



TAPInternational

Report to the Audit Committee

INDEPENDENT AUDITOR
ANNUAL PERFORMANCE
REPORT - DRAFT

2019

Santa Clara Valley
Water District



INDEPENDENT AUDITOR OVERVIEW

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

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

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

INDEPENDENT AUDITOR ACCOMPLISHMENTS

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

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

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

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

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

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

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

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

C. Developed Annual Audit Work Plan (Support Services)

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

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

2. Implemented Board Audit Committee Directed Audit Activities

A. Attended Board Meetings (Audit Support Services)

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

Table 1: Board Meeting Attendance*

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

*See Appendix A for meeting details.

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

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

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

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

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

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

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

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

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

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

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

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

Performance Audit of Contract Change Order Processing

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

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

Performance Audit of the District Counsel Office Structure and Organizational Process

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

Performance Audit of the Real Estate Financial and Service Delivery Performance

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

TASK ORDER COMPLETION

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

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

Table 2: Task Order History

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

FINANCIAL OVERVIEW

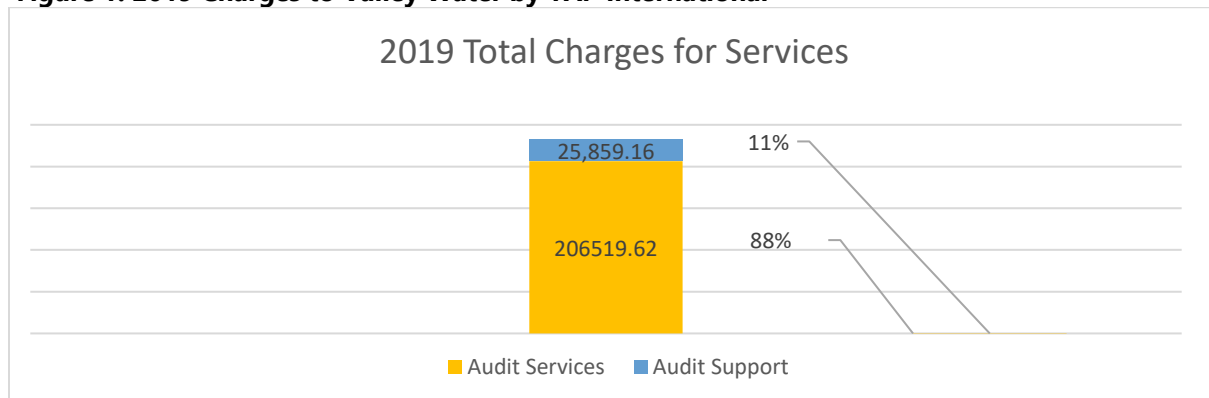
In 2019, TAP International charged Valley Water \$232,378.78 for audit and support services. The budget balance remaining at year-end is \$561,558.49.

Table 3: 2019 Independent Auditor Charges

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

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

Figure 1: 2019 Charges to Valley Water by TAP International



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

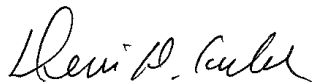
- Development of Board Audit Committee self-assessment framework - \$525.
- Review of Board Audit Committee performance monitoring report and development of suggested performance measures - \$480.
- Review of Board meeting agenda and documentation, video for eight meetings that TAP International did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

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

CONCLUSION

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

Respectfully submitted,



Denise Callahan
Principal, TAP International, Inc.

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

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

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