



**SANTA CLARA VALLEY WATER DISTRICT**  
**BOARD AUDIT COMMITTEE**  
**AUDIT CHARTER**

## ARTICLE I - PURPOSE

1. This Charter shall govern the operation of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee).
2. Valley Water's Board of Directors (Board) is responsible for ensuring that Valley Water provides Silicon Valley with safe, clean water for a healthy life, environment, and economy.
3. Audits constitute an important oversight tool as they provide independent and fact-based information to an agency's elected officials and management. Information derived from audits can be used by those responsible with governance and oversight to use it to improve program performance and operations, confirm regulatory compliance, reduce costs, and facilitate decision making.
4. The Committee shall assist the Board, consistent with direction from the full Board, by identifying potential areas for audit and audit priorities, and to review, update, plan and coordinate execution of Board audits.
5. Through its oversight of the audit process, the Committee serves a critical role in providing oversight of Valley Water's governance, risk management, ethics program, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. It is the Committee's responsibility to provide the Board with independent, objective advice on the adequacy of Valley Water management's arrangements with respect to the aspects of the management of Valley Water being evaluated.
6. In carrying out its functions, the Committee shall emphasize: (a) the identification of organizational risk; (b) service delivery; (c) operational efficiency; (d) effectiveness of Valley Water programs; (e) project delivery; (f) establishment of an Annual Workplan and an Annual Audit Workplan to guide the Committee's work; and (g) oversight and monitoring of Valley Water operations and compliance with all applicable regulatory requirements.
7. In addition to carrying out audits in a Board approved Annual Audit Plan, the Committee's purpose also includes oversight of audits initiated by Valley Water management, review and comment upon final audits initiated by third-party governmental or administrative agencies, and the conduct of Limited Investigations of potential fraud, waste or violations of law or policy as set forth herein. The

Committee's oversight of Annual Financial Statement Audits shall include the additional elements set forth in Article VIII herein.

8. The Committee shall serve to reinforce the wholeness of the Board's job and shall never interfere with delegation from the Board to the Board Appointed Officers.
9. Through its oversight of the audit process, the Committee shall provide the Board with independent advice and guidance regarding the adequacy and effectiveness of Valley Water's management practices and potential improvements to those practices.

## **ARTICLE II - COMPOSITION**

1. Number of Committee members/Appointment - The Committee shall consist of at least three members of the Board and shall be appointed by the Board in accordance with the Board's Governance Policies. Committee members shall serve one-year terms.
2. Quorum - The quorum for the Committee shall be a majority of the members.
3. Committee Chair - A Committee Chair shall be elected by a majority of the Committee at the first Committee meeting of the calendar year and shall serve for a one-year term. The Committee Chair shall be responsible for approving agendas for Committee meetings (which shall include the right to add agenda items and, subject to the restrictions of Governance Process sections 6.3 and 6.3.1, review agenda items prior to posting agendas), approving the payment of invoices to Auditors, and making all initial efforts to resolve any conflicts that may arise during an audit, including but not limited to meeting with auditors and Valley Water executive management to discuss audit results and corrective action plans. To the extent the Chair is unable to resolve conflicts arising during the audit, the matter shall be referred to the Committee for attempted resolution.
4. Committee Vice-Chair - A Committee Vice-Chair shall be elected by a majority of the Committee at the first Committee meeting of the calendar year and shall serve for a one-year term. The Vice-Chair shall assume the duties of the Chair during the Chair's absence.

## **ARTICLE III – OPERATIONAL PRINCIPLES**

1. Committee Values. The Committee shall conduct itself in accordance with Valley Water's values as set forth in Valley Water's Governance Policies of the Board of Directors, Governance Process No. GP-7 (Values Statement).

2. Communications – The Committee expects that all communication with management and staff of Valley Water as well as with any external auditors will be direct, open, and complete. The Committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The Committee will communicate directly with the Board and will not exercise actual authority over Valley Water employees.
3. Disclosure of Impairment to Independence – The Auditor shall disclose the details of any audit-related impairment in fact or in appearance to the Committee (e.g., one which threatens the ability to carry out audit responsibilities in an unbiased manner, including matters of audit identification, scope, procedures, frequency, timing, and report content).
4. Access to Information - Except where action by the full Board is required (such as for the waiver of a legal privilege), the Committee shall have unrestricted access to records, data, reports, and all other relevant information it considers necessary to discharge its duties. If access to requested documents is denied due to legal or confidentiality reasons, the Committee shall follow any prescribed, Board approved mechanism for resolution of the matter.
5. Authority – This Charter sets out the authority of the Committee to carry out the responsibilities established for it by the Board. In the event of any conflict between this Charter and either the District Act or the Board Governance Policies, the provisions of the District Act and Board Governance Policies shall prevail.
6. Annual Work Plan –
  - 6.1. Work Plans are used by all Board Committees to increase Committee efficiency, provide increased public notice of intended Committee discussions, and enable improved follow-up by Valley Water staff. Work Plans are dynamic documents managed by Committee chairs and are subject to change. Annual Work Plans establish a framework for committee discussion and action during the annual meeting schedule. Committee Work Plans also serve as Annual Committee Accomplishments Reports.
  - 6.2. The Committee shall, in coordination with Valley Water’s Clerk of the Board, develop a proposed Annual Work Plan. Items shall be included in the Annual Work Plan based upon a majority vote of the Committee.

7. Annual Audit Plan

7.1. While the Annual Work Plan governs the overall work of the Committee, the Committee shall also develop a proposed “Annual Audit Plan” which shall list each of the individual audits to be performed over the course of the year.

7.2. By November 30 of each year, the Committee shall submit its recommended Annual Audit Plan to the full Board for consideration and direction. Following the Board’s adoption of the Annual Audit Plan, the Committee shall execute the Annual Audit Plan. Any proposed substantive changes to the Annual Audit Plan (e.g., combining audits, adding or removing an audit, or significantly delaying initiation of an audit) must be approved by the Board. Recommended changes should be evidence based.

7.3. Only audits properly included in an approved Annual Audit Plan, as set forth in section 7.2 above, may be undertaken by the Committee.

7.4. Risk Assessment – The Committee shall endeavor to complete a Valley Water-wide risk assessment, at a minimum, **every three (3) years** ~~tri-annually~~ and to annually update Valley Water-wide audit risk assessment to include objectively recommended audits ranked based upon the potential level of risk to Valley Water. The results of this Valley Water-wide audit risk assessment should be relied upon to develop the proposed Annual Audit Plan.

8. Valley Water Independent Auditor – Upon approval of the Board following recommendation by the Committee, Valley Water may retain an Independent Auditor to serve as support to the Committee, to make recommendations for the Annual Work Plan, and to recommend audits for inclusion in the Annual Audit Plan. The Independent Auditor shall not be an employee of Valley Water. The Independent Auditor must report directly to the Audit Committee but is subject to the final authority of the Board. Valley Water staff shall not direct or attempt to direct the work of the Independent Auditor. The Committee may recommend that the Independent Auditor perform individual audits but shall ensure that additional auditors are recommended for use in planned audits so that no single firm conducts a disproportionate number of audits in a given fiscal year.

9. Selection of Independent Auditor – The Independent Auditor will be required to adhere to the District’s standard procurement process. Where a panel is created to review Independent Auditor submissions and/or engage in interviews, one member of the Committee may sit on the selection panel. The Committee member who participates in the selection panel may not interact directly with the potential Independent Auditor outside of the selection panel interview. Committee members

shall rotate who sits on the selection panel so that no individual Committee member participates in the selection panel more than two (2) consecutive procurement periods.

10. Committee Evaluation of Auditor Performance – The Committee shall evaluate the performance of the Independent Auditor and any other Auditor retained by the Board. The Committee may make a recommendation to the Board to discharge

such Independent Auditors or other Auditors where they are not adequately fulfilling their contracted duties.

11. Preparation and Attendance – Committee members are obligated to prepare for and participate in Committee meetings.
12. Conflicts of Interest – It is the responsibility of Committee members to disclose any conflict of interest or appearance of a conflict of interest to the Committee regarding any matters coming before or considered by the Committee.

#### **ARTICLE IV – MEETINGS**

1. Meeting Agendas – Guided by the Audit Charter, Annual Work Plan, and Annual Audit Plan, the Committee Chair will establish agendas for Committee meetings in consultation with Committee members, Valley Water Management, and the Clerk of the Board.
2. Meetings – The Committee will conduct its meetings in accordance with the provisions of the Brown Act. The Committee shall meet at least four times per year. Beyond this minimum, there shall be no limit to the number of meetings held over the course of the year.

#### **ARTICLE V – AUDIT PRINCIPLES**

1. Audit Purposes – Audits can serve several purposes including, but not limited to:
  - a. Verifying that programs, services, and operations are working based upon the Committee’s understanding;
  - b. Assuring efficiency and effectiveness;
  - c. Identifying the root cause of any problems experienced by Valley Water;
  - d. Assessing future risks facing Valley Water;
  - e. Assessing the progress of prior audit recommendations;
  - f. Identifying any impact that changes in Valley Water operations have had on financial performance and service delivery;
  - g. Identifying leading practices;
  - h. Assessing regulatory compliance;
  - i. Developing policy options; and
  - j. Assessing the accuracy of financial information reported by Valley Water.
2. Audit Types – The types of audits that may be conducted on behalf of Valley Water include, but are not limited to, the following:

- a. Financial audits – Valley Water hires an outside independent audit firm to perform Valley Water’s financial statement audit;
  - b. Internal audits – Internal audits (aka, Management Audits) review the environment, information, and activities that are designed to provide proper accountability over Valley Water operations;
  - c. Compliance audits – Compliance audits review adherence to Valley Water policies and procedures, state regulatory requirements, or federal regulatory requirements;
  - d. Performance audits – Performance audits review the economy, efficiency, and effectiveness of Valley Water’s programs, services and operations. Performance audits can evaluate current impact or assess operations prospectively;
  - e. Desk reviews – Small and quick assessments of limited size or duration for the purpose of determining if a full performance audit is needed. Board approval is not required for Desk reviews, however the Committee shall, as soon as is practicable, provide the Board with notice following the Committee’s approval to initiate any Desk review;
  - f. Follow up audits – Audits evaluating to what extent prior audit recommendations have been implemented. Follow up audits may also assess other actions taken to respond to or prevent the occurrence of problems;
  - g. Best practice reviews – Audits which compare current Valley Water operations to best practices.
  - h. Program audits – Program audits are conducted to evaluate whether a particular Valley Water program is effectively accomplishing its goals and are mandated pursuant to state or federal statute or regulation, ordinance, resolution, ballot measure, grant requirement, or contractual requirement. Program audits are unique in that they are mandated by program requirements, not directed by management or the Board. Program audits fall within the responsibility of Valley Water management except when specifically referred to the Committee by the Board.
3. Audit Objectives – Audit objectives must be developed for every audit conducted on behalf of Valley Water. These audit objectives are questions posed by management, Committee members, Board members, or auditors about the specific nature of the issue or concern that is the subject of the audit. Suggested Audit Objectives shall be referenced in the Annual Audit Plan for every



audit listed therein. The audit objectives may be subject to revision as necessary during the planning phase of the audit.

4. Audit Standards – Audits conducted by or on behalf of the Committee shall conform with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (RED Book) or the Generally Accepted Government Auditing Standards established by the U.S. Government Accountable Standards (YELLOW Book), or both.
5. Limited Investigations.
  - a) Purpose. In lieu of an audit, the Committee shall also have discretion to conduct or request Limited Investigations to address any discrete issue or concern regarding fraud, waste, or violations of law or policy at Valley Water. The Committee shall not have jurisdiction to conduct Limited Investigations on any other matters. Prior Board approval is not required for the initiation of Limited Investigations.
  - b) Scope. Such Limited Investigations may or may not be subject to the Audit Standards set forth above and shall be undertaken only where: (1) the Limited Investigation is designed to determine the existence or nonexistence of discrete facts involving alleged fraud, waste, or violations of law or policy at Valley Water; (2) the Committee has determined that an audit is not appropriate to address the concern; and (3) the Limited Investigation does not address any matters covered or potentially covered by Board Governance Policy GP-6 (Board Members' Code of Conduct).
  - c) Classified Employees. Classified employees who are parties to any Limited Investigation shall be afforded all applicable rights under the Meyers-Milias-Brown Act and the Memorandum of Understanding then in effect with the employee's union.
  - d) Timely completion. All Limited Investigations must be completed in a timely manner.
  - e) Report of Results. The Committee shall advise the Board of the results of all completed Limited Investigations.
6. Protection of Confidential or Privileged Information – The Committee shall take all necessary steps to prevent the unnecessary disclosure of privileged or confidential information arising in the audit process, arising in the final reports on the audits, arising in the Limited Investigation process, or arising in final reports issued on Limited Investigations.

## ARTICLE VI – COMMITTEE OVERSIGHT OF BOARD INITIATED AUDITS

1. Committee recommendation of Auditors – The Committee shall make recommendations to the full Board for the selection of all Auditors to perform audits in the approved Annual Audit Plan. In making such recommendations, the Committee shall consider multiple auditors in order to avoid having any single auditor perform a disproportionate number of audits in a given fiscal year. Following such recommendation, the Board shall make the final decision regarding the selection of such auditors.
2. Board Auditors and Valley Water Staff – Valley Water staff may assist the Committee in its work and may provide information to, assist, or work with Auditors retained by the Board, as necessary. Valley Water staff shall not, however, attempt to direct any Auditors retained by the Board. Auditors retained by the Board shall have a duty to the Board and shall not take direction from Valley Water staff.
3. Communications with Auditors – Individual Committee members shall have the right to speak with Auditors directly regarding the Auditor’s assignments. However, direction to Auditors shall come from the Committee as a whole.
4. Completion of Annual Audit Plan – The Committee shall ensure that audits on the Annual Audit Plan are initiated and completed in an accurate and timely manner.
5. Review of Final Audit Results/Notice to Board – The Committee shall review the observations and conclusions of all audits conducted pursuant to the Annual Audit Plan. Upon finalization of the audits and any related reports, the Committee shall provide the Board with the results and make any recommendations to the Board regarding improvement of program performance and operations, cost reductions, and best practices. Prior to referring any final audit report to the Board, the Committee may refer final audit reports to other Board committees for review and discussion. The Board may also direct that any final audit reports be referred to specified Board committees for review and discussion before being referred to the Board.
6. Draft Audit Reports - Subject to any requirements of the California Public Records Act or any other applicable state or federal law or regulation, Draft Audit Reports shall be treated as confidential records. Despite any contrary prior practice, Draft Audit Reports shall not be presented to the Committee or any other Valley Water committee for review or any other purpose.

7. Valley Water Management Response to Audits – Valley Water Management must hold an exit conference with the Auditor regarding any preliminary draft audit report within ten working days from issuance. Valley Water Management must review and respond to draft audit report recommendations included in Board Initiated audits within fifteen working days from issuance of the final draft audit report, unless the Auditor requires the Management response in a shorter amount of time. The Committee, at the request of Valley Water management, may extend the review and comment periods on an audit-by-audit basis. The Committee may ask questions about or make comments on any responses to the draft audit report recommendations. However, the Committee shall not attempt to direct Valley Water staff in its response to any audit.
8. Follow-up/close out of audits – The Committee may request a report regarding Valley Water’s implementation of measures to address recommendations from individual audits. Where not all audit recommendations have been implemented, this shall be reported in a Follow-up report, and where all recommendations have been implemented, this shall be reported in a Close-out Report. As designated by the Committee, the report shall be prepared by either the Auditor completing the audit or the Independent Auditor. Where no remedial measures have been identified by Valley Water management, the Close-out Report shall address whether management has elected to accept the associated risk or whether the risk no longer exists. Following consideration of the Close-out Report, the Committee may vote to close an audit where it is satisfied that the audit recommendations are adequately addressed or where the risk associated with any unaddressed recommendation is acceptable or no longer exists.
9. Board Monitoring of Committee Performance – The Committee shall provide the Board with timely and periodic reports regarding its activities, its progress on individual audits, its progress on the Annual Work Plan, its progress on the Annual Audit Plan, the results of completed audits, and the Committee’s recommendations based upon the audit results. The Committee may also identify any recognizable trends in the audit results as part of its periodic reports. The Committee shall provide such reports to the Board at least four times per calendar year.

## **ARTICLE VII – THIRD-PARTY AND MANAGEMENT INITIATED AUDITS**

1. Third-Party Audits – Third-Party Audits are audits initiated by a separate governmental agency (entities other than Valley Water).

2. Management Initiated Audits – Management Initiated Audits are audits requested by Valley Water management (i.e., internal audits) and audits mandated by specific program requirements (i.e., Program Audits). Nothing in this Charter shall restrict the ability or discretion of Valley Water management to undertake any audits it deems required or recommended.
3. Notice to Committee of Third-Party Audits – The Committee shall be promptly notified in writing of the existence and results of any Third-Party audits of Valley Water. Where Valley Water has been given an opportunity to submit a response before the Third-Party audit is finalized, the Committee Chair shall be immediately notified by email or telephone and shall determine whether to have the Committee review and comment upon any draft Valley Water response at a regularly scheduled or specially noticed Committee meeting. Where possible, Valley Water management shall provide the Committee with at least fifteen calendar days for such review and comment. Where timely review and comment by the full Committee is not reasonably possible, the Committee Chair may conduct such review and comment himself/herself and shall report upon such review and comment at the next scheduled Committee meeting. The Committee Chair may also delegate this responsibility to the Vice Chair for any particular Third-Party Audit, where the Committee Chair is unavailable. The Committee shall be provided with copies of any final reports on Third-Party Audits.
4. Notice to Committee of Management Initiated Audits – Valley Water management shall notify the Committee in writing of any planned Management Initiated Audits before commencing the same. Upon request by the Board Chair, Valley Water management shall provide a report to the Committee of the scope and nature of all planned Management Initiated Audits at the next scheduled Committee meeting **following the Board Chairs request**. Where circumstances require any Management Initiated Audit to commence before the next regularly scheduled Committee meeting, the Committee Chair shall be advised of this need, and the audit need not be delayed. Where the Management Initiated Audit allows for a response by Valley Water staff before it is finalized, the Committee Chair shall be immediately notified by email or telephone and shall determine whether to have the Committee review and comment on any draft Valley Water response at a regularly scheduled or specially noticed Committee meeting. Where possible, Valley Water management shall provide the Committee with at least fifteen calendar days for such review and comment. Where timely review and comment by the full Committee is not reasonably possible, the Committee Chair may conduct such review and comment himself/herself and shall report upon such review and comment at the next scheduled Committee meeting. The Committee Chair may

also delegate this responsibility to the Vice Chair for any particular Management Initiated Audit, where the Committee Chair is unavailable. The Committee shall be provided with copies of any final reports on Management Initiated Audits.

5. Comment Upon Draft Audit Responses – The Committee Chair and the Committee may ask questions about or make comments upon any draft audit responses. However, they shall not attempt to direct Valley Water staff in its response to any audit.
6. Audit Results – The Committee may request a report by Valley Water Staff on any response to Management Initiated or Third-Party Audits and any plans by Valley Water staff to implement changes as a result of the audits.
7. Board Report of Audit Results – In its periodic reports to the full Board, the Committee may include information regarding Third-Party Audits or Management Initiated Audits.

#### **ARTICLE VIII – ANNUAL FINANCIAL STATEMENT AUDIT**

1. Annual Financial Statement Audit - The Committee shall participate in Valley Water's procurement process for Valley Water's annual financial statement audit.
2. The Committee's participation shall include, but not be limited to, providing input to Valley Water management on the selection criteria and desired qualifications of the public accounting firm. The selected external financial auditor shall submit to the Committee Valley Water's audited financial statements annually, including all related management letters to the Committee for review and comment.
3. Financial Statement audit results and pertinent information identified during the course of the audit shall be communicated, in writing or verbally, to the Board Audit Committee. For purposes of this section, "pertinent information" is defined as issues, concerns, practices, programs, or activities that may pose a reputational, operational, financial, or service delivery risk to Valley Water regardless of the magnitude of the apparent risk, as well as any issue deemed pertinent in the auditor's professional judgment.
4. Valley Water contracts for performance of the Annual Financial Statement Audit entered into after December 13, 2022 shall include express contractual obligations in accordance with the aforementioned ARTICLE VIII, Section 3.

## **ARTICLE IX – REVIEW OF JPA AUDITS**

1. For purposes of this Article, “JPA” means any Joint Powers Authority formed under the California Joint Exercise of Powers Act (Government Code sections 6500 et seq.) to which Valley Water is a member pursuant to a Joint Powers Agreement.
2. The Committee shall have the authority to review any formally issued JPA audit reports and, except as set forth below, shall retain discretion regarding what JPA audit reports it may wish to review.
3. Through its review of JPA audits, the Committee may evaluate:
  - a) Whether the JPAs are complying with applicable legal requirements;
  - b) The financial condition of the JPAs;
  - c) Whether the JPAs are complying with the terms of their respective JPA Agreements;
  - d) Whether Valley Water’s interests are being met;
  - e) Whether there are any trends of concern in the activities of the JPA;
  - f) Whether there are any recommended areas for future audits for the JPA; and
  - g) Any specific questions of Valley Water’s Board.
4. The Board may refer specific JPA audits to the Committee for review and/or recommendation as to questions or subjects identified by the Board.
5. In conducting its review, the Committee may seek input from the Independent Auditor, Valley Water staff, and others as needed.
6. The review of any JPA audits shall be included in the Committee’s Annual Work Plan.
7. The Committee may report out to the Board regarding any JPA audit review results and any related recommendations of the Committee.
8. The Committee’s authority to review JPA audits set forth herein does not include any corresponding right to directly communicate with JPAs on behalf of Valley Water or assume any direct responsibilities of Valley Water’s formal representatives on the JPAs. This shall not limit the activities or functions of any Valley Water JPA representative who is also member of the Committee.

## **ARTICLE X – PERFORMANCE MANAGEMENT**

1. The Committee shall periodically review the Audit Charter and shall make any recommendations regarding changes to the Board for final approval.

2. The Board may make any changes to the Audit Charter it deems to be appropriate.
3. Education – The Annual Work Plan shall include some component of planned Committee training on audit principles, practices, or standards. The Independent Auditor shall provide Committee training and other knowledge transfer on some component of audit principles, practices, and standards. While the Committee shall endeavor to schedule and complete such training annually, some component of training must be scheduled and completed by the Committee at least every two years.
4. At least annually, the Committee shall conduct an evaluation of its performance to determine whether it is functioning effectively and to discuss with the Independent Auditor any observations related to the effectiveness of the Committee. The Committee shall prepare a formal report based upon each such self-evaluation and shall provide such report to the full Board following its adoption by the Committee.

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