

SCW Audit

Review and Discussion

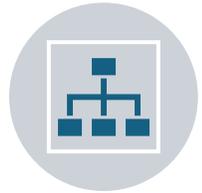
Summary Findings, Recommendations and Management Responses

Audit Objective

Assess the renewed SCW Program (July 1, 2021 – June 30, 2024), including:

- 1. Governance & Transparency:** Evaluated program governance, Board and managerial oversight, and independent monitoring. Assessed the transparency and accuracy of public reporting.
- 2. Compliance:** Verified adherence to Measure S provisions, appropriate fund collection/use, and proper implementation of Board-approved Change Control Process.
- 3. Performance:** Assessed progress toward the SCW Program's six priorities and KPIs. This included deep-dive reviews of sample projects to determine effectiveness in meeting scope, budget, and schedule commitments.

Commendations



Established and Transparent Governance Structure: VW has established the formal, multi-faceted governance structure consisting of the Board of Directors, the Independent Monitoring Committee (IMC), and dedicated program staff.



Adherence to Annual Reporting Requirements: Valley Water adheres to the Measure S requirements for both annual rate-setting and annual financial reporting.



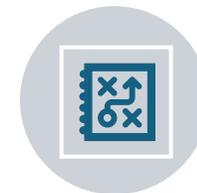
Public Access to Information: Valley Water uses multiple channels to provide the public with access to program information.



Comprehensive Capital Project Management Framework: The SCW-funded capital projects are managed under a comprehensive framework guided by the CIP Program Manual, providing a strong underlying project management structure.



Effective Performance of Operational Projects: 6 of 7 active projects (operational, maintenance and fiscal-based) are meeting or exceeding annual KPIs.



Strategic Use of Tiered KPIs for Risk Management: Tiered KPIs used in complex capital projects serve as an effective risk management tool.

Summary of Key Recommendations

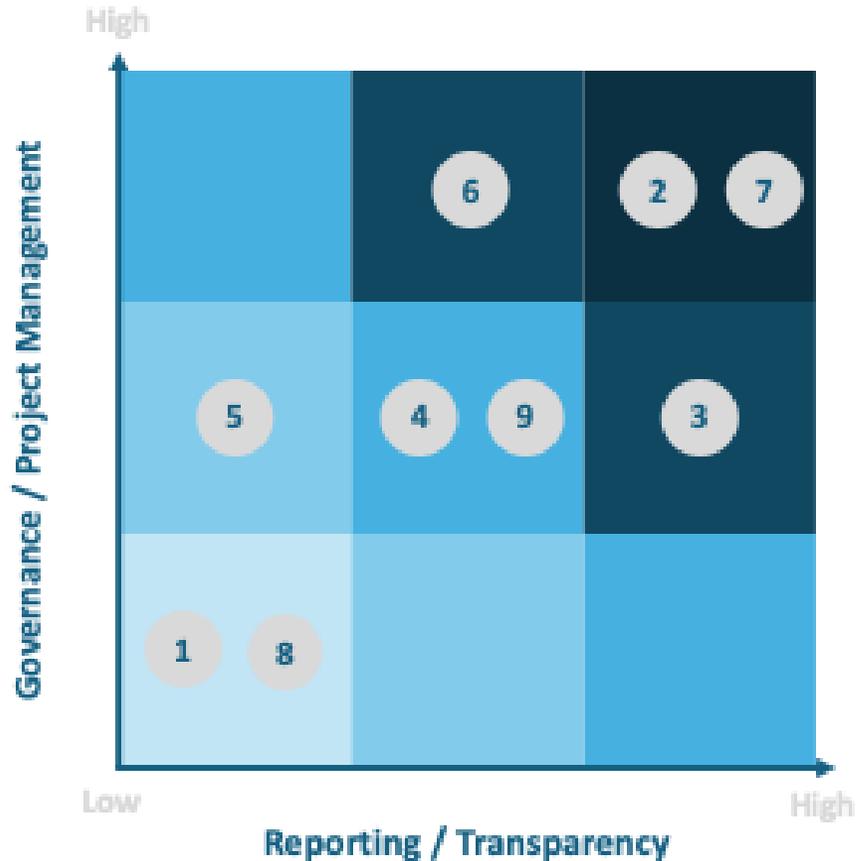
1. Improve Reporting Processes and Transparency

- a. Improve the process for reconciling SCW Project funding allocations with CIP Plan changes to support accurate and timely reporting in the SCW Program Annual Report. (#2)
- b. A clearer crosswalk is needed between the CIP and SCW schedule adjustments to improve transparency and traceability. (#3)

2. Strengthen Governance and Partnership Management

- a. Enhance the management of key external partnerships, such as on the San Francisquito Creek flood protection project, by developing tools to better track strategic decisions and risks, and continuing efforts to align project KPIs with Valley Water's evolving role. (#6 and #7)
- b. Strengthen the processes for recruiting IMC members and resolve the outstanding Conflict of Interest policy issue. (#5 and #4)

Summary of Findings and Priorities



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

Measure S Provisions

Issue and Recommendation Summary	Responsible Party	Summary of Management Responses
Finding 1: The Program is Operating in Compliance with Key Measure S Provisions, with One Minor Procedural Discrepancy Noted.		
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.	CFO, Financial Planning & Management Services Division Agree.
Rcmd:	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.	Management agrees with the recommendations and staff will implement this recommendation. Implementation Date: Q4, FY26 for FY2026-2027 Annual Rate Setting Report (May 2026)

Change Control & Annual Reporting

Issue and Recommendation Summary		Responsible Part	Summary of Management Responses
Finding 2: Process for Reconciling SCW Project Funding Allocations with CIP Adjustments Needs Improvement to Enhance Reporting Reliability.			
Issue:	The process for reconciling SCW capital project funding allocations with adjustments approved in the CIP Plan needs improvement to ensure reporting in the SCW Annual Report is accurate, complete, and timely.	CFO, Financial Planning & Management Services and AO, Office of Integrated Water Management – Business Planning and Analysis Unit	Agree.
Rcmd:	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.		Management agrees with the recommendations and staff will implement the recommendations. Implementation Date: Q4, FY26

Change Control & Annual Reporting

Issue and Recommendation Summary		Responsible Part	Summary of Management Responses
Finding 3: A Clearer Crosswalk is Needed between CIP and SCW Schedule Adjustments			
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.	AO, Office of Integrated Water Management – Business Planning and Analysis Unit	Agree.
Rcmd:	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.		Management agrees with the recommendations and staff will implement the recommendations. Implementation Date: Q4, FY26

Independent Monitoring Committee

Issue and Recommendation Summary		Responsible Party	Summary of Management Responses
Finding 4: A Prior Audit Recommendation Regarding the IMC Conflict of Interest Policy Remains Unresolved			
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.	AO, Office of Integrated Water Management – Business Planning and Analysis Unit and COB, Office of the Clerk of the Board	Agree.
Rcmd:	Finalize and implement a formal Conflict of Interest framework for the Independent Monitoring Committee.		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. Implementation Date: Q2, FY26.
Finding 5: Ongoing Vacancies on the Independent Monitoring Committee Impact its Effectiveness			
Issue:	Ongoing vacancies on the IMC have made it challenging to consistently meet quorum requirements and distribute workload among members.	COB, Office of the Clerk of the Board	Agree.
Rcmd:	Partner with the Board to enhance recruitment strategies, to identify, attract, and recruit qualified candidates.		Management agrees with the recommendation and staff will explore strategies in partnership with the Board of Directors. Implementation Date: Q4, FY26; and will be implemented on an ongoing basis.

Project E5 - San Francisquito Creek Flood Protection

Issue and Recommendation Summary		Responsible Party	Summary of Management Responses
Finding 6: Management of Key Partnership Projects Could Be Enhanced			
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.	COO, Watersheds	Agree.
Rcmd:	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.		Management agrees with the recommendation and where applicable, staff will develop and implement a Strategic Decision & Risk Log to formalize its partnership management. Implementation 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 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.	COO, Watersheds	Agree.
Rcmd:	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.		Management agrees with the recommendation and staff will re-evaluate Project E5: San Francisquito Creek Flood Protection KPIs to reflect current realities. If it is determined that modifications to the KPIs are required, management will propose these modifications in accordance with the Change Control Process. Implementation Date: Q4, FY26

Date Entry and Reporting – Projects D1 and F5

Issue and Recommendation Summary		Responsible Party	Summary of Management Responses
Finding 8: Performance Data Impacted by Inconsistent Data Entry and Reporting			
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.	DOO, Watersheds Operations and Maintenance Division	Agree.
Rcmd:	Enhance procedures to ensure accurate data entry and processes for ensuring final reports align with source data.		<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>

KPI Clarification – Project’s D1, F1, and F3

Issue and Recommendation Summary		Responsible Party	Summary of Management Responses
Finding 9: KPIs that are Open-Ended or Do Not Fully Reflect Program Activities Pose Long-Term Financial and Communication Risks			
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.	COO, Watersheds	Acknowledge.
Rcmd:	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>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>