



FINAL REPORT

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**Santa Clara Valley Water District**  
**2012 SAFE, CLEAN WATER AND NATURAL FLOOD PROTECTION  
PROGRAM**

***CLOSEOUT PERFORMANCE AUDIT***

March 25, 2024

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# Table of Contents

|   |           |
|---|-----------|
| <b>I. Executive Summary</b>                           | <b>1</b>  |
| A. Background, Scope, And Methodology                 | 1         |
| B. Summary of Findings and Recommendations            | 1         |
| <b>II. Introduction</b>                               | <b>3</b>  |
| A. Project Overview                                   | 3         |
| B. Statement of Compliance with GAGAS                 | 4         |
| <b>III. Commendations</b>                             | <b>5</b>  |
| <b>IV. Progress Toward Priorities and KPIs</b>        | <b>6</b>  |
| <b>V. Findings and Recommendations</b>                | <b>13</b> |
| A. Compliance   | 13        |
| B. Performance  | 13        |
| <b>Appendix A – Process Improvement Opportunities</b> | <b>21</b> |
| <b>Appendix B – Management Response</b>               | <b>23</b> |
| Performance Audit Findings                            | 23        |
| Process Improvement Opportunities                     | 28        |



# I. EXECUTIVE SUMMARY

## A. BACKGROUND, SCOPE, AND METHODOLOGY

The Santa Clara Valley Water District (Valley Water) engaged Moss Adams LLP (Moss Adams) to conduct a closeout performance audit of its 2012 Safe, Clean Water and Natural Flood Protection Program (the Program), established by the passage of Measure B in 2012. The purpose of this performance audit was to validate compliance in the collection and expenditure of Measure B funds, verify compliance with Measure B tax provisions, evaluate Valley Water's progress toward meeting the Program's priorities and stated key performance indicators (KPIs), and identify and document opportunities for operational efficiency for future iterations of the Program. We conducted this performance audit between May 2023 and October 2023 using a four-phased approach consisting of project initiation and management, fact-finding, data analysis, and reporting.

## B. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Findings and recommendations are grouped into two themes: compliance and performance. They are summarized in the following table and are presented in greater detail in Section V of this report.

Since this audit was focused on the last five years of the Program, which has since been replaced, the recommendations can be applied to the revised 2020 Program or future iterations of the Program. Additionally, some recommendations apply more broadly to Valley Water overall.

| FINDINGS AND RECOMMENDATIONS |                |   |
|------------------------------|----------------|---|
| 1.                           | Finding        | Valley Water does not have a conflict-of-interest policy that applies to the Independent Monitoring Committee (IMC) members. Conflicts of interest, whether real or perceived, can harm the Program's reputation and integrity. |
|                              | Recommendation | Develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures.  |
| 2.                           | Finding        | According to a 2021 performance audit, grant management and administration during the 2012 Program experienced challenges with processes, timeliness, and reporting.  |
|                              | Recommendation | Continue implementation of the remaining recommendations made in the 2021 grants management and administration performance audit.   |



| FINDINGS AND RECOMMENDATIONS |                       |   |
|------------------------------|-----------------------|---|
| 3.                           | <b>Finding</b>        | Some Program KPIs relied on external organizations for completion, which made them more difficult to achieve on schedule. Additionally, some KPIs were based on outputs instead of outcomes, which created limitations in the measurement of the Program's impact on the community.   |
|                              | <b>Recommendation</b> | Examine KPIs in future iterations of the Program and make revisions as needed to better reflect KPIs that are within Valley Water's control and focus on outcome-based KPIs. Where KPIs are not able to be fully within Valley Water's control, consider defining Valley Water's level of responsibility (e.g., primary or contributing responsibility) and develop strategies for addressing external factors that limit the ability of the KPIs to be achieved. |
| 4.                           | <b>Finding</b>        | While Valley Water's practices related to external coordination are largely aligned with best practice, a high degree of interjurisdictional complexity resulted in some capital projects being delayed.  |
|                              | <b>Recommendation</b> | In future iterations of the Program, implement strategies to improve project continuity for projects heavily reliant on external agency cooperation, including strategies to prioritize knowledge transfer, project documentation, and relationship building at multiple levels.  |
| 5.                           | <b>Finding</b>        | The effectiveness of contract development and management processes was limited by a lack of standardization, employee training, and lengthy reviews.  |
|                              | <b>Recommendation</b> | Conduct robust training and establish annual refresher training for staff involved in contracting processes.  |



## II. INTRODUCTION

### A. PROJECT OVERVIEW

#### Background

The Santa Clara Valley Water District (Valley Water) manages an integrated water resources system that includes the provision of clean, safe water; flood protection; and stewardship of streams on behalf of Santa Clara County's nearly two million residents and businesses. Valley Water maintains 10 dams and surface water reservoirs, three water treatment plants, nearly 400 acres of groundwater recharge ponds, and more than 275 miles of streams.

On November 6, 2012, Santa Clara County voters passed Measure B, the Safe, Clean Water and Natural Flood Protection Program (the 2012 Program) as a countywide special parcel tax (Measure B). The tax went into effect on July 1, 2014, and its purpose was to support local projects that delivered safe, clean water, natural flood protection, and environmental stewardship to all communities served in Santa Clara County. The Program was first passed in 2000 as the Clean, Safe Creeks and Natural Flood Protection Plan before being approved again in 2012, and on November 3, 2020, voters in Santa Clara County approved Measure S, a revised renewal of the 2012 Program. This performance audit is focused on the 2012 Program only, as described in the Scope and Objectives section below.

Through a comprehensive community engagement process, Valley Water identified five priorities for the 2012 Program. These five priorities, listed below, comprised multiple projects with unique operations and capital needs. Each project had its own KPIs and estimated schedules and received an allocated portion of funding.

- Priority A: Ensure a safe, reliable water supply
- Priority B: Reduce toxins, hazards, and contaminants in waterways
- Priority C: Protect water supply and dams from earthquakes and natural disasters
- Priority D: Restore wildlife habitat and provide open space
- Priority E: Provide flood protection to homes, businesses, schools, and highways

#### Scope and Objectives

Valley Water engaged Moss Adams to conduct a closeout performance audit of the last five years of the 2012 Program, which were fiscal years (FY) 2017 through 2021. Moss Adams previously audited the first three years of the 2012 Program in a separate audit. This performance audit of the 2012 Program addressed the following objectives:

1. Assess and determine whether Measure B funds were collected and expended by Valley Water in accordance with the tax measure
2. Verify compliance with all applicable provisions of the Measure B tax, including stated provisions A through O
3. Assess and determine whether Valley Water made reasonable progress toward meeting the Program's priorities and KPIs by year eight of the 15-year Program



4. Assess and determine whether Valley Water properly implemented and complied with the approved change control processes to make necessary Program adjustments and modifications
5. Assess and document lessons learned that could be considered in the future

Since this closeout audit was focused on the last five years of the 2012 Program that has since been replaced, the recommendations can be applied to the revised 2020 Program or future iterations of the Program. Additionally, some recommendations apply more broadly to Valley Water overall.

## Methodology

The project consisted of four phases. Our analysis was informed by employee interviews, document review, testing, and research into best practices.

| Phase |  | Description   |
|-------|--|---|
| 1     | <b>Project Initiation and Management</b> | This phase concentrated on comprehensive planning and project management, including identifying employees to interview, identifying documents to review, communicating results, and establishing processes to review project status on a regular basis.   |
| 2     | <b>Fact-Finding</b>                      | <p>This phase included interviews, document review, and testing.</p> <ul style="list-style-type: none"><li>• <i>Interviews:</i> We conducted interviews and focus groups with leadership and staff to gain insights into the current operational environment, strengths, and opportunities for improvement related to the 2012 Program.</li><li>• <i>Document Review:</i> We reviewed a variety of documents and information provided by staff, including organizational charts, policies and procedures, performance reports, and the Measure B resolution.</li><li>• <i>Testing:</i> We conducted tests of detail to verify Program operational integrity, adherence to Program change control protocols, and compliance with Measure provisions.</li></ul> |
| 3     | <b>Analysis</b>                          | Based on the information gained during our fact-finding phase, we performed a gap analysis of current conditions and identified opportunities for improvement. Leveraging best practice information, and our own experience from working with similar entities, we developed practical recommendations.   |
| 4     | <b>Reporting</b>                         | We communicated the results of our analysis with findings and recommendations presented first in a draft report that was reviewed with management to confirm the practicality and relevance of recommendations before finalizing the report.  |

## B. STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



### III. COMMENDATIONS

Based on insights gathered throughout our assessment, we noted the following areas of strength:

- **Transparency to Stakeholders:** Valley Water had many processes in place to support transparency to its stakeholders. Annual Program reports detailing progress toward achieving KPIs were developed timely and contained detailed information for members of the public to understand project status, challenges, and any modifications. Furthermore, changes to project descriptions, KPIs, and schedules were made largely in accordance with Valley Water's change control process.
- **Program Expenditures:** Based on testing a sample of 30 expenditures occurring between FY 2017 and FY 2021, Measure B funds were used appropriately for the Program.
- **California Environmental Quality Act (CEQA) Reviews:** Based on testing a sample of three projects, the Program administration properly executed required CEQA reviews for SCW Program projects in compliance with Program requirements.
- **Low-Income Senior Property Tax Exemption:** Based on testing a sample of 10 low-income senior property tax exemptions, the requests were properly completed, and the requestors were eligible for the tax exemption according to Program requirements.
- **Special Tax Summary Reports:** For each fiscal year in the audit period, the Special Tax Summary Reports were completed, approved, and filed according to Program requirements.
- **Adaptive and Flexible Budgeting:** Despite challenges with overspending and underspending largely due to unexpected project needs and inflation, the 2012 Program had many effective practices in place managing project budgets. The Program conducted comprehensive project planning, regularly monitored project spending, and had a robust change control process in place to help identify and address necessary budget changes.
- **Independent Monitoring Committee (IMC) Onboarding:** In 2018, Valley Water developed formal onboarding and training materials for members of the committee that outlined IMC roles and responsibilities. This is aligned with best practice for effective governance.
- **Operational Flexibility:** Program staff were able to work around obstacles, such as those posed by the COVID-19 pandemic, to meet the needs of Valley Water and the 2012 Program.
- **Mission-Driven Employees:** Program staff were aware of and driven by the importance of the work they do to provide safe, clean water and natural flood protection to Santa Clara County and the communities they serve.

We would like to thank Valley Water staff for their willingness to assist us in this audit process. These commendations, coupled with our findings and recommendations, provide an overview of areas of strengths and opportunities for improvement that can help enhance operations and reduce risk within the renewed Safe, Clean Water and Natural Flood Protection Program and other future iterations of the initiative.



## IV. PROGRESS TOWARD PRIORITIES AND KPIS

The following tables include an evaluation of the progress Valley Water made toward achieving the five priorities and associated KPIS of the 2012 Program FY 2021. Overall, Valley Water was on track to meet the majority of the KPIS had the Program continued. Only one project was not on target, as indicated below. We determined project status based on a review of KPIS for each project and relevant Program reports.

| PRIORITY A: ENSURE A SAFE, RELIABLE WATER SUPPLY         |   |                                     |                              |
|--|---|-------------------------------------|------------------------------|
| Project  | 15-Year KPIS  | Project Status as of FY 2021 Report | Moss Adams Determined Status |
| <b>A1: Main Avenue and Madrone Pipelines Restoration</b> | <ul style="list-style-type: none"> <li>Restore transmission pipeline to full operating capacity of 37 cfs from Anderson Reservoir.</li> <li>Restore ability to deliver 20 cfs to Madrone Channel.</li> </ul>  | Completed                           | Completed                    |
| <b>A2: Safe, Clean Water Partnerships and Grants</b>     | <ul style="list-style-type: none"> <li>Award up to \$1 million to test new conservation activities.</li> <li>Increase number of schools in Santa Clara County in compliance with SB 1413 and the Healthy Hunger-Free Kids Act, regarding access to drinking water by awarding 100% of eligible grant requests for the installation of hydration stations; a maximum of 250 grants up to \$254,000.</li> <li>Reduce number of private well water users exposed to nitrate above drinking water standards by awarding 100% of eligible rebate requests for the installation of nitrate removal systems—up to \$30,000 for all rebates.</li> </ul> | On target                           | On target                    |
| <b>A3: Pipeline Reliability Project</b>                  | <ul style="list-style-type: none"> <li>Install four new line valves on treated water distribution pipelines.</li> </ul>   | Adjusted                            | Adjusted in FY 2021          |

| PRIORITY B: REDUCE TOXINS, HAZARDS, AND CONTAMINANTS IN OUR WATERWAYS |   |                                     |                              |
|---|---|-------------------------------------|------------------------------|
| Project   | 15-Year KPIS  | Project Status as of FY 2021 Report | Moss Adams Determined Status |
| <b>B1: Impaired water bodies improvement</b>                          | <ul style="list-style-type: none"> <li>Operate and maintain existing treatment systems in four reservoirs to remediate regulated contaminants, including mercury.</li> <li>Prepare a plan for the prioritization of pollution prevention and reduction activities.</li> </ul> | On target                           | On target                    |



| PRIORITY B: REDUCE TOXINS, HAZARDS, AND CONTAMINANTS IN OUR WATERWAYS |  |                                     |  |
|---|--|-------------------------------------|--|
| Project   | 15-Year KPIs   | Project Status as of FY 2021 Report | Moss Adams Determined Status           |
|   | <ul style="list-style-type: none"><li>Implement priority pollution prevention and reduction activities identified in the plan in 10 creeks.</li></ul>  |                                     |  |
| <b>B2: Interagency urban runoff program</b>                           | <ul style="list-style-type: none"><li>Install at least two and operate four trash capture devices at storm water outfalls in Santa Clara County.</li><li>Maintain partnerships with cities and County to address surface water quality improvements.</li><li>Support five pollution prevention activities to improve surface water quality in Santa Clara County, either independently or collaboratively with south county organizations.</li></ul> | On target                           | On target                              |
| <b>B3: Pollution prevention partnerships and grants</b>               | <ul style="list-style-type: none"><li>Provide seven grant cycles and five partnerships that follow pre-established competitive criteria related to preventing or removing pollution.</li></ul>   | On target                           | On target                              |
| <b>B4: Good neighbor program: Illegal Encampment Cleanup</b>          | <ul style="list-style-type: none"><li>Perform 52 annual cleanups for the duration of the Safe, Clean Water Program to reduce the amount of trash and pollutants entering the streams.</li></ul>  | Not on target                       | Not on target in FY 2021. <sup>1</sup> |
| <b>B5: Hazardous materials management and response</b>                | <ul style="list-style-type: none"><li>Respond to 100% of hazardous materials reports requiring urgent on-site inspection in two hours or less.</li></ul>   | On target                           | On target                              |
| <b>B6: Good neighborhood program: Remove Graffiti and Litter</b>      | <ul style="list-style-type: none"><li>Conduct 60 clean-up events (four per year).</li><li>Respond to requests on litter or graffiti cleanup within five working days.</li></ul>  | On target                           | On target                              |

<sup>1</sup> Cleanups were curtailed due to COVID-19 related restrictions concerning unhoused encampments.



| PRIORITY B: REDUCE TOXINS, HAZARDS, AND CONTAMINANTS IN OUR WATERWAYS |   |                                     |                              |
|---|---|-------------------------------------|------------------------------|
| Project   | 15-Year KPIs  | Project Status as of FY 2021 Report | Moss Adams Determined Status |
| <b>B7: Support volunteer cleanup efforts and education</b>            | <ul style="list-style-type: none"><li>• Provide seven grant cycles and three partnerships that follow pre-established competitive criteria related to cleanups, education and outreach, and stewardship activities.</li><li>• Fund District support of annual National River Cleanup Day, California Coastal Cleanup Day, the Great American Litter Pick Up, and the Adopt-A-Creek Program.</li></ul> | On target                           | On target                    |

| PRIORITY C: PROTECT OUR WATER SUPPLY AND DAMS FROM EARTHQUAKES AND NATURAL DISASTERS |  |                                     |                              |
|--|--|-------------------------------------|------------------------------|
| Project  | 15-Year KPIs   | Project Status as of FY 2021 Report | Moss Adams Determined Status |
| <b>C1: Anderson Dam Seismic Retrofit</b>   | <ul style="list-style-type: none"><li>• Turn a portion of funds, up to \$45 million, to help restore full operating reservoir capacity of 90,373 acre-feet.</li></ul>                        | On target                           | On target                    |
| <b>C2: Emergency response upgrades</b>   | <ul style="list-style-type: none"><li>• Map, install, and maintain gauging stations and computer software on seven flood-prone reaches to generate and disseminate flood warnings.</li></ul> | On target                           | On target                    |

| PRIORITY D: RESTORE WILDLIFE HABITAT AND PROVIDE OPEN SPACE |  |                                     |                              |
|---|--|-------------------------------------|------------------------------|
| Project   | 15-Year KPIs   | Project Status as of FY 2021 Report | Moss Adams Determined Status |
| <b>D1: Management of revegetation projects</b>              | <ul style="list-style-type: none"><li>• Maintain a minimum of 300 acres of revegetation projects annually to meet regulatory requirements and conditions.</li></ul>  | On target                           | On target                    |
| <b>D2: Revitalize stream, upland, and wetland habitat</b>   | <ul style="list-style-type: none"><li>• Revitalize at least 21 acres, guided by the five Stream Corridor Priority Plans, through native plan revegetation and removal of invasive exotic species.</li><li>• Provide funding for revitalization of at least seven of 21 acres through community partnerships.</li><li>• Develop at least two plant palettes for use on revegetation projects to support birds and other wildlife.</li></ul> | Completed                           | Completed                    |



| PRIORITY D: RESTORE WILDLIFE HABITAT AND PROVIDE OPEN SPACE                                 |   |                                     |                              |
|---|---|-------------------------------------|------------------------------|
| Project   | 15-Year KPIs  | Project Status as of FY 2021 Report | Moss Adams Determined Status |
| <b>D3: Grants and partnerships to restore wildlife habitat and provide access to trails</b> | <ul style="list-style-type: none"><li>• Develop five Stream Corridor Priority Plans to prioritize stream restoration activities.</li><li>• Provide seven grant cycles and additional partnerships for \$21 million that follow pre-established criteria related to the creation or restoration of wetlands, riparian habitat, and favorable stream conditions for fisheries and wildlife, and providing new public access to trails.</li></ul>  | On target                           | On target                    |
| <b>D4: Fish habitat and passage improvement</b>   | <ul style="list-style-type: none"><li>• Complete planning and design for two creek/lake separations.</li><li>• Construct one creek/lake separation project in partnership with local agencies.</li><li>• Use \$6 million for fish passage improvements.</li><li>• Conduct study of all major steelhead streams in the County to identify priority locations for installation of large woody debris and gravel, as appropriate.</li><li>• Install large woody debris and/or gravel at a minimum of five sites (one per each of five major watersheds).</li></ul> | Adjusted                            | Adjusted in FY 2021          |
| <b>D5: Ecological data collection and analysis</b>  | <ul style="list-style-type: none"><li>• Establish new or track existing ecological levels of service for streams in five watersheds.</li><li>• Reassess streams in five watersheds to determine if ecological levels of service are maintained or improved.</li></ul>   | On target                           | On target                    |
| <b>D6: Creek restoration and stabilization</b>  | <ul style="list-style-type: none"><li>• Construct three geomorphic designed projects to restore stability and stream function by preventing incision and promoting sediment balance throughout the watershed.</li></ul>   | Adjusted                            | Adjusted in FY 2021          |
| <b>D7: Partnerships for the conservation of habitat lands</b>                               | <ul style="list-style-type: none"><li>• Provide up to \$8 million for the acquisition of property for the conservation of habitat lands.</li></ul>  | Completed                           | Completed                    |
| <b>D8: South Bay Salt Ponds restoration partnership</b>                                     | <ul style="list-style-type: none"><li>• Establish agreement with U.S. Fish and Wildlife Service to reuse sediment at locations to improve the success of Salt Pond restoration activities.</li><li>• Construct site improvements up to \$4 million to allow for transportation and placement of future sediment.</li></ul>  | On target                           | On target                    |



## PRIORITY E: PROVIDE FLOOD PROTECTION TO HOMES, BUSINESSES, SCHOOLS, AND HIGHWAYS

| Project  | 15-Year KPIs   | Project Status as of FY 2021 Report | Moss Adams Determined Status |
|--|--|-------------------------------------|------------------------------|
| <b>E1: Vegetation control and sediment removal for flood protection</b>  | <ul style="list-style-type: none"><li>● Maintain 90% of improved channels at design capacity.</li><li>● Provide vegetation management for 6,120 acres along levee and maintenance roads.</li></ul>   | On target                           | On target                    |
| <b>E2: Emergency response planning</b>   | <ul style="list-style-type: none"><li>● Coordinate with agencies to incorporate District-endorsed flood emergency procedures into their Emergency Operations Center plans.</li><li>● Complete five flood-fighting action plans (one per major watershed).</li></ul>  | On target                           | On target                    |
| <b>E3: Flood risk reduction studies</b>  | <ul style="list-style-type: none"><li>● Complete engineering studies on seven creek reaches to address 1% flood risk.</li><li>● Update floodplain maps on a minimum of 2 creek reaches in accordance with new FEMA standards.</li></ul>  | On target                           | On target                    |
| <b>E4: Upper Penitencia Creek flood protection Coyote Creek to Dorel Drive—San Jose</b>                                    | <ul style="list-style-type: none"><li>● <i>Preferred project with federal and local funding:</i> Construct a flood protection project to provide 1% flood protection to 5,000 homes, businesses, and public buildings.</li><li>● <i>With local funding only:</i> Acquire all necessary rights-of-way and construct a 1% flood protection project from Coyote Creek confluence to King Road.</li></ul>                              | On target                           | On target                    |
| <b>E5: San Francisquito Creek flood protection, San Francisco Bay to Middlefield Road—Palo Alto</b>                        | <ul style="list-style-type: none"><li>● <i>Preferred project with federal, state, and local funding:</i> Protect more than 3,000 parcels by providing 1% flood protection.</li><li>● <i>With state and local funding only:</i> Protect approximately 3,000 parcels from flooding (100-year protection downstream of Highway 101, and approximately 30-year protection upstream of Highway 101).</li></ul>                          | On target                           | On target                    |
| <b>E6: Upper Llagas Creek flood protection project Buena Vista Avenue to Wright Avenue—Morgan Hill, San Martin, Gilroy</b> | <ul style="list-style-type: none"><li>● <i>Preferred project with federal and local funding:</i> Provide flood protection to 1,100 homes, 500 businesses, and 1,300 agricultural acres, while improving stream habitat.</li><li>● <i>With local funding only:</i> Provide 100-year flood protection for Reach 7 only (up to W. Dunne Avenue in Morgan Hill). A limited number of homes and businesses will be protected.</li></ul> | On target                           | On target                    |
| <b>E7: San Francisco Bay shoreline study</b>   | <ul style="list-style-type: none"><li>● Provide a portion of the local share of funding for planning and design phases for the former salt production ponds and Santa Clara County shoreline area.</li><li>● Provide a portion of the local share of funding toward the estimated cost of the initial project phase (Economic Impact Area 11).</li></ul>   | On target                           | On target                    |



## PRIORITY E: PROVIDE FLOOD PROTECTION TO HOMES, BUSINESSES, SCHOOLS, AND HIGHWAYS

| Project   | 15-Year KPIs  | Project Status as of FY 2021 Report | Moss Adams Determined Status |
|---|---|-------------------------------------|------------------------------|
| <b>E8: Upper Guadalupe River flood protection</b> | <ul style="list-style-type: none"><li><i>Preferred project with federal and local funding:</i> Construct a flood protection project to provide 1% flood protection to 6,280 homes, 320 businesses, and 10 schools and institutions.</li><li><i>With local funding only:</i> Construct flood protection improvements along 4,100 feet of Guadalupe River between the Southern Pacific Railroad crossing downstream of Willow Street to the Union Pacific Railroad crossing downstream of Padres Drive. Flood damage will be reduced; however, protection from the 1% flood is not provided until completion of the entire Upper Guadalupe River project.</li></ul> | Adjusted                            | Adjusted in FY 2021          |

## OTHER FLOOD PROTECTION PROJECTS AND CLEAN, SAFE CREEKS GRANTS PROJECTS

| Project  | 15-Year KPIs  | Project Status as of FY 2021 Report | Moss Adams Determined Status |
|--|---|-------------------------------------|------------------------------|
| <b>Permanente Creek Flood Protection</b>                           | <ul style="list-style-type: none"><li>Provide flood protection to 1,664 parcels downstream of El Camino Real, including Middlefield Road and Central Expressway</li></ul>   | Completed                           | Completed                    |
| <b>Sunnyvale East and Sunnyvale West Channels Flood Protection</b> | <ul style="list-style-type: none"><li>Provide riverine flood protection for 1,618 properties and 47 acres (11 parcels) of industrial land, while improving stream water quality and providing for recreational opportunities.</li></ul>   | Adjusted                            | Adjusted in FY 2021          |
| <b>Berryessa Creek Flood Protection</b>                            | <ul style="list-style-type: none"><li>Local and federal funding flood damage reduction for 1,662 parcels, including 1,420 homes, 170 businesses, and 5 schools/institutions.</li><li>Using local funds only, a reduced project would extend from the confluence with Lower Penitencia upstream to Montague Expressway, modifying 2 miles of channel and protecting approximately 100 parcels.</li></ul> | Completed                           | Completed                    |
| <b>Coyote Creek Flood Protection</b>                               | <ul style="list-style-type: none"><li>Preferred project with federal, state, and local funding: Secure alternative funding sources to construct a flood protection project that provides flood risk reduction from floods up to the level of flooding that occurred on February 21, 2017, approximately a 20 to 25 year flood event, between Montague Expressway and Tully Road.</li></ul>              | On target                           | On target                    |



| OTHER FLOOD PROTECTION PROJECTS AND CLEAN, SAFE CREEKS GRANTS PROJECTS |   |                                     |                              |
|--|---|-------------------------------------|------------------------------|
| Project  | 15-Year KPIs  | Project Status as of FY 2021 Report | Moss Adams Determined Status |
|  | <ul style="list-style-type: none"><li>With local funding only: (a) Identify short-term flood relief solutions and begin implementation prior to the 2017-2018 winter season; (b) Complete the planning and design phases of the preferred project; and (c) With any remaining funds, identify and construct prioritized elements of the preferred project.</li></ul>  |                                     |                              |
| <b>Calabazas Creek Flood Protection</b>                                | <ul style="list-style-type: none"><li>Flood damage reduction for 2,483 parcels that include: 2,270 homes, 90 businesses, and 7 schools/institutions.</li></ul>  | Completed                           | Completed                    |
| <b>Clean Safe Creeks Grants Projects</b>                               | <ul style="list-style-type: none"><li>CSC 2.1: Reduce urban runoff pollutants in south county cities.</li><li>CSC 3.2: Creation of additional wetlands, riparian habitat and favorable stream conditions for fisheries and wildlife. (Equivalent of 100 acres of tidal or riparian habitat created or restored).</li><li>CSC 4.1: Community partnership to identify and provide public access to 70 miles of open space or trails along creeks.</li></ul> | Completed                           | Completed                    |



## V. FINDINGS AND RECOMMENDATIONS

Our aim with these findings and recommendations was to provide Program and Valley Water leadership with actionable information on opportunities for improvement, with recommendations intended to provide positive impacts on operational effectiveness and efficiency for future iterations of the Program.

### A. COMPLIANCE

There were no compliance findings and recommendations. Based on our testing, Valley Water complied with Measure requirements.

### B. PERFORMANCE

#### Ethics

|    |                |   |
|----|----------------|---|
| 1. | Finding        | Valley Water does not have a conflict-of-interest policy that applies to the Independent Monitoring Committee (IMC) members. Conflicts of interest, whether real or perceived, can harm the Program's reputation and integrity. |
|    | Recommendation | Develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures.  |

To ensure accountability to voters, Measure B also created an Independent Monitoring Committee (IMC), appointed by the Valley Water Board of Directors. According to the IMC Handbook, the IMC annually reviews the implementation of the intended results of the Program and reports its findings to Board, which makes the committee report available to the residents and voters of Santa Clara County. During the 2012 Program, concerns were raised about potential conflicts of interest among IMC members that could have influenced their recommendations and actions in their oversight role. Valley Water did not have a conflict-of-interest policy in place that applied to IMC members, and Valley Water's General Counsel considered these potential conflicts legally allowable since the IMC serves in an advisory role that does not have decision-making authority. However, it can be helpful for advisory committees to have conflict-of-interest policies since their recommendations are often accepted by other decision-making bodies.

Conflicts of interest, whether real or perceived, can present many challenges, including erosion of public trust and potential risk of compromised integrity of the IMC and the Program overall. Impaired public perception may also jeopardize future funding for the Program. The Program should develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures. Valley Water may leverage its existing conflict-of-interest policies and Board Code of Conduct when developing a conflict-of-interest policy for IMC members, as is common in other similar governmental organizations. Valley Water should consider what specific conflict-of-interest standards are needed for its advisory committees, but at a minimum the conflict-of-interest policy should require those with a conflict or potential conflict to disclose the conflict and prohibit IMC members from participating in discussions on topics where there is a real or perceived conflict. Generally, conflict-of-interest policies include the following:



- Definition of what constitutes a conflict of interest, such as situations where a committee member has a personal or financial interest in matters being discussed
- Requirements for disclosing potential conflicts of interest in a timely and transparent manner
- Processes for evaluating potential conflicts of interest
- Requirements for recusal when a conflict of interest is determined to exist
- Documentation requirements to ensure records are maintained about conflicts of interest and how they were resolved
- Consequences for violating the policy, such as potential removal from the committee
- Required training related to conflicts of interest

Developing conflict-of-interest policies, frameworks, and training will help preserve the integrity of the Program and promote ongoing public trust.

## Grants Management

|    |                       |  |
|----|-----------------------|--|
| 2. | <b>Finding</b>        | According to a 2021 performance audit, grant management and administration during the 2012 Program experienced challenges with processes, timeliness, and reporting. |
|    | <b>Recommendation</b> | Continue implementation of the remaining recommendations made in the 2021 grants management and administration performance audit.                                    |

A performance audit of grants management and administration in the 2012 Program reviewed FY 2018 through FY 2020 and was completed in January 2021. This audit found Valley Water needed to scale grant application and reporting requirements to be more proportional to the size and scope of each individual grant, require orientation for new grantees, establish timeliness metrics, and implement other process, timeliness, and reporting improvements. In interviews, staff expressed significant challenges with the Program's grant management and administration during the duration of the 2012 Program.

While beyond the scope of this audit, staff reported seven of the 11 recommendations have been implemented since the audit was completed in 2021. The remaining recommendations are still in progress. To support continued improvement of grants management and administration, Program leadership should continue to implement the remaining recommendations. Implementing these recommendations is important to the success and sustainability of future iterations of the Program. A summary of recommendation status as reported by staff as of a May 2023 progress report is included below.



| Recommendation   | Staff Reported Status        |
|--|------------------------------|
| <p>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:</p> <ul style="list-style-type: none"><li>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.</li><li>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.</li><li>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.</li></ul> | In Progress                  |
| <p>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.</p>   | Implemented – November 2022  |
| <p>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.</p>   | Implemented – September 2021 |
| <p>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.</p>   | Implemented – September 2021 |
| <p>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.</p>   | In Progress                  |



| Recommendation  | Staff Reported Status        |
|---|------------------------------|
| <p>Valley Water should explore where, within existing 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.</p> <ul style="list-style-type: none"><li>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.</li><li>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.</li><li>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.</li></ul> | In Progress                  |
| <p>Should Valley Water decide to continue to require the same information for progress and invoice submission, they should:</p> <ul style="list-style-type: none"><li>Confirm the integrity of grantee financial management system data used for review before award.</li><li>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".</li></ul>   | In Progress                  |
| <p>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.</p>  | Implemented – September 2021 |
| <p>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.</p>  | Implemented – September 2021 |
| <p>Valley Water should prioritize developing a grants management operations manual containing all relevant policies and procedures.</p>   | Implemented – November 2022  |



| Recommendation  | Staff Reported Status        |
|---|------------------------------|
| <p>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:</p> <ul style="list-style-type: none"> <li>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 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.</li> <li>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.</li> <li>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.</li> <li>As the Safe, Clean Water grants program grows, and the grants management function within Civic Engagement expands, develop grants management position descriptions.</li> </ul> | Implemented – September 2021 |

## Key Performance Indicators

|    |                |   |
|----|----------------|---|
|    | Finding        | Some Program KPIs relied on external organizations for completion, which made them more difficult to achieve on schedule. Additionally, some KPIs were based on outputs instead of outcomes, which created limitations in the measurement of the Program's impact on the community.   |
| 3. | Recommendation | Examine KPIs in future iterations of the Program and make revisions as needed to better reflect KPIs that are within Valley Water's control and focus on outcome-based KPIs. Where KPIs are not able to be fully within Valley Water's control, consider defining Valley Water's level of responsibility (e.g., primary or contributing responsibility) and develop strategies for addressing external factors that limit the ability of the KPIs to be achieved. |

While Valley Water commendably had defined KPIs for each project within the Program, there were limitations to the effectiveness of some KPIs, especially KPIs that relied on external organizations for completion. Staff reported these KPIs were difficult to achieve as they were fully or partially outside of Valley Water's control. Additionally, as noted in the prior audit conducted by Moss Adams in 2017,



some project KPIs for the Program were based on outputs rather than outcomes, which limited their ability to portray the impact Valley Water and the Program had on the community. Outputs can also limit flexibility in approach when conditions change or unexpected events occur because they are more narrowly focused on completion of specific tasks.

**KPI Responsibility**

Generally, it is best practice to develop KPIs that are within an organization’s influence and control to avoid setting unrealistic expectations and creating confusion about responsibility for achieving KPIs. To improve the usefulness of KPIs, Valley Water should examine KPIs in future iterations of the Program to identify whether the indicators are within Valley Water’s control. KPIs that are not within Valley Water’s control should ideally be revised to better reflect Valley Water’s activities and abilities. When KPIs cannot be revised, Valley Water should develop strategies for communicating this with stakeholders. This could include defining Valley Water’s level of responsibility for each KPI, such as whether Valley Water is the primary responsible party or a contributing responsible party. For example, the [City of Salem defines its role in its strategic plan](#) as a doer, convener, or partner to provide clarity on the City’s role in achieving each of its activities and objectives. Valley Water should also develop strategies for addressing external factors that may limit the ability of the KPI to be achieved. This may involve myriad strategies depending on the project, such as increasing collaboration with external partners and stakeholders, seeking additional resources or support, or developing new approaches to achieve the KPI. Valley Water has already implemented many of these best practices, as noted in [Finding 4](#). As a best practice, Valley Water should also ensure KPIs and related responsibilities are clearly defined in agreements with external partners where relevant.

**Outcomes**

While outputs are helpful to track progress and ensure work is done according to plan, outputs do not portray whether Valley Water is having its intended impact on the community. For example, the KPI for project A2 was to award up to \$1 million to test new conservation activities. This KPI does not address whether outcomes from the use of the funds have been realized, such as reduced water demand. When reviewing KPIs in future iterations of the Program, Valley Water should also consider adopting more outcome-based KPIs where possible, especially for KPIs that are within Valley Water’s control. This will enable Valley Water to communicate the impact of its investment more effectively in priorities, rather than simply stating the volume of work that was accomplished.

**External Coordination**

|    |                |  |
|----|----------------|--|
| 4. | Finding        | While Valley Water’s practices related to external coordination are largely aligned with best practice, a high degree of interjurisdictional complexity resulted in some capital projects being delayed.   |
|    | Recommendation | In future iterations of the Program, implement strategies to improve project continuity for projects heavily reliant on external agency cooperation, including strategies to prioritize knowledge transfer, project documentation, and relationship building at multiple levels. |

Many capital projects and associated KPIs in the Program required extensive coordination with other government agencies, including larger projects that needed additional funding or resources and projects that required easements, permissions, or coordination from other jurisdictions to achieve



KPIs. This reliance on other governmental agencies is common for agencies like Valley Water, yet it created challenges and project delays given the need to navigate different laws, regulations, partnership agreements, policies, and procedures. Some staff reported difficulty balancing their project goals with the goals and interests of other agencies.

In alignment with best practice, Valley Water staff proactively engaged in productive conversations and regular meetings with partner organizations and established formal partnership agreements. These are practices that should be continued and strengthened. Additionally, longstanding relationships between personnel at both agencies contributed to many successful partnerships. However, as external parties and project teams experienced turnover, relationships were sometimes impacted. Strategies to prioritize effective knowledge transfer, project documentation, and relationship building should be implemented to improve project continuity. Valley Water should ensure roles and responsibilities are clearly defined for projects and that all project-related information such as meeting minutes and communications are well-organized and maintained. Additionally, for projects that require a high degree of coordination with external agencies, Valley Water should ensure clear succession plans are in place to facilitate continued relationships should key staff move onto other roles within or outside of the organization. This could include ensuring multiple staff have strong relationships with key external organizations and clearly maintaining documentation.

Valley Water should also continue to build upon its existing practices to support successful collaboration, including continuing to:

- Support collaborative structures and regular communication with external organizations
- Clearly define the roles, responsibilities, and expectations of each agency involved in each project
- Provide sufficient resources at the appropriate authority level within Valley Water to support interjurisdictional project needs
- Emphasize common outcomes and goals while allowing flexible approaches to project implementation

Contract Development and Management

|    |                |  |
|----|----------------|--|
| 5. | Finding        | The effectiveness of contract development and management processes was limited by a lack of standardization, employee training, and lengthy reviews. |
|    | Recommendation | Conduct robust training and establish annual refresher training for staff involved in contracting processes.   |

An audit of Valley Water’s post-award contract process was completed in 2015 that resulted in several findings and recommendations, including findings related to needing formal policies and procedures and improved training. Management reported all the recommendations in that audit were implemented as of early 2023. However, staff reported some issues related to contract development and management processes still existed at the end of the 2012 program:

- Contract development and management were the responsibility of project managers, but several reported they did not feel adequately trained for these tasks. While there were formalized policies and processes in place to guide staff to effectively develop and manage contracts, staff reported limited awareness of these guidance documents. It is important for policies and procedures to be



effectively communicated to staff to avoid gaps in knowledge. Without effective training and communication to support staff in contract development and management, these processes are likely to be inefficient and take longer than needed. Additionally, contracts may be developed or managed poorly, which can increase risks that contracts are out of compliance with laws and regulations or do not achieve their intended outcomes.

- Staff reported concerns with the use of poor performing contractors. The use of poor performing contractors can result in inefficiencies, unnecessary costs, and increased reputational risks if contractor performance is visible to the public. While Valley Water established processes to communicate and track poor performing contractors, staff reported limited awareness of these processes. As noted above, it is important to promote staff awareness of processes through regular communication and training.
- Contract development processes reportedly took a long time, largely due to lengthy legal and risk management reviews and the process of getting on a Board agenda. Lengthy contracting processes can result in project delays and increased costs.

These issues reportedly contributed to delays in some projects and limited effective contract management overall. Given the level of contracting for services and construction at Valley Water, these issues present an ongoing risk for future iterations of the Program. To support more effective practices, Valley Water should conduct robust training and establish annual refresher training for staff involved in contracting processes to support improved efficiency and effectiveness as it relates to contract development and management. At a minimum, this should include training related to:

- Reviewing and approving contracts, monitoring contracts, renewing contracts, and terminating contracts
- Contract development and management, including best practices for drafting contract language, monitoring contract performance, and ensuring compliance with laws and regulations
- Awareness building of available templates, such as RFP templates or contract templates for common contract or agreement types
- Training on other tips and tools, such as checklists for reviewing or managing contracts or assessing risks related to contracts

Such training will promote consistency in contracting practices and better support project managers who do not have contracting experience.



## APPENDIX A – PROCESS IMPROVEMENT OPPORTUNITIES

Moss Adams identified opportunities for process improvements as a result of the audit testing. The table below summarizes these opportunities.

| CATEGORY |   | PROCESS IMPROVEMENT OPPORTUNITIES  |
|----------|---|--|
| 1        | <b>Change Control Processes</b>                       | <p>Valley Water implemented a change control process in 2016 that detailed how adjustments and modifications could be made to project and KPI text, schedules, and funding. Based on testing a sample of 10 changes between FY 2017 and FY 2021 (three text adjustments, four schedule adjustments, and three modifications), changes were largely processed in accordance with change control processes with one minor exception.</p> <p>We were unable to verify that an email notice was sent to the Blue Ribbon Committee (BRC) for the three modifications tested, as required by the process. The change control process required Valley Water to notify all stakeholders of proposed changes and lists the BRC as a constituent. Program staff reported the BRC's main purpose was to help develop the 2012 Program and that it was disbanded once the Program was developed and implemented. The change control process should be updated to remove the email notice requirement for the BRC to represent the current operating environment and practices more accurately. Valley Water staff reported they will be bringing a change forward to the Board in Fall 2023 to remove this requirement from the change control process</p> |
| 2        | <b>Low Income Senior Property Tax Exemption Forms</b> | <p>During our testing to determine whether requestors for the low-income senior property tax exemption were eligible according to the Program, we noted that the Low-Income Senior Property Tax Exemption Form used to document the application and approval could be improved. Valley Water should consider updating the Low-Income Senior Property Tax Exemption Form to include a section specific for Valley Water notations and approvals. This section should be identified as "For Valley Water Use Only" and might include lines for account number, driver's license verification, initials of approver, and date approved.</p>   |



| CATEGORY |                                      | PROCESS IMPROVEMENT OPPORTUNITIES   |
|----------|--------------------------------------|---|
| 3        | <b>Special Tax Bill Calculations</b> | <p>To test that property owners were billed the appropriate special tax amount according to Program requirements, we obtained the annual tax bills for five different property owners for each fiscal year in the audit period. During our testing we found:</p> <ul style="list-style-type: none"><li>• One annual tax bill for a property owner was overbilled by \$1.63 based on the designated tax assessment for that land use type for that fiscal year. The property owner was billed \$32.36, but the set assessment for the land use B category was \$30.73 for the 2017–2018 tax year.</li><li>• Two annual tax bills for the same property owner in land use category E were overbilled by \$2.21 and \$3.38 for the 2016–2017 and 2017–2018 tax years, respectively. This recalculation was based on acres of property owned, and we obtained the property acreage from the Santa Clara Assessor’s website.</li><li>• One annual tax bill for a property owner increased from the prior tax bill by more than the allowed percentage change based on the Consumer Price Index (CPI) change. The CPI change for tax year 2017–2018 was 3.44%, but this property owner’s special tax assessment increased 3.50% from the prior tax year. The effect of the overbilling rounds to \$0.02.</li></ul> <p>Although these amounts are relatively immaterial, we recommend that Program administration reviews special tax calculations for future programs at least every two years. This review might include performing spot checks on a sample of property owners across different land use categories to ensure that the proper special tax has been assessed.</p> |
| 4        | <b>Document Retention</b>            | <p>In three instances across our different testing procedures, Valley Water was unable to provide supporting documentation for our testing requests. Two of these instances pertained to a special tax correction, and the other instance pertained to the Special Tax Board Resolution being confirmed with the County Controller-Treasury Department. However, in all instances, the Valley Water Board had approved the items at the time, and Valley Water provided evidence of this Board approval. We recommend that Valley Water enact and follow document retention policies and procedures until the respective program has been fully closed and audited (if required).</p>   |



## APPENDIX B – MANAGEMENT RESPONSE

### PERFORMANCE AUDIT FINDINGS

| RECOMMENDATION |   | RESPONSIBLE PARTY                   | MANAGEMENT'S RESPONSE / IMPLEMENTATION PLAN   |
|----------------|---|-------------------------------------|---|
| 1              | <b>Finding:</b> Valley Water does not have a conflict-of-interest policy that applies to the Independent Monitoring Committee (IMC) members. Conflicts of interest, whether real or perceived, can harm the Program's reputation and integrity. | Chief of Staff/<br>District Counsel | <input checked="" type="checkbox"/> Agree<br><input type="checkbox"/> Disagree  |
|                | <b>Recommendation:</b> Develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures.   |                                     | Management agrees with the recommendation. Staff will evaluate the processes and committees to which the conflict-of-interest policy would be applicable. A plan and policy are expected to be in place by October 2024.<br><br><b>Implementation Date:</b> Estimated to be fully implemented by October 2024   |
| 2              | <b>Finding:</b> According to a 2021 performance audit, grant management and administration during the 2012 Program experienced challenges with processes, timeliness, and reporting.  | Office of Community<br>Engagement   | <input checked="" type="checkbox"/> Agree<br><input type="checkbox"/> Disagree  |
|                | <b>Recommendation:</b> Continue implementation of the remaining recommendations made in the 2021 grants management and administration performance audit.  |                                     | Management agrees with this recommendation to continue implementing the recommendations made in the 2021 grants management and administration performance audit. Of the 11 audit recommendations, seven have been implemented and four remain in progress and on target to be implemented with the completion of the grants redesign. Staff will continue to provide bi-annual updates to the Board Audit Committee until all recommendations are achieved.<br><br><b>Implementation Date:</b> Estimated to be fully implemented by Q2, FY25. |



| RECOMMENDATION |   | RESPONSIBLE PARTY                   | MANAGEMENT'S RESPONSE / IMPLEMENTATION PLAN   |
|----------------|---|-------------------------------------|---|
| 3              | <p><b>Finding:</b> Some Program KPIs relied on external organizations for completion, which made them more difficult to achieve on schedule. Additionally, some KPIs were based on outputs instead of outcomes, which created limitations in the measurement of the Program's impact on the community.</p>  | Business Planning and Analysis Unit | <p><input checked="" type="checkbox"/> Agree</p> <p><input type="checkbox"/> Disagree</p>   |
|                | <p><b>Recommendation:</b> Examine KPIs in future iterations of the Program and make revisions as needed to better reflect KPIs that are within Valley Water's control and focus on outcome-based KPIs. Where KPIs are not able to be fully within Valley Water's control, consider defining Valley Water's level of responsibility (e.g., primary or contributing responsibility) and develop strategies for addressing external factors that limit the ability of the KPIs to be achieved.</p> |                                     | <p>Staff acknowledges the recommendation and sees the upcoming independent audit of the renewed Safe, Clean Water and Natural Flood Protection Program (Renewed Program Audit) as the appropriate opportunity to review the KPIs. The renewed Program replaced the 2012 Program in its entirety and includes a new priority, new projects, and KPIs. The renewed Program replaced the 2012 Program in its entirety and includes a new priority, new projects, and KPIs. The renewed Program has three categories of KPIs, namely Performance-based, requiring completion of a specific activity; Fiscal-based, requiring full allocation to be expended to accomplish desired outcomes; and Schedule-based, requiring project completion according to a timeline, and these will be reviewed as part of the Renewed Program Audit.</p> <p><b>Background:</b> The Safe, Clean Water Program Resolution No. 20-64, Section Q states "While the Safe, Clean Water and Natural Flood Protection program is in effect, the Board of Directors shall conduct independent professional audits of the Program to provide for accountability and transparency at least every five years." Following a recommendation from the Independent Monitoring Committee in February 2023, the Board approved two separate audits: a closeout audit for the 2012 Program (the current audit) and a distinct audit for the renewed Safe, Clean Water Program. The renewed Program, which voters approved in 2020 and became effective on July 1, 2021, is now in its third year of implementation. Staff expects to engage an auditor for the renewed Program by July 2024 and will share the 2012 Program closeout audit recommendations with the new auditor.</p> <p><b>Implementation Date:</b> Estimated to be fully implemented by Q4, FY2025.</p> |



| RECOMMENDATION |   | RESPONSIBLE PARTY                   | MANAGEMENT'S RESPONSE / IMPLEMENTATION PLAN   |
|----------------|---|-------------------------------------|---|
| 4              | <b>Finding:</b> While Valley Water's practices related to external coordination are largely aligned with best practice, a high degree of interjurisdictional complexity resulted in some capital projects being delayed.  | Business Planning and Analysis Unit | <input checked="" type="checkbox"/> Agree<br><input type="checkbox"/> Disagree  |
|                | <b>Recommendation:</b> In future iterations of the Program, implement strategies to improve project continuity for projects heavily reliant on external agency cooperation, including strategies to prioritize knowledge transfer, project documentation, and relationship building at multiple levels. | Business Planning and Analysis Unit | <p>The renewed Safe, Clean Water Program's annual report thoroughly outlines the jurisdictional complexities of Safe, Clean Water capital projects on a project-specific level. It specifies the involved jurisdictions, such as funding agencies, regulatory permitting bodies, cities, counties, and other agencies, rating their confidence levels using a five-point scale ranging from Very High to Low. The annual report includes detailed information within individual project updates, and Appendix C consolidates the confidence levels for all capital projects.</p> <p>The implementation of the recommendation has been completed through the implementation of the following program, processes, and project-level improvements. However, we are committed to ongoing refinement of our process and continue to look for opportunities to improve.</p> <p><b>Program Level:</b> In response to the 2019 Construction Contract Change Order Management and Administration audit, which focused on change order management and administrative activities for large capital construction projects, staff has developed the Capital Project Management and Project Controls (CPMPC) Program under the Business Planning and Analysis Unit, which is responsible for the development and implementation of Projectmates, Valley Water's new capital Project Management Information System (PMIS).</p> <p>Projectmates promotes cross-functional collaboration and knowledge transfer by acting as a system for document management across all phases of capital projects; providing contracts management and project budget tools, including invoicing, pay application processing, change orders; and supporting workflows during construction. The system engages both internal and external project staff in the areas of task management, scheduling, milestones, action lists, punch lists, and meeting minutes. Additionally, maintaining the documents in Projectmates allows for a seamless knowledge transfer between project phases or during staff transition.</p> |



| RECOMMENDATION | RESPONSIBLE PARTY | MANAGEMENT'S RESPONSE / IMPLEMENTATION PLAN  |
|----------------|-------------------|--|
|                |                   | <p><b>Process Level:</b> Furthermore, VW addresses outreach and engagement, including external agency coordination and engagement through the CIP, Capital QEMS processes and capital project delivery level as follows.</p> <ul style="list-style-type: none"><li>• At the Program level engagement - As part of the annual Capital Improvement Program Five-Year Plan approval process the Draft plan is released for a 60-day public review period. This outreach is to all land use agencies having land use authority within Valley Water boundaries to ensure alignment with their General Plans. Additionally, VW staff is in the process of creating an over-arching CIP Development Manual to serve as an umbrella policy for capital QEMS procedures to document all existing CIP procedures and practices, which already include outreach and engagement requirements for VW's Capital Improvement Program.</li><li>• CPMPC takes the lead in coordinating with capital project teams to keep Valley Water's Capital quality management (QEMS) documents up to date and to facilitate mandatory biennial capital staff training. Each training session focuses on varying quality management aspects, highlighting updates, industry standards and best practices. CPMPC also coordinates the Technical Review Committee's annual lessons learned training as well as the Capital Improvement Program's annual CIP training.</li><li>• Outreach and engagement steps are referenced in VW's Capital Project Delivery Process (QEMS Form F-751-093). At several project milestones and phase transitions Capital Projects require Board engagement and action, where the public is informed and encouraged to recommend and engage in the Capital Project Delivery Process.</li></ul> <p><b>Project Level:</b> Additionally, relationship building for projects with high jurisdictional complexities is proactively managed by the respective capital deputies and unit managers.</p> <p>Depending on the complexity and urgency of the project, Valley Water has regular meetings at multiple levels with different agencies, jurisdictions, and partners to build relationships and establish continuity. These meetings could be held at project managers, deputies, ACEO, and the CEO levels. Additionally, Valley Water may establish project task forces or fund positions at regulatory agencies to facilitate the progress of Valley Water projects..</p> <p><b>Implementation Date:</b> Completed Q3, FY 2023.</p> |



| RECOMMENDATION |  | RESPONSIBLE PARTY                                 | MANAGEMENT'S RESPONSE / IMPLEMENTATION PLAN   |
|----------------|--|---|---|
| 5              | <b>Finding:</b> The effectiveness of contract development and management processes was limited by a lack of standardization, employee training, and lengthy reviews. | Purchasing and Consultant Contracts Services Unit | <input checked="" type="checkbox"/> Agree<br><input type="checkbox"/> Disagree  |
|                | <b>Recommendation:</b> Conduct robust training and establish annual refresher training for staff involved in contracting processes.                                  |   | <p>Valley Water began using ISO/QEMS in the early 2000s to standardize and document processes across the agency. While we may have faced challenges in the past, Valley Water did have standardized processes in place since 2010 for contract development and management processes.</p> <p>Staff have made strides in addressing these process and training concerns through the creation of documented processes, development of manuals, and training programs that have been implemented to enhance employees' understanding of standardized procedures, ensuring that staff are well-equipped to navigate contract development and management efficiently. Moreover, streamlined review processes and the establishment of standardized protocols have contributed to a more effective and expedited workflow. The ongoing commitment to training and process optimization reflects staff's proactive approach to overcoming previous limitations, ultimately improving the overall effectiveness of contract development and management.</p> <p><b>Implementation Date:</b> Completed by Q4, FY 2010.</p> |



## PROCESS IMPROVEMENT OPPORTUNITIES

| CATEGORY |   | PROCESS IMPROVEMENT OPPORTUNITIES  | MANAGEMENT RESPONSE  |
|----------|---|--|--|
| 1        | <b>Change Control Processes</b>                       | <p>Valley Water implemented a change control process in 2016 that detailed how adjustments and modifications could be made to project and KPI text, schedules, and funding. Based on testing a sample of 10 changes between FY 2017 and FY 2021 (three text adjustments, four schedule adjustments, and three modifications), changes were largely processed in accordance with change control processes with one minor exception.</p> <p>We were unable to verify that an email notice was sent to the Blue Ribbon Committee (BRC) for the three modifications tested, as required by the process. The change control process required Valley Water to notify all stakeholders of proposed changes and lists the BRC as a constituent. Program staff reported the BRC's main purpose was to help develop the 2012 Program and that it was disbanded once the Program was developed and implemented. The change control process should be updated to remove the email notice requirement for the BRC to represent the current operating environment and practices more accurately. Valley Water staff reported they will be bringing a change forward to the Board in Fall 2023 to remove this requirement from the change control process</p> | <p>On November 14, 2023, the Board approved the updated Change Control Process for the renewed Safe, Clean Water Program. The 2016 Change Control Process was updated to align it with the renewed Safe, Clean Water Program that voters approved in November 2020 and came into effect in FY22. The updates included removing the requirement to email public hearing notices to the BRC.</p> <p>Similar to the 2012 Program, during the development of the renewed Program, Valley Water hosted a Blue-Ribbon Forum solely to receive feedback while developing the renewed Program. It was part of the comprehensive and extensive public outreach effort to engage residents, community members, and stakeholders to develop the Program. The forum was discontinued once the Program was developed and put on the ballot.</p> |
| 2        | <b>Low Income Senior Property Tax Exemption Forms</b> | <p>During our testing to determine whether requestors for the low-income senior property tax exemption were eligible according to the Program, we noted that the Low-Income Senior Property Tax Exemption Form used to document the application and approval could be improved. Valley Water should consider updating the Low-Income Senior Property Tax Exemption Form to include a section specific for Valley Water notations and approvals. This section should be identified as "For Valley Water Use Only" and might include lines for account number, driver's license verification, initials of approver, and date approved.</p>   | <p>Staff appreciates this recommendation; it will be implemented for the upcoming 2024 tax year application.</p>   |



| CATEGORY |                                      | PROCESS IMPROVEMENT OPPORTUNITIES   | MANAGEMENT RESPONSE  |
|----------|--------------------------------------|---|--|
| 3        | <b>Special Tax Bill Calculations</b> | <p>To test that property owners were billed the appropriate special tax amount according to Program requirements, we obtained the annual tax bills for five different property owners for each fiscal year in the audit period. During our testing we found:</p> <ul style="list-style-type: none"><li>• One annual tax bill for a property owner was overbilled by \$1.63 based on the designated tax assessment for that land use type for that fiscal year. The property owner was billed \$32.36, but the set assessment for the land use B category was \$30.73 for the 2017–2018 tax year.</li><li>• Two annual tax bills for the same property owner in land use category E were overbilled by \$2.21 and \$3.38 for the 2016–2017 and 2017–2018 tax years, respectively. This recalculation was based on acres of property owned, and we obtained the property acreage from the Santa Clara Assessor’s website.</li><li>• One annual tax bill for a property owner increased from the prior tax bill by more than the allowed percentage change based on the Consumer Price Index (CPI) change. The CPI change for tax year 2017–2018 was 3.44%, but this property owner’s special tax assessment increased 3.50% from the prior tax year. The effect of the overbilling rounds to \$0.02.</li></ul> <p>Although these amounts are relatively immaterial, we recommend that Program administration reviews special tax calculations for future programs at least every two years. This review might include performing spot checks on a sample of property owners across different land use categories to ensure that the proper special tax has been assessed.</p> | <p>Recommendation is noted and appreciated.</p> <p>In response to the first bullet point, and after additional research, this property had a land use category change as provided in data from the County in 2017. Previously the parcel was open land around 4.5 acres. It was then split into nearly 60 parcels as Condo/Townhouses.</p> |
| 4        | <b>Document Retention</b>            | <p>In three instances across our different testing procedures, Valley Water was unable to provide supporting documentation for our testing requests. Two of these instances pertained to a special tax correction, and the other instance pertained to the Special Tax Board Resolution being confirmed with the County Controller-Treasury Department. However, in all instances, the Valley Water Board had approved the items at the time, and Valley Water provided evidence of this Board approval. We recommend that Valley Water enact and follow document retention policies and procedures until the respective program has been fully closed and audited (if required).</p>   | <p>Following the audit, staff was able to provide documentation for the two tax corrections. Valley Water staff continues to follow established document retention policies and procedures, as reflected in the “Santa Clara Valley Water District Records Retention Schedules” adopted by Board of Directors on 8/22/2023.</p>            |



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