



Santa Clara Valley Water District

Safe, Clean Water and Natural Flood Protection Program (Measure S)

Performance Audit Report FY22 – FY24

FINAL DRAFT

Prepared by:

PMA Consultants
San Jose, California
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EXECUTIVE SUMMARY

A. Introduction

The Santa Clara Valley Water District (Valley Water) ensures current and future water supplies, protects water resources from contaminants, provides flood protection, safeguards infrastructure from natural disasters, and restores ecosystems within Santa Clara County. In November 2020, voters in Santa Clara County approved Measure S, establishing the renewed Safe, Clean Water and Natural Flood Protection Program (SCW Program). This measure provides continued funding via a special parcel tax for projects delivering safe water, natural flood protection, and environmental stewardship. The renewed SCW Program, effective July 1, 2021, replaced the previous 2012 Safe, Clean Water and Natural Flood Protection Program in its entirety, carrying forward funding for previously identified capital projects and replacing other projects with comparable initiatives under the renewed program structure.

To ensure accountability and transparency, Measure S requires the Valley Water Board of Directors to conduct independent professional audits of the SCW Program at least every five years while the program is in effect. In fulfillment of this requirement, Valley Water engaged PMA Consultants to conduct this independent performance audit of the renewed SCW Program.

B. Overall Audit Objectives

The primary objective of this independent performance audit was to assess the renewed Safe, Clean Water and Natural Flood Protection (SCW) Program for the period covering July 1, 2021, through June 30, 2024. The audit evaluated key aspects of program implementation, including:

- **Governance and Transparency:** The audit evaluated the effectiveness of overall program governance, managerial oversight and independent monitoring, including the roles of the Board of Directors and the Independent Monitoring Committee (IMC), and assessed the transparency and accuracy of public reporting on program progress and outcomes.
- **Compliance:** The audit verified the program's compliance with key provisions of the Measure S tax measure. This included assessing whether funds were collected and expended appropriately and whether the Board-approved Change Control Process was properly implemented for project adjustments, modifications and non-implementation.
- **Performance:** The audit assessed Valley Water's progress toward meeting the SCW Program's six priorities and its key performance indicators (KPIs). This assessment included deep-dive reviews of a sample of projects to evaluate project management effectiveness in meeting scope, budget, and schedule commitments.

The remainder of this report provides the detailed procedures, findings, and recommendations resulting from this work.

C. Summary of Key Findings

The audit concluded that Valley Water has established the formal governance, oversight, and reporting structures mandated by Measure S, and the audit identified several noteworthy practices demonstrating effective program management. The audit also resulted in nine findings that identified opportunities for improvement. The key findings, which are summarized below, focus on opportunities to improve the processes for reporting project progress and to strengthen the governance of complex partnerships and program oversight.

Key findings are summarized below:

- **Opportunity to Improve Reporting for SCW Program Projects:** The audit identified opportunities to improve the processes used to report on the funding allocations and schedules for SCW Program projects. For project funding allocations, the methods for reconciling adjustments can be improved to ensure more accurate and timely reporting in the SCW Annual Report. Similarly, for project schedules, improving the reconciliation of changes approved in the Capital Improvement Program's Five-Year Plan (CIP Plan) would make it easier for stakeholders to trace the impact of adjustments on the delivery of project KPIs.
- **Governance and Partnership Complexity:** The audit identified governance challenges with the San Francisquito Creek flood protection project (Project E5), where Valley Water's evolution from project lead to funding partner has resulted in a misalignment between its accountability for a specific outcome and its current role and authority. Additionally, opportunities were identified to enhance the effectiveness of the Independent Monitoring Committee (IMC), and a prior audit recommendation regarding the Conflict of Interest policy for the IMC remains unresolved.

D. Summary of Key Recommendations

The recommendations in this report are intended to support Valley Water's continuing efforts to maintain and enhance a robust, transparent, and effective oversight and governance framework for the SCW Program. The key recommendations are:

- **Improve Reporting Processes and Transparency:** Strengthen the processes for reporting on SCW Program projects by requiring a formal reconciliation of all funding allocations and schedule changes. This will ensure changes approved through the CIP Plan are accurately translated and reported, improving the clarity and transparency of the SCW Annual Report.

- **Strengthen Governance and Partnership Management:** Enhance the management of key external partnerships, such as on the San Francisquito Creek flood protection project (Project E5), by developing tools to better track strategic decisions and risks, and continuing efforts to align project KPIs with Valley Water's evolving role. Strengthen the processes for recruiting IMC members and resolve the outstanding Conflict of Interest policy issue.

D. Findings, Recommendations, and Management Responses Overview

Our procedures identified improvement opportunities that are listed in the following table and presented in detail in the Procedures, Findings, and Recommendations section of this report. All improvement opportunities are also summarized in Appendix C.

| Summary of observations | Detail on Page # |
|---|-------------------------|
| <p>1. <u>The Program is Operating in Compliance with Key Measure S Provisions, with One Minor Procedural Discrepancy Noted</u></p> <p>The audit identified a minor procedural discrepancy in how Valley Water files Measure S tax resolutions with Santa Clara County.</p> | 14 |
| <p>2. <u>Process for Reconciling SCW Project Funding Allocations with CIP Adjustments Needs Improvement to Enhance Reporting Reliability.</u></p> <p>The process for reconciling SCW capital project funding allocations with CIP Plan adjustments needs improvement to support accurate and timely reporting in the SCW Annual Report.</p> | 15 |
| <p>3. <u>A Clearer Crosswalk is Needed between CIP and SCW Schedule Adjustments</u></p> <p>A clearer crosswalk is needed between CIP and SCW schedule adjustments to improve transparency and traceability.</p> | 18 |
| <p>4. <u>A Prior Audit Recommendation Regarding the IMC Conflict of Interest Policy Remains Unresolved</u></p> <p>A prior audit recommendation to implement a conflict-of-interest policy for the Independent Monitoring Committee (IMC) remains unresolved.</p> | 21 |
| <p>5. <u>Ongoing Vacancies on the Independent Monitoring Committee Impact its Effectiveness</u></p> <p>Ongoing vacancies on the Independent Monitoring Committee have created challenges in meeting quorum requirements and distributing workload.</p> | 21 |

| Summary of observations | Detail on Page # |
|--|-------------------------|
| <p>6. <u>Management of Key Partnership Projects Could Be Enhanced</u></p> <p>Valley Water’s current management tools are not fully suited to its evolving role as a funding partner in externally led projects like Project E5.</p> | 23 |
| <p>7. <u>The KPI for a Key Partnership Project is Misaligned with Valley Water's Role and Authority</u></p> <p>The KPI for Project E5 does not reflect Valley Water's current role as a funding partner and may overstate its accountability for project outcomes.</p> | 24 |
| <p>8. <u>Performance Data Impacted by Inconsistent Data Entry and Reporting</u></p> <p>Discrepancies in operational data reporting for Projects D1 and F5 stemmed from inconsistent data entry and compilation.</p> | 24 |
| <p>9. <u>KPIs that are Open-Ended or Do Not Fully Reflect Program Activities Pose Long-Term Financial and Communication Risks</u></p> <p>There is an opportunity to improve KPIs to ensure long-term financial sustainability and clearer communications. Project F1.1's KPI represents a perpetual maintenance commitment, and KPIs for Projects D1 and F3 could be enhanced for clarity and scope.</p> | 25 |

I. INTRODUCTION

A. Background on the Safe, Clean Water and Natural Flood Protection Program

In November 2020, Santa Clara County voters approved Measure S, establishing the renewed Safe, Clean Water and Natural Flood Protection Program (hereafter referred to as the "SCW Program" or "the Program"). This measure replaced the prior 2012 program of the same name and the original 2000 Clean, Safe Creeks and Natural Flood Protection Plan. Effective July 1, 2021, the renewed SCW Program provides a dedicated and continuous funding source through a special parcel tax levied on properties within the Santa Clara Valley Water District (Valley Water).

The purpose of the special tax is to fund projects and activities aligned with Valley Water's core mission areas. These missions include ensuring safe and reliable water supplies, protecting water resources from toxins, providing natural flood protection, safeguarding infrastructure from natural disasters, and restoring creek and bay ecosystems. The renewed Program's priorities were developed with community and stakeholder engagement to ensure alignment with the priorities of Santa Clara County residents. The Program operates on 15-year financial planning cycles and includes specific projects with Key Performance Indicators (KPIs) to monitor long-term performance and maintain accountability. As part of this long-term framework, Measure S also mandates that the Board of Directors evaluate the continued need for the special tax every fifteen years, ensuring ongoing public oversight.

The renewed SCW Program is organized around six key priorities that guide the allocation of funds and the execution of specific projects. The six priorities are:

- **Priority A: Ensure a Safe, Reliable Water Supply:** Focuses on upgrading water infrastructure, supporting water conservation efforts, and ensuring emergency water supply reliability.
- **Priority B: Reduce Toxins, Hazards, and Contaminants in Our Waterways:** Addresses water quality through pollution reduction, hazardous material response, supporting volunteer cleanups, and managing urban runoff.
- **Priority C: Protect Our Water Supply and Dams from Earthquakes and Other Natural Disasters:** Centers on the seismic retrofitting of critical infrastructure like Anderson Dam to ensure public safety and water supply security.
- **Priority D: Restore Wildlife Habitat and Provide Open Space:** Includes projects for managing vegetation, revitalizing habitats, improving fish passage, supporting ecological data collection, restoring natural creek functions, and conserving habitat lands.

- **Priority E: Provide Flood Protection to Homes, Businesses, Schools, Streets, and Highways:** Concentrates on major capital construction projects to reduce flood risk in vulnerable areas, often involving partnerships with federal and state agencies.
- **Priority F: Support Public Health and Public Safety for Our Community:** Encompasses a range of multi-benefit projects, including vegetation and sediment management for flood channel capacity, emergency response planning, encampment cleanups, and community grant programs.

B. Audit Objectives and Methodology

As mandated by Measure S, the primary objective of this performance audit was to provide the Board of Directors, stakeholders, and the public with an independent and transparent assessment of the renewed Safe, Clean Water and Natural Flood Protection (SCW) Program. The audit was designed to evaluate program governance, compliance, transparency, and performance since the renewed program's inception.

To achieve these objectives, the audit team performed procedures aligned with the key tasks outlined in the Scope of Work. The methodology for each major area of the audit is described below.

Prior Audit Documentation Review: The audit commenced with a review of prior audits of the 2012 Safe, Clean Water Program, including an initial audit dated June 1, 2017, and a closeout performance audit dated March 25, 2024. The findings from those reports were discussed with Valley Water management to provide context and inform the scope and focus of the current audit. Based on this review, it was determined that no modifications were needed to the planned scope of work.

Reporting and Transparency Review: To assess the program's transparency, the audit team reviewed public-facing documents, including financial reports and project status updates, to evaluate their accuracy and clarity. The audit also included a review of the Independent Monitoring Committee's (IMC) roles and responsibilities as outlined in the SCW Program Resolution, along with related documentation such as meeting minutes and annual reports.

Program Oversight and Governance Review: The audit team evaluated the effectiveness of the program's governance framework and managerial oversight mechanisms. This included conducting interviews with key personnel, including members of the Board of Directors, the IMC, and Valley Water management, to understand oversight roles and responsibilities. The procedures also included assessing compliance with key provisions of the Measure S tax measure by reviewing financial data to determine if funds were collected and expended appropriately. Finally, the audit evaluated whether Valley Water is properly implementing the Board-approved Change Control Process for program adjustments.

Program and Project Performance Assessment: This phase of the audit assessed whether Valley Water is making reasonable progress toward meeting the Program's six priorities and associated Key Performance Indicators (KPIs). The methodology involved a multi-step process:

- **Project Selection:** To facilitate the review of program execution and progress, a representative sample of projects was selected from the renewed SCW Program. A judgmental sampling approach was used to select approximately one-third of the projects while ensuring diversity across several criteria, including representation from each of the program's six priorities, project budget size, and project complexity. The initial selection was discussed with Valley Water staff, leading to minor refinements to ensure adequate coverage.
- **Project Deep Dives:** For each selected project, the audit team performed deep-dive reviews to evaluate project management effectiveness. This included obtaining and evaluating project management artifacts (e.g., schedules, budgets, progress reports) and assessing performance against scope, schedule, budget, and KPIs. These procedures were designed to identify any deficiencies or challenges, such as funding delays or hyper-escalation, and to form a basis for recommending improvements.

C. Audit Scope and Period

The scope of this audit focused exclusively on the renewed SCW Program. The audit period covered program activities from July 1, 2021, through June 30, 2024, which aligns with the first three fiscal years of the program's implementation. This report reflects audit activities and the status of findings and recommendations as of July 28, 2025—the date fieldwork was completed. It does not reflect any subsequent developments or client actions occurring after that date.

To provide further clarity, the scope of this audit did not include: a review of the prior 2012 Safe, Clean Water Program, other than for historical context; an opinion on Valley Water's overall financial statements, as this was a performance audit, not a financial statement audit; a deep-dive review of every project within the SCW Program portfolio, as our work was based on a representative sample; or a technical validation of project designs or construction quality. Furthermore, the audit focused on assessing progress toward the formal Key Performance Indicators (KPIs) defined in the Measure S program text and did not include an evaluation of the ultimate attainment of the separate project "Benefits" that are also described in the SCW Annual Report. The audit assessed whether Valley Water is making "reasonable progress" toward its KPIs based on activities and evidence from the audit period; the objective was not to conclude on the ultimate achievement of long-term KPIs but to evaluate the program's management and progress to date.

D. Acknowledgements

The audit team wishes to thank the many individuals at Valley Water who contributed to this performance audit. We appreciate the time and effort provided by the Safe, Clean Water Program team and other staff, whose cooperation and responsiveness were essential to our work.

II. COMMENDATIONS

In addition to the findings and recommendations detailed later in this report, the audit identified several practices that demonstrate effective program management and oversight. These practices are highlighted to provide a balanced assessment of the program and to acknowledge areas of strength that support the successful implementation of the Safe, Clean Water Program.

- **Established and Transparent Governance Structure:** The audit confirmed that Valley Water has established the formal, multi-faceted governance structure mandated by Measure S, consisting of the Board of Directors, the Independent Monitoring Committee (IMC), and dedicated program staff. The Board provides ultimate oversight and decision-making authority, utilizing its standing committees for more detailed review of SCW projects. The IMC serves its mandated role of providing independent annual review and recommendations directly to the Board, and its operations are transparent, with information such as meeting dates, agendas, and minutes made publicly available. This overall structure creates a continuous cycle of oversight encompassing strategic planning, financial governance, and project monitoring.
- **Adherence to Annual Reporting Requirements:** Valley Water adheres to the Measure S requirements for both annual rate-setting and annual financial reporting. For each year of the audit period, the CEO prepared and published the SCW Annual Rate-Setting Report, which was formally accepted by the Board of Directors at a public meeting. Similarly, the Chief Financial Officer filed a fiscal year report with the Board in compliance with the required deadline. These annual reports contained the mandated information, including the amount of funds collected and expended and the status of authorized projects.
- **Public Access to Information:** Valley Water uses multiple channels to provide the public with access to program information. These include a monthly Valley Water eNewsletter with over 50,000 subscribers, project-specific email lists and public meetings, and the SCW Program webpages. These webpages feature an archive page that contains all program reports, change control documents, five-year implementation plans, and audit reports. Additionally, the SCW Program project pages are updated at least once each quarter.
- **Comprehensive Capital Project Management Framework:** The audit observed that SCW-funded capital projects are managed under a comprehensive framework guided by the Capital Improvement Program (CIP) Program Manual. This framework provides a strong foundation for project execution, including detailed work plans, phase-based delivery procedures, and a clear hierarchy of oversight meetings. While the findings in

this report identify opportunities to improve the reconciliation between the CIP and the SCW Program's external reporting, the underlying project management structure is a key strength.

- **Effective Performance of Operational Projects:** The audit of selected projects indicated that six of the seven¹ active operational, maintenance (e.g., performance-based), and fiscal-based projects included in our sample of projects are consistently meeting or exceeding their annual Key Performance Indicator (KPI) targets.
- **Strategic Use of Tiered KPIs for Risk Management:** The audit identified that the use of a tiered KPI structure for certain complex capital projects, which includes both a preferred KPI and a "local-funding-only" alternative, serves as an effective risk management tool, providing a pre-approved path for project progress under different funding scenarios.

¹ See Finding 9 on page 25 regarding Project D1 (Management of Riparian Planting and Invasive Plant Removal).

III. PROCEDURES, FINDINGS AND RECOMMENDATIONS

This section of the report presents the summary of findings and recommendations resulting from our audit procedures. The findings are organized by the major audit objectives outlined in Section I.

A. Reporting and Transparency

This area of the audit focused on assessing the transparency and accuracy of reporting on the renewed SCW Program's progress and outcomes, including the public disclosure of financial information, project status updates, and the roles and responsibilities of the Independent Monitoring Committee (IMC).

Procedures Performed

To evaluate reporting and transparency, audit procedures included reviewing key documents required by Measure S. This involved examining the Annual Rate-Setting Reports prepared by Valley Water's CEO for each year of the audit period to confirm they included the required proposed tax rates. We also reviewed the annual fiscal year reports prepared by the Chief Financial Officer to verify they were filed on time and contained the required information on funds collected and expended, and the status of funded projects. Additionally, the audit reviewed the operations of the Independent Monitoring Committee (IMC). Procedures included examining the public availability of meeting schedules, agendas, and minutes, and reviewing Valley Water's Conflict of Interest policy applicable to the IMC.

B. Program Oversight and Governance

This area of the audit focused on evaluating the overall program governance and the effectiveness of managerial oversight mechanisms. The audit also verified compliance with key provisions of the Measure S tax measure and the implementation of the Board-approved Change Control Process.

Procedures Performed

To evaluate program oversight and governance, our audit procedures were designed to assess the framework from multiple perspectives:

- **Review of the Governance Framework:** We reviewed the governance structure mandated by Measure S and established in Valley Water documentation. To understand the roles, responsibilities, and effectiveness of this structure, we conducted interviews with members of the Board of Directors, the Independent Monitoring Committee (IMC), and key Valley Water management and staff.

- **Assessment of Compliance:** To assess compliance with key provisions of Measure S, we reviewed publicly available documentation, including Annual Reports and Board meeting materials, to evaluate adherence to the measure's requirements. This included assessing whether program funds were collected and expended appropriately.
- **Evaluation of the Change Control Process:** We reviewed the Board-approved Change Control Process and examined a sample of project adjustments and modifications made during the audit period to determine if the process was being implemented as designed.

Findings, Recommendations and Management Responses

Finding 1: The Program is Operating in Compliance with Key Measure S Provisions, with One Minor Procedural Discrepancy Noted.

Issue: The audit's review of compliance with key Measure S provisions found that Valley Water adheres to the primary procedural, financial control, and reporting mandates. A minor discrepancy was noted regarding Measure S, Provision C, which specifies that tax resolutions be filed with the "Auditor-Controller" and the "County Recorder." Current practice involves filing these documents with the County Clerk-Recorder's Office and the County Tax Assessor's Office. This variance appears related to changes in County departmental structures since Measure S was drafted. While the specific titles of the offices differ, the filings appear to achieve the functional intent of the provision by ensuring the relevant county entities are formally notified for billing and recording purposes.

Risk: Without formal documentation explaining the variance between the procedural text in Measure S and current practice, there is a risk of perceived non-compliance with the voter-approved measure. Such perceived non-compliance may make it more difficult for future such initiatives to pass.

Recommendation: To address the minor discrepancy in filing offices for tax resolutions, Valley Water should formally document its assessment that the current process meets the functional intent of Measure S, Provision C. Furthermore, standard clarifying language should be incorporated into future Board resolutions to explicitly state the specific County offices where certified copies will be filed. These actions will enhance transparency by creating a clear and complete public record, demonstrating the Program's adherence to Measure S requirements.

Management's Response: Agree. Management agrees with the recommendation and staff will implement this recommendation.

Responsible Party: Chief Financial Officer (CFO), Financial Planning & Management Services Division.

Completion Date: Q4, FY26 for FY2026-2027 Annual Rate Setting Report (May 2026).

Finding 2: Process for Reconciling SCW Project Funding Allocations with CIP Adjustments Needs Improvement to Enhance Reporting Reliability.

Issue: To support Valley Water's ongoing efforts to improve the Safe, Clean Water (SCW) Program, this finding identifies an opportunity to enhance the reporting of long-term project funding allocation adjustments. Primarily there is a need to strengthen the procedural methods for reconciling CIP Plan adjustments to project funding allocations in order to increase data accuracy and reliability. Additionally, there is an opportunity to clarify the language in the Board-approved Change Control Process to specify what information regarding these adjustments will be reported and where information related to budget adjustments and changes to project funding allocations will be made publicly available. This issue is specific to the program's capital projects, as our audit work found no similar material discrepancies in the reporting for operational projects. Our audit of the SCW Program's capital project budgets found that the cumulative "Board Appv'd Adj" figures reported in Appendix A-1.2 of the SCW Annual Reports for FY23, and FY24 did not reconcile to supporting documentation. We were unable to determine the magnitude of the reconciliation discrepancies as performance of detailed reconciliations was outside the scope of our procedures, and staff's efforts to update the reconciliation is ongoing. In response to our inquiries, staff indicated they had identified an error in the methodology used for their detailed review of Board-approved adjustments, which was initiated as part of the FY24 reporting cycle. As staff explained, this methodology used the Capital Improvement Program's Five-Year Plan (CIP Plan) as the baseline for identifying funding allocation adjustments instead of the SCW Program's 5-Year Implementation Plan. While the Change Control Process for capital projects appropriately uses the CIP Plan cycle for approving changes, there is an opportunity to improve the methods used to identify, reconcile, and report those approved changes within the SCW Annual Report in an accurate and timely manner. Staff have been proactive in addressing this issue and plan to restate and republish the FY23 and FY24 annual reports once their detailed review and reconciliation is complete. The following recommendations are intended to support these ongoing improvement efforts.

Risk: When the funding allocation data presented in the SCW Annual Report is not presented in an accurate, complete, and timely manner, there is a risk that public accountability is diminished. This condition could have an impact on effective oversight by the Board.

Recommendation: To help ensure the accuracy, completeness and timeliness of the SCW Program's long-term budgetary reporting, we recommend that Staff revise the methods and processes used to identify, reconcile and report funding allocation adjustments within the SCW Annual Reports. This revised process should include:

1. **A Corrected and Auditable Baseline:** Complete an updated, comprehensive review and reconciliation of all Board-approved funding allocation adjustments made since FY22,

starting from the SCW 5-Year Implementation Plan. This corrected baseline must be documented and used for all future reporting.

2. **A Formal Reconciliation Procedure:** For any CIP change affecting a SCW project, a standard procedure must be followed to formally document the specific impact on the SCW Program's 15-year allocation. This reconciliation and supporting documentation must be retained as auditable evidence.
3. **Independent Review:** This SCW-specific reconciliation should be reviewed and approved by management before the SCW Annual Report is finalized.
4. **Accurate and Transparent Reporting:** Ensure the "Board Appv'd Adj" column in Appendix A-1.2 and its corresponding footnotes accurately reflect the reconciled, cumulative adjustments to only the renewed SCW Program funding allocations, clearly distinguishing it from the total project costs reported in the CIP Plan.
5. **Informed Board Approval of the CIP Plan:** When presenting the annual CIP Plan for Board approval, management should include a summary schedule that explicitly quantifies how proposed CIP planned expenditures will impact the 15-year funding allocations of the corresponding SCW Program projects. This ensures the Board is fully informed of the SCW Program implications at the time of the CIP decision.
6. **Clarify the Change Control Process Policy:** In conjunction with the procedural improvements, update the language in the Board-approved Change Control Process to better clarify how fiscal year budget adjustments and changes to project funding allocation will be made publicly available through reporting and posting on the Program's web page.

Management's Response: Agree. Management agrees with the recommendation. Staff will address the recommendation as follows:

1. **A Corrected and Auditable Baseline:** As noted in the report, staff is proactively addressing this issue. Staff completed a detailed review and reconciliation of all Board-approved funding allocation adjustments made since FY22 and republished the FY23 and FY24 annual reports. Staff is also implementing measures to strengthen and enhance processes for identifying, reconciling, and reporting funding allocation adjustments to Safe, Clean Water projects.
2. **A Formal Reconciliation Procedure:** Currently, the standard process for capital projects follows the annual Capital Improvement Program's Five-Year Plan (CIP Plan) development cycle, which includes Change Management Memos (CMMs) outlining scope, schedule and budget adjustments, financial analysis to determine fund impacts, CIP evaluation team review, recommendations for Board approval, and activation of the Change Control Process for any changes that affect any key performance indicators (KPIs). To address the audit recommendation and enhance accountability, staff plans to

strengthen this process by implementing a requirement for the CMMs to clearly identify impacts on Safe, Clean Water projects and developing a standardized reconciliation template to clearly quantify and document any SCW-related financial impacts from CIP changes. These documents will be retained as auditable evidence.

3. **Independent Review:** The SCW annual report is approved by the management, including Deputy Operating Officers, Chiefs, CFO, ACEO, and the CEO, prior to Board approval. The CFO will review and validate the standardized reconciliation template being developed prior to its implementation to clearly quantify and document any SCW-related financial impacts from the CIP Plan planned expenditure changes.
4. **Accurate and Transparent Reporting:** In future annual reports, staff will ensure that the Board Approved Adjustment column in Appendix A-1.2 and its footnotes accurately reflect that the reconciled, cumulative adjustments are specifically related to the renewed SCW Program funding allocations. It will clearly differentiate these adjustments from the total capital project reported in the CIP Plan.
5. **Informed Board Approval of the CIP:** The current Annual Process for Development of the CIP Five-Year Plan (CIP Plan Process) for Safe, Clean Water projects will be enhanced to implement the recommendation. Currently, staff brings to the Board all project scope, schedule, and cost changes. The Project Plan Updates attachment is presented every year to the Board to provide details regarding the changes incorporated into the CIP Plan and all Safe, Clean Water projects are noted with a reference to the SCW project number. Furthermore, through the financial modeling presented and discussed as part of the preliminary CIP plan and rate-setting process, staff assesses and determines if there are any impacts on the fund's health that would trigger the Safe, Clean Water Program's Change Control Process.

To enhance clarity and visibility, staff plans to implement the following changes:

- a. Currently, any changes to the scope, schedule, or costs of a capital project must be documented through a Change Management Memo (CMM). This memo is submitted by the Project Manager to the Deputy Operating Officer for approval. The CMM template is being updated to specifically identify if the proposed change affects the scope, schedule, or cost of a SCW project. The memo will specify whether the change impacts the project KPI(s), the scheduled delivery date, or funding allocations. If any of these elements are affected, the CMM will indicate this, alerting staff to initiate the Change Control Process.
- b. The Project Plan Updates provided to the Board as part of the CIP Plan development will include information specific to each SCW project scope, schedule, or cost change. It will capture the impact of these changes and clearly state if it triggers the Program's Change Control Process.

- c. Similarly, for Operating projects, the Budget Adjustment Form is being updated to clearly specify whether the requested adjustment is for an SCW project and whether it impacts the project's funding allocations and/or KPI delivery. If any of these elements are affected, the form will indicate this, alerting staff to initiate the Change Control Process.
6. **Clarify the Change Control Process Policy:** The Safe, Clean Water Program Change Control Process is being enhanced to expand opportunities for public engagement. The enhancement will include updating language to better clarify how fiscal year budget adjustments and changes to project funding allocation will be made publicly available through reporting and posting on the Program's web page. The enhanced Change Control Process, first presented to the Board in June 2025, is scheduled for formal approval in FY26 Q2.

These enhancements will ensure that all CIP planned expenditure changes affecting SCW projects are transparently assessed, clearly documented, and readily available for audit purposes.

Additional Clarification: It should be clarified that the SCW Annual Report is retrospective in nature and does not serve as a forward-looking planning document. Its primary purpose is to transparently report on progress and expenditures for public accountability. Accurate and complete financial information in the report is indeed vital for transparency and monitoring, and we are committed to achieving that. However, it is important to note that the data presented in the SCW Annual Report does not directly influence budget or funding decisions. These determinations are made through a separate, forward-looking process, namely, the long-term forecast and the financial modeling that supports the development of the CIP Plan and the rate-setting process. As part of this process, staff evaluate whether any funding needs impact the overall health of the SCW Fund and, if so, whether those impacts warrant action through the established Change Control Process.

Responsible Party: CFO, Financial Planning & Management Services Division (1, 3, 4, and 5.c) ; and Assistant Officer (AO), Office of Integrated Water Management – Business Planning and Analysis Unit (2, 5.a, 5.b, and 6).

Completion Date: Q4, FY26.

Finding 3: A Clearer Crosswalk is Needed between CIP and SCW Schedule Adjustments

Issue: Similar to the budget reporting process, there is an opportunity to enhance the transparency of project schedule reporting by providing a clearer crosswalk between the schedules presented in the CIP Plan and those in the SCW Annual Report. Additionally, there is an opportunity to clarify the language in the Board-approved Change Control Process to specify

what information will be reported and where information related to adjustments to project schedules will be made publicly available. The SCW Change Control Process appropriately uses the CIP Plan as the primary vehicle for approving schedule changes for capital projects. However, the two reports are prepared on different bases and at different times, which can make it challenging for an external stakeholder to independently reconcile the information. As management explained, a key reason for these differences is the timing of when each report is produced. The CIP Plan is adopted in May and reflects planned schedules and expenditures for the upcoming fiscal year. In contrast, the SCW Annual Report is published after the fiscal year has ended and reflects actual project developments. This can lead to situations where a project's schedule is adjusted in the SCW Annual Report based on year-end progress, but that change is not yet reflected in the already-published CIP Plan.

Risk: While this approach is reasonable for internal management, and the schedules in the SCW Annual Report are clear, the lack of a formal, public-facing reconciliation between these two reporting methodologies makes it difficult for stakeholders to independently trace the impact of a schedule change approved in the CIP Plan on the delivery of a project's KPI. This places the burden of reconciling the different reporting frameworks on the reader and reduces the ease with which stakeholders can track the impact changes to the CIP plans will have on the project's KPI schedule.

Recommendation: To improve the clarity and consistency of project schedule reporting, we recommend that Valley Water:

1. Continue the practice of clearly and visually differentiating the milestone for achieving a project's KPI from the milestones for other project phases (e.g., design, plant establishment, closeout) in the SCW Annual Report's schedule graphics.
2. Provide a clear reconciliation on the SCW Program webpage that illustrates and explains how Board-approved changes to capital project construction schedules in the CIP Plan impact the delivery schedule for the corresponding SCW Program KPI.
3. When presenting the annual CIP Plan for Board approval, explicitly report on how proposed schedule changes will affect the KPI delivery dates for SCW projects, ensuring the Board understands the direct impact on program commitments at the time of their decision.
4. In conjunction with the procedural improvements, update the language in the Board-approved Change Control Process to better clarify how adjustments to project schedules will be made publicly available through reporting and posting on the Program's web page.

Management's Response: Agree. Management agrees with the recommendation and will implement the following:

1. **Differentiated milestones:** In the Safe, Clean Water Program Annual Report schedule graphics, Valley Water will continue the practice of clearly and visually differentiating the milestone for achieving a project's KPI from the milestones for other project phases (e.g., design, plant establishment, closeout).
2. **Schedule Reconciliation:** At the end of each fiscal year, staff will provide the Board with a summary of all schedule adjustments impacting KPI delivery, including those approved as part of the Board's approval of the CIP Plan. Currently, these schedule adjustments are reported in the SCW Program annual report. Going forward, a consolidated summary will also be available to the public on the Program's webpage.
3. **CIP Plan Impacts on KPI Delivery:** The current CIP Plan Process for SCW projects will be enhanced to implement the recommendation. Currently, staff brings to the Board all project scope, schedule, and cost changes. The Project Plan Updates attachment is presented every year to the Board to provide details regarding the changes incorporated into the CIP Plan and all SCW projects are identified through the SCW project number.

To enhance clarity and visibility, staff plans to implement the following changes:

- a. The CMM template is being updated to specifically identify if the proposed change affects the scope, schedule, or cost of a SCW project. The memo will specify whether the change impacts the project KPI(s), the scheduled delivery date, or funding allocations. If any of these elements are affected, the CMM will indicate this, alerting staff to initiate the Change Control Process.
 - b. The Project Plan Updates provided to the Board as part of the CIP Plan development will include information specific to each SCW project scope, schedule, or cost change. It will capture the impact of these changes and clearly state if it triggers the Program's Change Control Process.
4. **Clarify the Change Control Process Policy:** The Safe, Clean Water Program Change Control Process is being enhanced to expand opportunities for public engagement. The enhancement will include updating language to better clarify how adjustments to project schedules will be made publicly available through reporting and posting on the Program's webpage. The enhanced Change Control Process, first presented to the Board in June 2025, is scheduled for formal approval in FY26 Q2.

Responsible Party: AO, Office of Integrated Water Management – Business Planning and Analysis Unit

Completion Date: Q4, FY26.

Finding 4: A Prior Audit Recommendation Regarding the IMC Conflict of Interest Policy Remains Unresolved

Issue: A 2024 closeout audit of the prior Safe, Clean Water Program recommended that Valley Water develop a conflict-of-interest policy for the Independent Monitoring Committee (IMC) to manage real or perceived conflicts. During our audit period, we noted that Valley Water is actively working to address this recommendation. However, a formal, updated Conflict of Interest framework specifically for the IMC has not yet been finalized and implemented.

Risk: Without a formal, implemented conflict-of-interest policy tailored to the specific advisory role of the IMC, there is a risk that real or perceived conflicts could arise. This could potentially undermine the credibility of the committee's independent oversight function and diminish public trust in the governance of the SCW Program.

Recommendation: We recommend that Valley Water finalize and implement a formal Conflict of Interest framework for the Independent Monitoring Committee.

Management's Response: Agree. Management agrees with the recommendation and on Sept. 23, 2025, the Board adopted a resolution establishing new conflict of interest disclosure requirements for IMC members.

Responsible Party: AO, Office of Integrated Water Management – Business Planning and Analysis Unit; and Clerk of the Board (COB), Office of the Clerk of the Board.

Completion Date: Q2, FY26.

Finding 5: Ongoing Vacancies on the Independent Monitoring Committee Impact its Effectiveness

Issue: Interviews with members of the Independent Monitoring Committee (IMC) highlighted operational challenges that could impact the effectiveness of this key oversight body. Members noted that ongoing vacancies on the committee have created difficulties in consistently attaining a quorum for meetings and have led to an uneven distribution of workload.

Risk: The operational challenges facing the IMC, including persistent vacancies, could hinder its ability to consistently and effectively fulfill its mandated oversight responsibilities. This could lead to delays in the IMC's annual review process, reduce the depth of its analysis, and ultimately weaken a key component of the SCW Program's public accountability framework.

Recommendation: To support Valley Water's ongoing efforts to ensure the effectiveness of the Independent Monitoring Committee, we recommend that management partner with the Board of Directors to enhance the processes for recruiting committee members. This could include:

- **Enhancing Recruitment:** Exploring additional recruitment strategies beyond standard website postings to identify, attract, and recruit qualified candidates to fill committee vacancies in a timely manner. This could involve targeted outreach to subject matter experts or community organizations.

Management's Response: Agree. Management agrees with the recommendation and staff will explore additional recruitment strategies in partnership with the Board of Directors.

Responsible Party: COB, Office of the Clerk of the Board.

Completion Date: Q4, FY26; and will be implemented on an ongoing basis.

C. Program and Project Performance

This area of the audit focused on assessing whether Valley Water is making reasonable progress toward meeting the SCW Program's six priorities and their associated Key Performance Indicators (KPIs). This assessment was based on detailed reviews of a representative sample of projects to evaluate project management effectiveness and the adequacy of the KPIs themselves.

Procedures Performed

To evaluate program and project performance, the audit team performed the following procedures:

- **Assessed Progress Toward KPIs:** We assessed Valley Water's progress toward meeting the Program's six priorities by evaluating the reported progress for a selection of projects against their established KPIs. Our assessment included a review of progress documented in the FY22, FY23, and FY24 SCW Annual Reports and an evaluation of documented project challenges and risks impacting KPI achievement.
- **Reviewed KPI Adequacy and Structure:** We reviewed the KPIs for the selected projects to determine their adequacy and inherent achievability. This review included an assessment of each KPI's clarity and measurability, its alignment with the corresponding Program Priority, and its structure in measuring project outputs (e.g., construction deliverables) versus community outcomes (e.g., parcels protected).
- **Evaluated Project Management:** We performed deep-dive reviews of the selected projects to understand and evaluate how each is being managed. This included conducting interviews with Project Managers and other key staff to discuss the management of project scope, budget, schedule, and progress toward achieving KPIs.

- **Verified Project Artifacts:** We obtained and evaluated a variety of project management artifacts, such as project plans, work-tracking reports, budget vs. actual expenditure reports, and risk assessments. The purpose of this review was to identify process strengths, deficiencies, and challenges, and to obtain evidence supporting the reported progress towards reported project milestones.

Findings, Recommendations and Management Responses

Finding 6: Management of Key Partnership Projects Could Be Enhanced

Issue: For Project E5 (San Francisquito Creek Flood Protection), Valley Water's role has evolved from project lead to that of a primary funder and influential partner within the San Francisquito Creek Joint Powers Authority (SFCJPA). The project's existing management mechanisms, which are designed for direct project execution, may not be the most effective tools for managing this evolving role. This presents an opportunity to supplement existing processes with a more strategic tool to effectively track risks to Valley Water's investment, coordinate its positions on key issues, and document decisions within the multi-agency partnership.

Risk: Without a formal mechanism to track and manage its position on key decisions within the partnership, there is a risk that Valley Water may not be able to effectively influence project outcomes, protect its financial investment, or ensure alignment with its strategic goals. This could lead to a misalignment of priorities between Valley Water and the lead agency, potentially impacting the project's success and the return on public funds.

Recommendation: To effectively manage its role in externally led partnerships like Project E5, Valley Water should develop and implement a 'Strategic Decision & Risk Log' to formalize its partnership management. This tool would serve as a formal mechanism to 1) identify and monitor the key technical, funding, and governance decisions being managed by the partner agency; 2) formally document Valley Water's official position on each critical issue; 3) identify the associated risks to Valley Water's investment and policy goals; and 4) define and track a proactive position strategy.

Management's Response: Agree. Management agrees with the recommendation and where applicable, staff will develop and implement a Strategic Decision & Risk Log to formalize its partnership management.

Responsible Party: Chief Operating Officer (COO), Watersheds.

Completion Date: Q4, FY26.

Finding 7: The KPI for a Key Partnership Project is Misaligned with Valley Water's Role and Authority

Issue: The KPI for Project E5 holds Valley Water accountable for delivering a specific community outcome (protecting parcels from a 70-year flood event), yet Valley Water no longer has the direct control or authority to ensure this outcome is achieved. The transfer of project leadership to the SFCJPA means the KPI, as currently worded, does not accurately reflect Valley Water's role as a funding partner, making it an inadequate measure of its performance and accountability for the public funds invested.

Risk: When a project's KPI is not aligned with Valley Water's actual role and authority, there is a risk that the organization will be held accountable for outcomes it cannot control. This can lead to a misrepresentation of Valley Water's performance, diminish public accountability, and make it difficult to accurately assess the effectiveness of its contributions to the project.

Recommendation: Valley Water should continue to formalize the re-evaluation of the Project E5 KPI to align it with current realities. This evaluation should consider options for shifting the KPI from an outcome-based metric to one that measures Valley Water's specific, controllable contributions, such as a funding or partnership-based deliverable.

Management's Response: Agree. Management agrees with the recommendation and staff will reevaluate Project E5: San Francisquito Creek Flood Protection KPIs to determine how best to reflect current realities. If it is determined that modifications to the KPIs are required, management will propose them in accordance with the Change Control Process.

Responsible Party: COO, Watersheds.

Completion Date: Q4, FY26.

Finding 8: Performance Data Impacted by Inconsistent Data Entry and Reporting

Issue: For the two projects noted below, the performance information included in the SCW Annual Reports does not align with detailed operational activities performed. Our audit identified an opportunity to improve the processes for entering data into the Maximo work management system and compiling data from the system for reporting.

- **Project D1 (Management of Riparian Planting and Invasive Plant Removal),** Variances exist between the operational data recorded in the Maximo work management system and the summary figures published in the SCW Annual Reports because of incorrect summary information being pulled from the system. While these variances did not materially affect the project's overall achievement of its KPI targets for the years reviewed, this represents an opportunity to strengthen procedural controls.

- **Project F5 (Good Neighbor Program: Encampment Cleanup)**, Our sample of work orders reviewed identified instances where the amount of work recorded in completed work orders differed from the amount of work expected and actually performed. These differences in the manual entry of "acreage of work accomplished" resulted in both under-reported and over-reported amounts of the acreage in our sample of work orders. As a result of our audit, staff have corrected the data entry errors identified and are performing a review of similar data to ensure its accuracy.

These two observations—the first related to the compilation of summary data for Project D1 and the other to the initial entry of source data for Project F5—point to an opportunity to improve procedures for ensuring data integrity from its initial entry in Maximo to its final publication in the SCW Annual Report.

Risk: When operational data is not accurately entered into the source system, or when it is not correctly compiled for reporting, there is a risk that the reliability of performance data in the SCW Annual Report could be diminished. This could reduce the ability of stakeholders to independently validate the program's progress.

Recommendation: We recommend that management enhance procedures for entering operational data into the Maximo work management system and compiling data for reporting to ensure accuracy and reliability. These procedures should include, at a minimum,

- **Data Review Processes:** Implement a supervisory review for key data fields (such as acres managed for Project F5) within Maximo work orders to verify data accuracy, comparing the amounts entered against expected results.
- **Data Reporting:** Define processes for extracting data from source systems and for reconciling detailed supporting data to the figures that will be published in the SCW Annual Report, to ensure accuracy and completeness.

Management's Response: Agree. Management agrees with the recommendations and staff will develop a process to verify that the data entered is aligned with the work performed.

Responsible Party: Deputy Operating Officer (DOO), Watersheds Operations and Maintenance Division.

Completion Date: Q4, FY26.

Finding 9: KPIs that are Open-Ended or Do Not Fully Reflect Program Activities Pose Long-Term Financial and Communication Risks

Issue: There is an opportunity to improve KPIs to ensure long-term financial sustainability and clearer communications. The KPI for Project F1.1 ("Maintain completed flood protection

projects for flow conveyance") represents a perpetual maintenance commitment. While appropriate for the project's flood protection function, an open-ended commitment of this nature poses a long-term financial commitment and risk for the program. For projects D1 and F3, the audit identified instances where specific KPI language could be enhanced for clarity and scope. The KPI for Project D1 (Management of Riparian Planting and Invasive Plant Removal) focuses exclusively on removing *Arundo donax*, which does not fully capture the work done by Valley Water on other high-priority invasive species. For Project F3 (Flood Risk Assessment Studies), the KPI's reference to "FEMA standards" for map updates could be misinterpreted by stakeholders, as the primary deliverable is an internal planning map, not an official FEMA regulatory map.

Risks:

- Project F1.1: A perpetual maintenance commitment creates a potential long-term financial risk, as unforeseen increases in future maintenance costs could consume a disproportionate amount of SCW Program funds. This could impact the funding available for other new projects and priorities in future 15-year cycles of the program.
- Projects D1 and F3: When KPI language is not clear or does not fully reflect the scope of work being performed, there is a risk of miscommunicating the program's accomplishments and challenges to the public and oversight bodies. This can lead to a misunderstanding of the project's value and progress and could create incorrect expectations about project deliverables.

Recommendation: Valley Water should enhance its review of KPIs to ensure they are financially sustainable, remain aligned with current project activities, and that their descriptions clearly articulate the project's scope and deliverables. Should this review identify the need for a modification to a KPI, management should use the established Change Control Process to bring a formal proposal to the Board.

Management's Response: Management acknowledges the recommendation. Staff is assessing related policies and processes. Depending on the outcome of those efforts, Valley Water may consider modifying the KPI in the current 15-year financial cycle or revisit it in the next 15-year financial cycle.

Responsible Party: COO, Watersheds.

Completion Date: Q4, FY26.

IV. APPENDICES

A. List of Projects Selected for Review

To facilitate the review of SCW Program execution and progress, a representative sample of projects was selected from the projects included in the renewed SCW Program.

Selection Rationale and Criteria

A judgmental sampling approach was used to select approximately one-third of the projects (11 projects were chosen). The key criteria used for selecting the sample and ensuring diversity included:

- Representation from each of the SCW Program's six priorities.
- Proportional representation based on total project budget, with more selections from priorities having higher total budgets.
- Inclusion of projects managed by different project managers and across different Valley Water divisions.
- A mix of large and small projects based on budget.
- Representation of various Key Performance Indicator (KPI) types.
- Consideration of project complexity and geographic location.
- Exclusion of projects that had not yet started or were in very early stages, as they offered limited audit evidence.
- Adaptation of the selection as needed, such as adjusting selections between priorities to ensure adequate coverage.

The initial selection was discussed with Valley Water staff, leading to minor refinements.

Final Sampled Projects

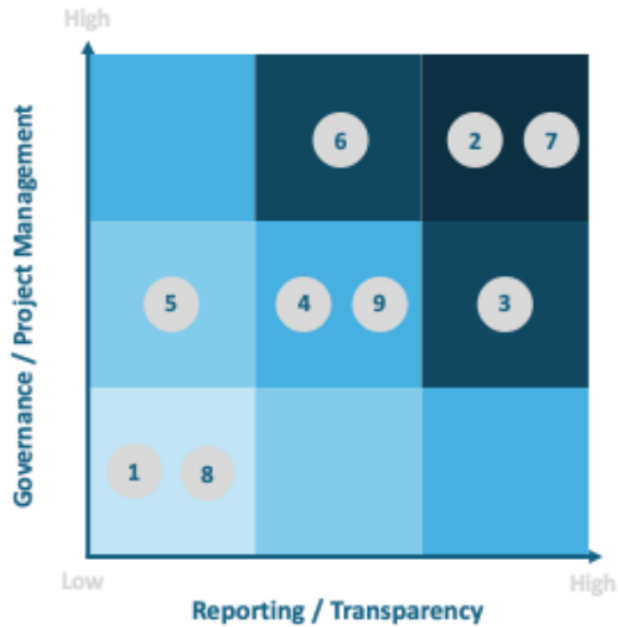
The final list of 11 projects selected for detailed audit procedures, including interviews and documentation review, is as follows:

- A2: Water Conservation Rebates and Programs
- B1: Impaired Water Bodies Improvement
- C1: Anderson Dam Seismic Retrofit
- D1: Management of Riparian Planting and Invasive Plant Removal
- D4: Fish Habitat and Passage Improvement Projects (including D4.1-D4.5 subprojects)

- E1: Coyote Creek Flood Protection
- E5: San Francisquito Creek Flood Protection: SF Bay to Upstream of Hwy 101
- E6: Upper Llagas Creek Flood Protection
- F1.1: Vegetation Control for Capacity (Flood Protection)
- F3: Flood Risk Assessment Studies
- F5: Good Neighbor Program: Encampment Cleanups

B. Prioritization of Findings

To assist the reader, this appendix summarizes the audit findings and assigns a priority level (High, Medium, or Low) to each. The priority is judgmentally determined by assessing the finding's impact on two key areas: 1) internal **Governance and Project Management** and 2) external **Reporting and Transparency**. Findings with a high impact on either area are assigned a high priority.



| Finding No. | Topic | Finding Title | Priority (High / Medium / Low) |
|-------------|-----------------------------------|--|--------------------------------|
| 1 | Measure S | The Program is Operating in Compliance with Key Measure S Provisions, with One Minor Procedural Discrepancy Noted | Low |
| 2 | Change Control / Annual Reporting | Process for Reconciling SCW Project Budgets with CIP Adjustments Needs Improvement to Enhance Reporting Reliability. | High |
| 3 | Change Control / Annual Reporting | A Clearer Crosswalk is Needed between CIP and SCW Schedule Adjustments | High |
| 4 | IMC | A Prior Audit Recommendation Regarding the IMC Conflict of Interest Policy Remains Unresolved | Medium |
| 5 | IMC | Ongoing Vacancies on the Independent Monitoring Committee Impact its Effectiveness | Medium |
| 6 | Project E5 | Management of Key Partnership Projects Could Be Enhanced | High |
| 7 | Project E5 | The KPI for a Key Partnership Project is Misaligned with Valley Water's Role and Authority | High |
| 8 | Projects D1 & F5 | Performance Data Impacted by Inconsistent Data Entry and Reporting | Low |
| 9 | Project F1, D1 & F3 | KPIs that are Open-Ended or Do Not Fully Reflect Program Activities Pose Long-Term Financial and Communication Risks | Medium |

C. Summary of Findings, Recommendations and Management Responses

| Issue and Recommendation Summary | Responsible Party | Summary of Management Response/Implementation Plan |
|---|--|---|
| Finding 1: The Program is Operating in Compliance with Key Measure S Provisions, with One Minor Procedural Discrepancy Noted | | |
| <p>Issue: The audit identified a minor procedural discrepancy in how Valley Water files Measure S tax resolutions with Santa Clara County. While the measure specifies filing with the Auditor-Controller and County Recorder, current practice is to file with the County Clerk-Recorder and Tax Assessor, reflecting changes in County office structure.</p> <p>Recommendation: Formally document the assessment that the current process meets the functional intent of Measure S, Provision C. Furthermore, incorporate clarifying language into future Board resolutions to explicitly state the specific County offices where certified copies will be filed. Document the rationale supporting the current filing process and include clarifying language in future Board resolutions specifying why certified copies are filed with the current County offices.</p> | <p>CFO, Financial Planning & Management Services</p> | <p>Agree.</p> <p>Management agrees with the recommendation and staff will implement this recommendation.</p> <p>Implementation Date: Q4, FY26 for FY2026-2027 Annual Rate Setting Report (May 2026).</p> |

| Issue and Recommendation Summary | Responsible Party | Summary of Management Response/Implementation Plan |
|---|--|--|
| Finding 2: Process for Reconciling SCW Project Funding Allocations with CIP Adjustments Needs Improvement to Enhance Reporting Reliability (Priority High) | | |
| <p>Issue: The process for reconciling SCW capital project funding allocations with adjustments approved in the CIP Plan needs improvement to support accurate and timely reporting in the SCW Annual Report.</p> <p>Recommendation: Revise methods for identifying, reconciling, and reporting SCW funding allocation adjustments. Establish a corrected baseline, create a formal reconciliation process for CIP changes, require management review before publication, and clarify public reporting expectations in the Change Control Process.</p> | <p>CFO, Financial Planning & Management Services and AO, Office of Integrated Water Management – Business Planning and Analysis Unit</p> | <p>Agree.</p> <p>Management agrees with the recommendation and staff will implement the recommendation.</p> <p>Implementation Date: Q4, FY26.</p> |

| Issue and Recommendation Summary | Responsible Party | Summary of Management Response/Implementation Plan |
|--|--|--|
| Finding 3: A Clearer Crosswalk is Needed between CIP and SCW Schedule Adjustments (Priority High) | | |
| <p>Issue: A clearer crosswalk is needed between CIP and SCW project schedule adjustments to improve transparency for stakeholders. Currently, differences in reporting cycles and formats make it challenging to track the impact of schedule changes on KPI delivery.</p> <p>Recommendation: Continue the practice of clearly and visually differentiating the milestone for achieving a project’s KPI from the milestones for other project phases; illustrate and explain how adjustments to capital project schedules in the CIP Plan impact the delivery schedule for the corresponding SCW Program KPI; when presenting the annual CIP Plan for Board approval, explicitly report on how proposed schedule changes will affect the KPI delivery dates for SCW projects; and update the Change Control Process to clarify how schedule changes will be made publicly available through reporting and posting on the Program's web page.</p> | <p>AO, Office of Integrated Water Management – Business Planning and Analysis Unit</p> | <p>Agree.</p> <p>Management agrees with the recommendation and staff will implement the recommendation.</p> <p>Implementation Date: Q4, FY26.</p> |

| Issue and Recommendation Summary | | Responsible Party | Summary of Management Response/Implementation Plan |
|---|--|--|--|
| Finding 4: A Prior Audit Recommendation Regarding the IMC Conflict of Interest Policy Remains Unresolved | | | |
| <p>Issue: A prior audit recommendation to implement a conflict-of-interest policy for the Independent Monitoring Committee (IMC) has not yet been finalized or implemented.</p> <p>Recommendation: Finalize and implement a formal Conflict of Interest framework for the Independent Monitoring Committee.</p> | <p>AO, Office of Integrated Water Management – Business Planning and Analysis Unit and COB, Office of the Clerk of the Board</p> | <p>Agree.</p> <p>Management agrees with the recommendation and on Sept. 23, 2025, the Board adopted a resolution establishing new conflict of interest disclosure requirements for IMC members.</p> <p>Implementation Date: Q2, FY26.</p> | |
| Finding 5: Ongoing Vacancies on the Independent Monitoring Committee Impact its Effectiveness | | | |
| <p>Issue: Ongoing vacancies on the IMC have made it challenging to consistently meet quorum requirements and distribute workload among members.</p> <p>Recommendation: Partner with the Board to enhance recruitment strategies, to identify, attract, and recruit qualified candidates.</p> | <p>COB, Office of the Clerk of the Board</p> | <p>Agree.</p> <p>Management agrees with the recommendation and staff will explore additional recruitment strategies in partnership with the Board of Directors.</p> <p>Implementation Date: Q4, FY26.</p> | |

| Issue and Recommendation Summary | Responsible Party | Summary of Management Response/Implementation Plan |
|--|-------------------|---|
| Finding 6: Management of Key Partnership Projects Could Be Enhanced (Priority High) | | |
| <p>Issue: Valley Water’s role in this externally led partnership, Project E5, has shifted from project lead to funding partner. The project's existing management mechanisms, designed for direct project execution, may not be the most effective tools for managing this evolving role.</p> <p>Recommendation: Implement a Strategic Decision & Risk Log to identify and monitor key decisions, document Valley Water’s official positions, assess associated risks, and guide proactive engagement.</p> | COO, Watersheds | <p>Agree.</p> <p>Management agrees with the recommendation and where applicable, staff will develop and implement a Strategic Decision & Risk Log to formalize its partnership management.</p> <p>Implementation Date: Q4, FY26.</p> |

| Issue and Recommendation Summary | Responsible Party | Summary of Management Response/Implementation Plan |
|--|-------------------|---|
| Finding 7: The KPI for a Key Partnership Project is Misaligned with Valley Water's Role and Authority (Priority High) | | |
| <p>Issue: The KPI for Project E5 holds Valley Water accountable for a community outcome it no longer directly controls due to the transfer of leadership to the SFCJPA. The KPI, as currently worded, does not accurately reflect Valley Water's role.</p> <p>Recommendation: Continue to re-evaluate the KPI, shifting from an outcome-based metric to one that measures Valley Water's specific, controllable contributions, such as a funding or partnership-based deliverable.</p> | COO, Watersheds | <p>Agree.</p> <p>Management agrees with the recommendation and staff will reevaluate Project E5: San Francisquito Creek Flood Protection KPIs to determine how best to reflect current realities. If it is determined that modifications to the KPIs are required, management will propose them in accordance with the Change Control Process.</p> <p>Implementation Date: Q4, FY26.</p> |

| Issue and Recommendation Summary | Responsible Party | Summary of Management Response/Implementation Plan |
|--|--|--|
| Finding 8: Performance Data Impacted by Inconsistent Data Entry and Reporting | | |
| <p>Issue: Inconsistent processes for entering and compiling operational data impacted the accuracy of reported performance figures. For Project F5, inconsistencies were noted in the initial entry of source data, while for Project D1, reported figures in the SCW Annual Report varied from the underlying data in the Maximo system.</p> <p>Recommendation: Enhance procedures to ensure accurate data entry and processes for ensuring final reports align with source data.</p> | <p>DOO, Watersheds Operations and Maintenance Division</p> | <p>Agree.</p> <p>Management agrees with the recommendations and staff will develop a process to verify that the data entered is in alignment with the work performed.</p> <p>Implementation Date: Q4, FY26.</p> |

| Issue and Recommendation Summary | Responsible Party | Summary of Management Response/Implementation Plan |
|---|-------------------|---|
| Finding 9: KPIs that are Open-Ended or Do Not Fully Reflect Program Activities Pose Long-Term Financial and Communication Risks | | |
| <p>Issue: KPIs could be improved to support long-term financial sustainability and more accurately reflect the scope of program activities. Project F1.1's KPI represents a perpetual maintenance commitment, while KPIs for Projects D1 and F3 could be enhanced for clarity and scope.</p> <p>Recommendation: Enhance review of KPIs to ensure they are financially sustainable, remain aligned with current project activities, and that their descriptions clearly articulate the project's scope and deliverables.</p> | COO, Watersheds | <p>Acknowledge.</p> <p>Management acknowledges the recommendation. Staff is assessing related policies and processes. Depending on the outcome of those efforts, Valley Water may consider modifying the KPI in the current 15-year financial cycle or revisit it in the next 15-year financial cycle.</p> <p>Implementation Date: Q4, FY26.</p> |

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