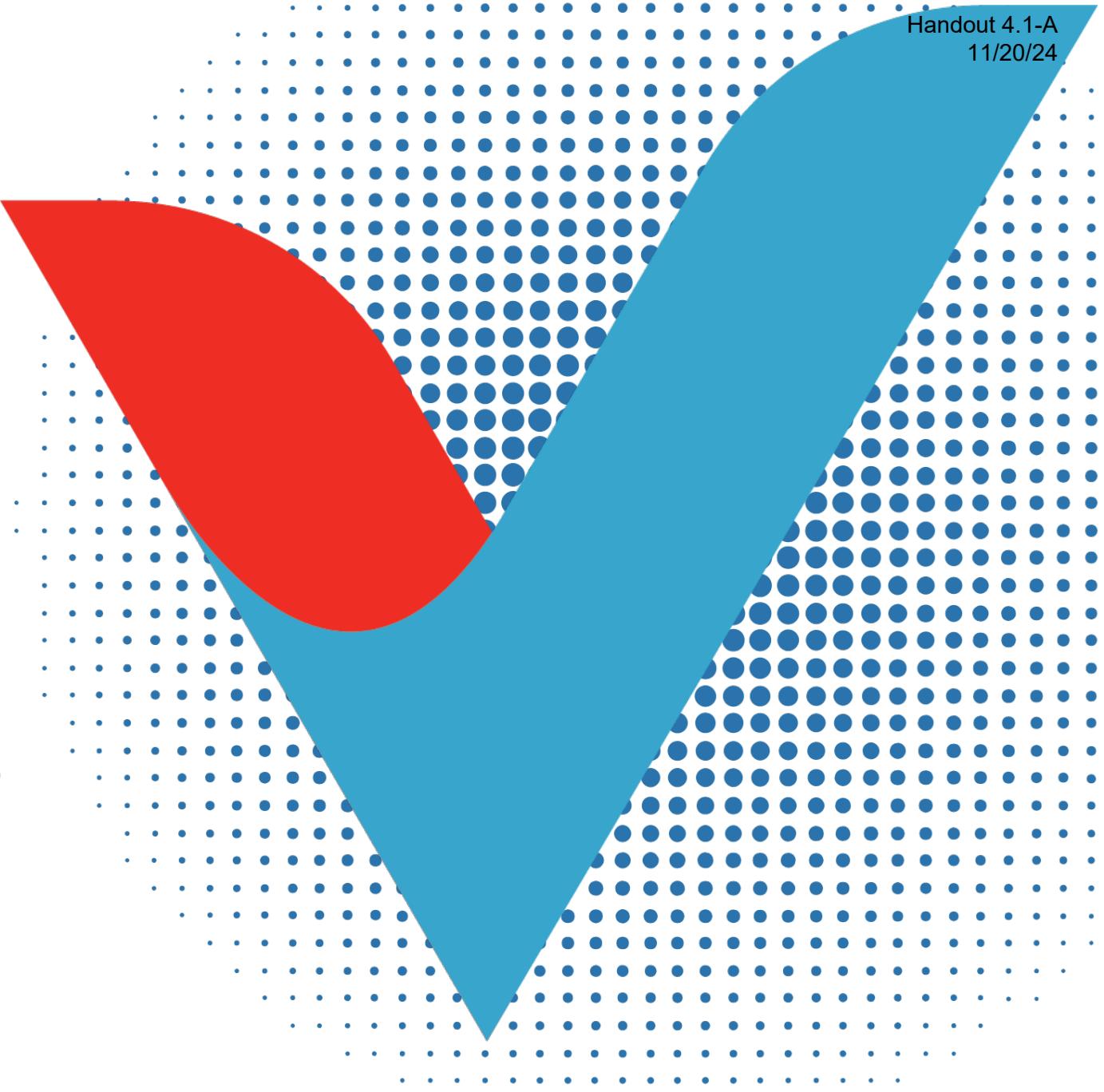




# REPORT TO THE AUDIT COMMITTEE

Fiscal Year Ended June 30, 2024

November 20, 2024



# / To the Honorable Members of the Audit Committee Santa Clara Valley Water District

We are pleased to present this report related to our audit of the financial statements of Santa Clara Valley Water District (the District) as of and for the year ended June 30, 2024. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process, as well as other matters that we believe may be of interest to you. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

This report is intended solely for the information and use of the Audit Committee and Management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to the District.

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# / Engagement Team

## Santa Clara Valley Water District Engagement Team



**Roger Martinez**  
Lead Partner



**Jay Toledo**  
Engagement Director



**Cristy Canieda**  
Quality Control Partner



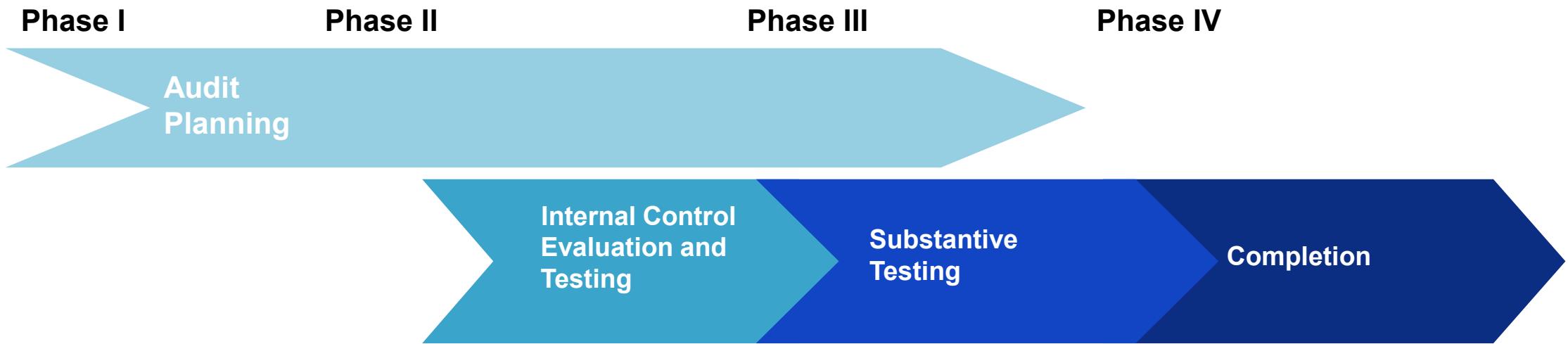
**Jason Tagasa**  
IT Manager



**Emer Jayson Fabro**  
Audit Manager

**Audit Seniors and Staff**

# / Audit Strategy



- Familiarize ourselves with changes to the operating environment
- Perform risk assessment procedures (assessment of inherent risk, control risk and risk of material misstatement)
- Perform preliminary analytical review
- Scope the audit, including procedures and locations
- Identify major program(s) for Single Audit testing.

- Perform fraud risk and evaluation procedures
- Consider regulatory matters and communications
- Assess internal control environment
- Evaluate the design and functioning of key controls
- Review the IT control environment
- Test selected controls including those over the administration of federal funds
- Conclude as to internal control effectiveness; draft internal control comments.

- Perform substantive audit procedures including confirmations with third parties, account analyses and review of source documents
- Conduct final analytical review
- Consider audit evidence sufficiency
- Conclude on critical accounting and financial reporting matters
- Draft compliance findings, if any
- Discuss proposed audit adjustments with management.

- Perform completion procedures (representation letter, update of audit evidence, final reviews)
- Assist in preparing the financial statements.
- Evaluate the financial statements and disclosures
- Draft auditor's reports on financial statements, internal controls and compliance
- Conduct exit conference, including audit adjustments, internal control and compliance findings and comments
- Issue auditor's reports and management letter.

# / Audit Focus Areas



# / Audit Focus Areas

Audit Focus Areas	Risk/Concerns	Procedures Performed
Cash and investments	<ul style="list-style-type: none"><li>▪ Misappropriation of assets</li><li>▪ Cash balances in excess of federally insured limits</li><li>▪ Cash equivalents reported in the financial statements do not agree to amounts reflected in the account statements.</li></ul>	<ul style="list-style-type: none"><li>▪ Obtained external confirmation of cash and deposit balances with banks and financial institutions.</li><li>▪ Agreed account balances to the period end bank statements, bank confirmations and general ledger.</li></ul> <p data-bbox="1640 861 2383 904"><b>No material exceptions were noted.</b></p>

# / Audit Focus Areas, continued

Audit Focus Areas	Risk/Concerns	Procedures Performed
Receivables	<ul style="list-style-type: none"><li>▪ Receivables on specific transactions may not exist.</li><li>▪ The District may have no control on receivables</li><li>▪ Receivables are not recorded correctly and are properly valued as to collectability.</li><li>▪ Receivables do not reflect their economic value.</li><li>▪ Receivable aging is not correct regarding the collectability of receivables</li></ul>	<ul style="list-style-type: none"><li>▪ Obtained external confirmation of accounts receivable balances with customers.</li><li>▪ Tested accounts receivable substantively through agreement to supporting documentation.</li></ul> <p><b>No material exceptions were noted.</b></p>

# / Audit Focus Areas, continued

Audit Focus Areas	Risk/Concerns	Procedures Performed
Capital Assets	<ul style="list-style-type: none"><li>▪ Capital assets, capital expenditures and related depreciation are not monitored and are not fairly stated in the financial statements.</li></ul>	<ul style="list-style-type: none"><li>▪ Obtained and tested the schedule of changes in capital assets and accumulated depreciation during the period.</li><li>▪ Obtained and agreed the listing of additions during the period to the schedule of changes in capital assets and test any reconciling items</li><li>▪ Obtained and agreed the listing of assets under construction (construction in progress) at period end.</li></ul> <p data-bbox="1582 807 2222 846"><b>No material exceptions were noted.</b></p>
Expenditures/Payroll	<ul style="list-style-type: none"><li>▪ Expenditures are not incurred in compliance with budgetary constraints and procurement policies. Payroll costs are not correctly allocated and are not supported by documentation of hours and rates.</li></ul>	<ul style="list-style-type: none"><li>▪ Obtained and agreed listings of payroll expenses that were subjected to these procedures to the general ledger and trial balance and tested any reconciling items.</li></ul> <p data-bbox="1556 1134 2196 1173"><b>No material exceptions were noted.</b></p>

# / Audit Focus Areas, continued

Audit Focus Areas	Risk/Concerns	Procedures Performed
Accounts payable, accrued liabilities, commitments and contingencies	<ul style="list-style-type: none"><li>Understatement of accounts payable and accrued liabilities</li><li>Commitments and contingencies are not recognized and/or properly disclosed in the financial statements.</li></ul>	<ul style="list-style-type: none"><li>Selected subsequent period disbursements (payments) and evaluated whether the related liabilities were recorded in the correct period and opinion unit, for the correct amount, and are obligations of the entity.</li><li>Obtained and agreed the listings of accrued expenses accounts to the general ledger and (or) trial balance and tested any reconciling items</li></ul> <p><b>No material exceptions were noted.</b></p>
Procurement	<ul style="list-style-type: none"><li>Procurement is not in accordance with applicable regulations and policies.</li></ul>	<ul style="list-style-type: none"><li>Obtained and inspected the supporting documents such as requisition form, purchase order and invoice, packing slip, checks, etc. of the cash payment selected.</li></ul> <p><b>No material exceptions were noted.</b></p>

# / Audit Focus Areas, continued

Audit Focus Areas	Risk/Concerns	Procedures Performed
Revenue recognition	<ul style="list-style-type: none"><li>▪ Revenues are not properly recognized</li><li>▪ Billings to customers are not reasonably stated and reported in proper periods.</li></ul>	<ul style="list-style-type: none"><li>▪ Tested through analytics procedures, confirmations and through testing of the cutoff of the year-end receivables balance</li></ul> <p data-bbox="1556 544 2196 577"><b>No material exceptions were noted.</b></p>
Related party transactions	<ul style="list-style-type: none"><li>▪ Not in compliance with Conflict of Interest Code</li></ul>	<ul style="list-style-type: none"><li>▪ Tested through review of the Form 700s as well as payments to vendors during the year through IDEA testing</li></ul> <p data-bbox="1556 832 2196 865"><b>No material exceptions were noted.</b></p>
Bid	<ul style="list-style-type: none"><li>▪ Bidding Procedures not in accordance with District policies</li></ul>	<ul style="list-style-type: none"><li>▪ Tested a sample of contracts entered into during the year and compared to stated District policies</li></ul> <p data-bbox="1556 1139 2196 1172"><b>No material exceptions were noted.</b></p>

# / Audit Focus Areas, continued

Audit Focus Areas	Risk/Concerns	Procedures Performed
Management and BOD expenditures	<ul style="list-style-type: none"><li>▪ Not in compliance with District's policies</li></ul>	<ul style="list-style-type: none"><li>▪ Tested a sample of expenditures related to management and BOD and compared to stated District policies</li></ul> <p data-bbox="1556 534 2196 573"><b>No material exceptions were noted.</b></p>
Investments (compliance)	<ul style="list-style-type: none"><li>▪ Investments not in accordance with District and State of California policies</li></ul>	<ul style="list-style-type: none"><li>▪ Tested a sample of quarterly reports during the year</li></ul> <p data-bbox="1556 774 2196 813"><b>No material exceptions were noted.</b></p>
Journal entries (accounting adjustments)	<ul style="list-style-type: none"><li>▪ Fraudulent or improper journal entries were not identified and posted during the year</li></ul>	<ul style="list-style-type: none"><li>▪ Tested through use of IDEA to ensure that entries were not posted on weekends, there were no gaps in sequence and that entries with round numbers were proper and had support validating the entry.</li></ul> <p data-bbox="1556 1149 2196 1188"><b>No material exceptions were noted.</b></p>

# / Audit Focus Areas, continued

Audit Focus Areas	Risk/Concerns	Procedures Performed
GASB 75 and GASB 68 Disclosure of net pension liability and OPEB obligations	<ul style="list-style-type: none"><li>Not in compliance with GASB 75 and 68 requirements</li><li>Net pension and OPEB liabilities are not properly valued and disclosed in the financial statements.</li></ul>	<ul style="list-style-type: none"><li>Tested reasonableness of assumptions used in the valuation</li><li>Agreed to reports provided by third party actuaries and underlying data provided by the District</li></ul> <p><b>No material exceptions were noted.</b></p>
GASB 96 Subscription-Based Information Technology Arrangements (SBITAs)	<ul style="list-style-type: none"><li>Not in compliance with GASB 96 requirements</li></ul>	<ul style="list-style-type: none"><li>Reviewed management policy on capitalization and contract agreement of SBITAs.</li></ul> <p><b>No material exceptions were noted.</b></p>

# / Idea/JE Analysis

**We performed data analytics to test disbursements and general ledger transactions for unusual events, such as:**

- Gaps in check sequence
- Transactions posting outside of business hours
- Transactions/payments with even dollar amounts
- Unusually large dollar payments

**All potential issues were investigated and resolved satisfactorily**



# /Currently We are Wrapping Up our Audit Documentation and We Expect to Issue an Unmodified Opinion

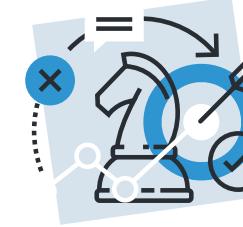
## Unmodified “Clean” Opinion

Audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*

The financial statements fairly present, in all material respects, Santa Clara Valley Water District's:



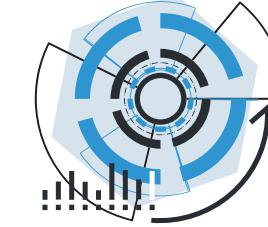
Financial position



Results of operations



Changes in net assets



Cash flows

## Report on Internal Control over Financial Reporting on Compliance

- No material weaknesses, significant deficiencies, and material noncompliance noted.

# / Audit Status

<b>FS Audit</b>	78%
<b>GANN Limit</b>	90%*
<b>Review of Treasurer's Report</b>	90%*
<b>Travel reimbursement report</b>	90%*
<b>Single Audit</b>	50%
<b>Water Utility Enterprise Audit</b>	After FS Audit
<b>Advanced Water Treatment Facility Audit</b>	After FS Audit

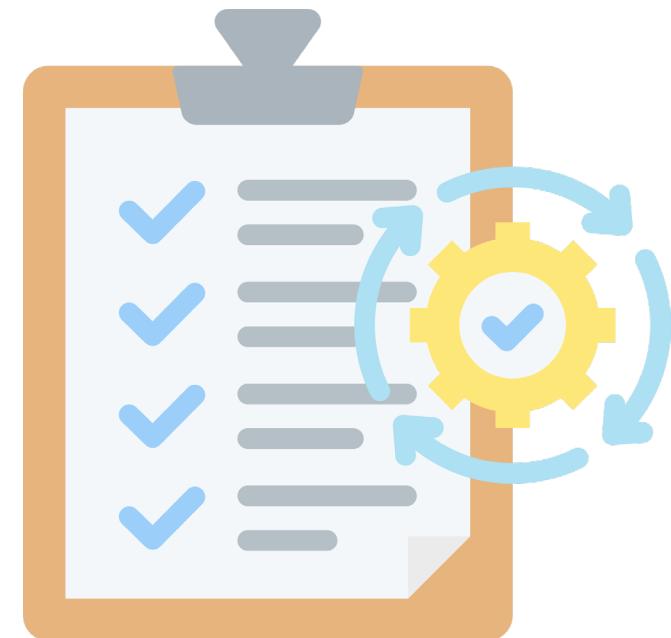


*\*Procedures are completed. Draft report under review*

# / FS Audit Progress – 78%

## High priority open items:

1. Accounts receivable
  - Bad debts inquiry
2. GASB 75 / OPEB
  - Census Data
3. Accounts payable
  - Accrued compensation absences
4. Legal Replies
  - Atkinson & Farasyn, LLP
  - Lubin Olson & Niewiadomski LLP



# / SA Audit Progress – 50%

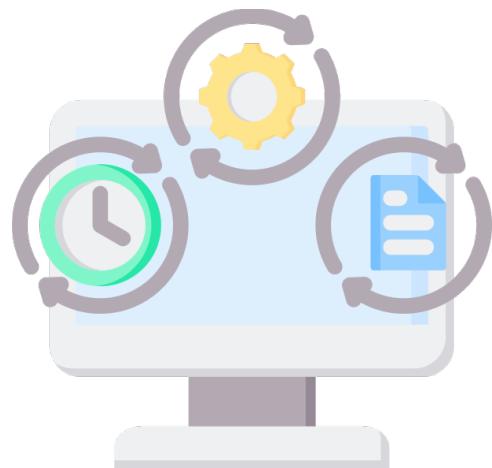
## High priority open item:

1. Payroll support for the Environmental Protection Agency (EPA) samples



Current Year  
Recommendations

**IT recommendations**  
**(to be discussed separately)**



## New Accounting Pronouncements – GASB Implementation

### **Effective FY2024 – Not applicable to the District's financial statements**

- GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62* (effective for fiscal year 2024).

### **To be implemented in FY2025 and FY2026**

- GASB Statement No. 101, *Compensated Absences* (effective for fiscal year 2025)
- GASB Statement No. 102, *Certain Risk Disclosures* (effective for fiscal year 2025)
- GASB Statement No. 103, *Financial Reporting Model Improvements* (effective for fiscal year 2026).

# / AU-C 260 Required Communication



# / Required Communication to Those Charged with Governance

<b>Management's Responsibility</b>	Management has primary responsibility for the accounting principles used, including their consistency, application, clarity and completeness.
<b>Consultations with Other Accountants</b>	We are not aware of any consultations by management with other accountants about accounting or auditing matters.
<b>Difficulties with Management</b>	We did not encounter any difficulties with management while performing our audit procedures that require the attention of the Board.
<b>Disagreements with Management</b>	We encountered no disagreements with management on financial accounting and reporting matters as they relates to the current year financial statements.

# / Required Communication to Those Charged with Governance, continued

<b>Audit Adjustments</b>	There were no material audit adjustments made during the year.
<b>Disagreements with Management</b>	We encountered no disagreements with management on financial accounting and reporting matters as it relates to the current year financial statements
<b>Consultations with Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting and auditing matters.
<b>Conditions of Retention</b>	No significant issues were discussed, or subject to correspondence, with management prior to retention.

# / Required Communication to Those Charged with Governance, continued

<b>Difficulties with Management</b>	We did not encounter any difficulties with management while performing our audit procedures that require the attention of the Administration and Audit Committee and the Board.
<b>Material Weakness and Significant Deficiency</b>	No significant deficiencies or material weaknesses in internal controls were identified.
<b>Irregularities, Fraud or Illegal Acts</b>	No irregularities, fraud or illegal acts or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures.
<b>Management Representations</b>	The District will provide us with a signed copy of the management representation letter at the end of the audit and prior to our issuance of the financial statements

## / Independence

There are no relationships between any of our representatives and **Valley Water** that in our professional judgment may reasonably be thought to bear on independence.

We confirm that we are independent of **Valley Water** within the meaning of the independence, integrity and objectivity rules, regulations, interpretations, and rulings of the AICPA, *Government Auditing Standards* (Yellow Book), the State of California Board of Accountancy, and other regulatory agencies.

## / Questions



# / Contact Information

**Vasquez + Company LLP** has over 50 years of experience in performing audit, tax, accounting, and consulting services for all types of nonprofit organizations, governmental entities, and private companies. We are the largest minority-controlled accounting firm in the United States and the only one to have global operations and certified as MBE with the Supplier Clearinghouse for the Utility Supplier Diversity Program of the California Public Utilities Commission.

We are clients of the **RSM Professional Services+ Practice**. As a client, we have access to the Professional Services+ Collaborative, a globally connected community that provides access to an ecosystem of capabilities, collaboration and camaraderie to help professional services firms grow and thrive in a rapidly changing business environment. As a participant in the PS+ Collaborative, we have the opportunity to interact and share best practices with other professional services firms across the U.S. and Canada.

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**Thank you for your  
time and attention!**

