 2023-24 and Fiscal Year 2025-26.

1) Capital Project Delivery

- a. Valley Water’s **capital project delivery** activities, including the District’s overall approach to project and construction management, the contract vehicles employed on capital projects, methods for monitoring contractors and evaluating contract compliance, and execution. The factors may include project timelines, budget management, staffing resources, inter-departmental coordination, contractor performance, and compliance with environmental and regulatory requirements for capital projects within the watersheds.

2) Board Policies

- a. The District’s **overall compliance with Board policies**, including Board Governance Policies, Ends Policies, and Executive Limitations Policies.

3) Clerk of the Board

- a. Evaluate the Office’s **business processes, information systems, and workload management** practices to identify potential inefficiencies or opportunities for improvement in the Office’s operational activities and administrative functions.

4) Human Resources

- a. Determine whether the District’s **human resources management** activities are consistent with industry standards; sufficient to ensure compliance with federal, state, and local laws and regulations; effective in attracting, retaining, and motivating a highly talented, qualified, and effective workforce; and appropriately resourced and right-sized for Valley Water. This should include key elements of human resources management, such as policies and procedures related to and its administration of the following:
 - i. Hiring and recruiting;
 - ii. Classification and compensation;
 - iii. Employee recordkeeping;
 - iv. Human Resources Information System functionality and system controls;
 - v. Employee relations and performance management;
 - vi. Benefits administration;
 - vii. Workplace investigations;
 - viii. Professional and workforce development, training, and succession planning;

ix. State and federal compliance.

5) Operations & Maintenance and Asset Management

- a. Valley Water's **infrastructure maintenance programs**, encompassing various elements related to **operations and maintenance**, including assessing Valley Water's methods for developing and maintaining **asset inventories**, determining the condition of existing assets, scheduling predictive and preventative maintenance, monitoring maintenance backlogs, work order scheduling, the extent to which Valley Water relies on outsourced service providers to augment in-house resources, and how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies. As well as including evaluation of the use of asset management software or systems to extend the lifespan of critical infrastructure while minimizing operational costs. Maintenance assessments may include focusing on maintenance schedules, preventive maintenance programs, inspection procedures, and the allocation of resources for ongoing maintenance to ensure the continued functionality and safety of infrastructure assets.

6) Information Technology

- a. **Information technology** is generally considered to be a moderate- to high-risk function in any government organization, and recommended performance audits typically focus on:
 - i. Cybersecurity and network hygiene;
 - ii. Data management protocols;
 - iii. Customer service efficiency;
 - iv. Disaster recovery planning;
 - v. Cost-effectiveness of operations, including contracting and purchasing; and
 - vi. Information technology project management policies, processes, and practices, and the consistency of the IT Department's efforts with best practices.

7) Purchasing and Contracting

- a. **Procurement** activities, including General Services' practices relating to the following:
 - i. Ensuring consistency with Valley Water policies, procedures, and other relevant guidance;
 - ii. Proper segregation of duties with accounts payable functions and operational activities;
 - iii. Consistency with best practices;
 - iv. Efficiency in executing procurements in a manner that meets districtwide needs;
 - v. Timeliness of contracting and procurement practices, including the identification of potential bottlenecks;
 - vi. Evaluating the appropriateness of the procurement vehicles used for different types of procurements, including the purchases of goods and supplies,

professional services, construction contractors, operations and maintenance contractors, and other types of procurements; and

- vii. Benchmarking research, including the extent to which Valley Water's procurement practices compare with other public sector agencies.

8) Safety & Security

- a. The overall efficiency of the **Emergency, Safety, & Security Division**, and the extent to which the Division carries out its responsibilities in a manner consistent with best practices and regulatory requirements. As well as assessing the adequacy of emergency preparedness in the face of situations such as unusual weather events, COVID-19, strikes, recessions, and climate change.

9) Raw and Treated Water

- a. Assessing the infrastructure maintenance and sustainability within Valley Water's **Raw and Treated Water Divisions** would include a thorough evaluation of both Division's practices and strategies to maintain and ensure long-term sustainability of its critical infrastructures. This would assess the performance of the two Divisions in managing the aging infrastructure, assessing the risks associated with deferred maintenance, as well as the focus on optimizing the allocation of resources.

10) Stewardship and Planning

- a. Valley Water's **flood control infrastructure**, focusing on the maintenance and performance of flood control infrastructure such as dams, reservoirs, and levees. This could involve assessing the condition of these structures, compliance with safety standards, and preparedness for extreme weather events.

11) Treasury

- a. **Treasury operations**, including evaluating cash management, investment, treasury functions, and determining the extent to which investment and cash management activities adhere to best practices and established investment policies.

12) Water Supply

- a. **Financial analysis and forecasting** practices, including the extent to which revenue forecasting is consistent with best practices in an environment significantly impacted by the pandemic and climate change, particularly within Water Supply, and the extent to which forecasting models and fiscal policies provide an effective framework for ensuring long-term sustainability.



Santa Clara Valley Water District

File No.: 24-0030

Agenda Date: 1/17/2024

Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes ☐ No ☒
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Review and Discuss the 2024 Board Audit Committee (BAC) Work Plan.

RECOMMENDATION:

Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2024 BAC Work Plan.

SUMMARY:

Per the BAC's Charter, Article III, Paragraph 6.2, "The Committee shall, in coordination with Valley Water's Clerk of the Board, develop a proposed Annual Work Plan. Items shall be included in the Annual Work Plan based upon a majority vote of the Committee."

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.

Attachment 1 is the 2024 BAC Work Plan provided as a reference for the topics to be discussed throughout the upcoming year. Staff provides a "Summary" of topics as the attachment to this agenda item. The details with notes can be provided upon request.

Looking forward, the topics of discussion identified for the February 21, 2024, BAC Meeting can be summarized as follows:

1. 2024 BAC Work Plan
2. Discuss Annual Self-evaluation Process
3. Nominate and elect the 2024 Board Audit Committee Chair and Vice Chair.
4. Annual Audit Work Plan for CY 2024
5. Mid-year Financial Status Update
6. Audit Recommendations Implementation Status Update

Upon review, the BAC may make changes to be incorporated into the work plan.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. The BAC Work Plan serves as a tool utilized by the BAC to identify topics to be discussed during the public meeting and when that topic may be presented.

ATTACHMENTS:

Attachment 1: 2024 BAC Work Plan

UNCLASSIFIED MANAGER:

Candice Kwok-Smith, 408-630-3193

BOARD AUDIT COMMITTEE 2024 WORKPLAN

January 1, 2024 to December 31, 2024

		DATE:											
		No. of Topics:											
		Jan-17	Feb-21	Mar-20	Apr-17	May-15	Jun-19	Jul-17	Aug-21	Sep-18	Oct-16	Nov-20	Dec-18
#	Board Audit Committee Management	5	6	5	3	4	5	0	8	3	2	3	2
1	Conduct Annual Self-Evaluation	•	•										
2	Receive and Discuss CAE Activity Report to Evaluate Performance	•		•									
3	Election of BAC Chair and Vice Chair		•										
4	Discuss Board Audit Committee Audit Charter			•									
5	Discuss Scope of Annual Audit Training			•									
6	Receive Annual Audit Training					•							
7	Review and Update BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•
Board Audit Committee Special Requests													
8	Review of Joint Powers Authority (JPA) audits				•								
9	Discuss Board's CAE Contract (expires 11/22/24)					•							
Board-directed Audits													
10	2020 SCW Program Grants Management	•							•				
11	2021 Permitting Best Practices				•								
12	2023 CIP Performance								•				
13	2024 Audit - TBD												
14	2024 Audit - TBD												
15	2024 Audit - TBD												
16	2024 Audit - TBD												
CAE Standing Topics													
17	Review and Update Annual Audit Work Plan	•	•	•	•	•	•	•	•	•	•	•	•
Management-directed & 3rd-Party Audits													
18	2022 QEMS Improvements Implementation								•				
Miscellaneous 3rd-Party Financial Audits													
19	Financial Status - Periodic Updates		•		•				•				
20	Audit Report of the Water Utility Enterprise Funds								•				
21	Audited Financial Statements					•					•		
Staff Standing Topics													
22	Audit Recommendations Implementation Status		•						•				
23	Receive QEMS Annual Internal Audit Report								•				
Committee Clerk Action Items (not included in count shown in Row 3 above)													
24	Provide BAC Summary Report to full Board	•	•	•	•	•	•	•	•	•	•	•	•

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