



Santa Clara Valley Water District Board Audit Committee Meeting

HQ. Bldg. Boardroom, 5700 Almaden Expressway, San Jose, California
Join Zoom Meeting: <https://valleywater.zoom.us/j/91608079873>

REGULAR MEETING AGENDA

**Wednesday, February 18, 2026
1:00 PM**

District Mission: Provide Silicon Valley safe, clean water for a healthy life, environment and economy.

BOARD AUDIT COMMITTEE
Jim Beall, Chairperson - District 4
Shiloh Ballard, Vice Chairperson -
District 2
Tony Estremera - District 6

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body, will be available to the public through the legislative body agenda web page at the same time that the public records are distributed or made available to the legislative body. Santa Clara Valley Water District will make reasonable efforts to accommodate persons with disabilities wishing to participate in the legislative body's meeting. Please advise the Clerk of the Board Office of any special needs by calling (408) 630-2277.

DARIN TAYLOR
Committee Liaison

NICOLE MERRITT
Deputy Clerk (Committee
Meetings)
Office/Clerk of the Board
(408) 630-3262
nmerritt@valleywater.org
www.valleywater.org

Note: The finalized Board Agenda, exception items and supplemental items will be posted prior to the meeting in accordance with the Brown Act.

**Santa Clara Valley Water District
Board Audit Committee
REGULAR MEETING
AGENDA**

Wednesday, February 18, 2026

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HQ. Bldg. Boardroom, 5700 Almaden
Expressway, San Jose, California

Join Zoom Meeting:

<https://valleywater.zoom.us/j/91608079873>

*****IMPORTANT NOTICES AND PARTICIPATION INSTRUCTIONS*****

Santa Clara Valley Water District (Valley Water) Board of Directors/Board Committee meetings are held as a “hybrid” meetings, conducted in-person as well as by telecommunication, and is compliant with the provisions of the Ralph M. Brown Act.

To maximize public safety while still maintaining transparency and public access, members of the public have an option to participate by teleconference/video conference or attend in-person. To observe and participate in the meeting by teleconference/video conference, please see the meeting link located at the top of the agenda. If attending in-person, you are required to comply with Ordinance 22-03 - AN ORDINANCE OF THE SANTA CLARA VALLEY WATER DISTRICT SPECIFYING RULES OF DECORUM FOR PARTICIPATION IN BOARD AND COMMITTEE MEETINGS located at <https://s3.us-west-2.amazonaws.com/valleywater.org.if-us-west-2/f2-live/s3fs-public/Ord.pdf>

In accordance with the requirements of Gov. Code Section 54954.3(a), members of the public wishing to address the Board/Committee during public comment or on any item listed on the agenda, may do so by filling out a Speaker Card and submitting it to the Clerk or using the “Raise Hand” tool located in the Zoom meeting application to identify yourself in order to speak, at the time the item is called. Speakers will be acknowledged by the Board/Committee Chair in the order requests are received and granted speaking access to address the Board.

- Members of the Public may test their connection to Zoom Meetings at: <https://zoom.us/test>
- Members of the Public are encouraged to review our overview on joining Valley Water Board Meetings at: <https://www.youtube.com/watch?v=TojJpYCxXm0>

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This agenda has been prepared as required by the applicable laws of the State of California, including but not limited to, Government Code Sections 54950 et. seq. and has

not been prepared with a view to informing an investment decision in any of Valley Water's bonds, notes or other obligations. Any projections, plans or other forward-looking statements included in the information in this agenda are subject to a variety of uncertainties that could cause any actual plans or results to differ materially from any such statement. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water's bonds, notes or other obligations and investors and potential investors should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures and Valley Water's Investor Relations website, maintained on the World Wide Web at <https://emma.msrb.org/> and <https://www.valleywater.org/how-we-operate/financebudget/investor-relations>, respectively.

Under the Brown Act, members of the public are not required to provide identifying information in order to attend public meetings. Through the link below, the Zoom webinar program requests entry of a name and email address, and Valley Water is unable to modify this requirement. Members of the public not wishing to provide such identifying information are encouraged to enter "Anonymous" or some other reference under name and to enter a fictional email address (e.g., attendee@valleywater.org) in lieu of their actual address. Inputting such values will not impact your ability to access the meeting through Zoom.

Join Zoom Meeting:

<https://valleywater.zoom.us/j/91608079873>

Meeting ID: 916 0807 9873

Join by Phone:

1 (669) 900-9128, 91608079873#

1. CALL TO ORDER:

1.1. Roll Call.

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA.

Notice to the public: Members of the public who wish to address the Board/Committee on any item not listed on the agenda may do so by filling out a Speaker Card and submitting it to the Clerk or using the "Raise Hand" tool located in the Zoom meeting application to identify yourself to speak. Speakers will be acknowledged by the Board/Committee Chair in the order requests are received and granted speaking access to address the Board/Committee. Speakers' comments should be limited to three minutes or as set by the Chair. The law does not permit Board/Committee action on, or extended discussion of, any item not on the agenda except under special circumstances. If Board/Committee action is requested, the matter may be placed on a future agenda. All comments that require a response will be referred to staff for a reply in writing. The Board/Committee may take action on any item of business appearing on the posted agenda.

3. APPROVAL OF MINUTES:

- 3.1. Approval of January 21, 2026, Board Audit Committee Minutes. [26-0206](#)

Recommendation: Approve the minutes.

Manager: Wendy Ho, 408-630-3864

Attachments: [Attachment 1: 01212026 BAC Minutes](#)

4. REGULAR AGENDA:

- 4.1. Receive the Fiscal Year 2025-2026 Second Quarter Financial Status Update as of December 31, 2025. [26-0165](#)

Recommendation: Receive the Fiscal Year 2025-2026 second quarter financial status update as of December 31, 2025.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: PowerPoint](#)

- 4.2. Receive a Status Update on the Implementation of Audit Recommendations; Authorize Staff to Close Completed Board-Directed Audits or Refer Them to the Chief Audit Executive (CAE) for Follow-up Review; and Discuss Timing of Next Update. [26-0039](#)

Recommendation:

- A. Receive a status update on the implementation of audit recommendations;
- B. Authorize staff to close completed Board-directed audits or refer them to the CAE for follow-up review, and
- C. Discuss timing of the next update.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: Audit Recommendation Status Table](#)
[Attachment 2: Audit Recommendation Status Updates \(detailed\)](#)

- 4.3. Continue Discussion on the Status of the On-call Management Services Agreement for the Chief Audit Executive (CAE) and Recommend the Board of Directors Initiate a Request for Proposal (RFP). [26-0164](#)

Recommendation:

- A. Continue discussion on the status of the On-call Management Services Agreement for the CAE, and
- B. Recommend the Board of Directors initiate an RFP.

Manager: Darin Taylor, 408-630-3068

Attachments: [Attachment 1: Role of Auditing in Public Sector Governance](#)
[Attachment 2: Guide to Selecting a Chief Audit Executive](#)
[Attachment 3: Audit Committee Guidance](#)
[Attachment 4: ALGA Recommends In-House Audit Capacity](#)

- 4.4. Discuss 2026 Annual Audit Plan (Risk Assessment, Asset Management, Pacheco Reservoir Project, and Investigations Process), and Provide Feedback as Needed [26-0163](#)

Recommendation: A. Discuss 2026 Annual Audit Plan; and
B. Provide feedback as needed.

Manager: Darin Taylor, 408-630-3068

- 4.5. Review and Discuss 2026 Board Audit Committee (BAC) Work Plan. [26-0162](#)

Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2026 BAC Work Plan.

Manager: Wendy Ho, 408-630-3874

Attachments: [Attachment 1: 2026 BAC Work Plan](#)

5. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS.

This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.

6. ADJOURN:

- 6.1. Adjourn. The Next Regular Meeting is Scheduled at 1:00 p.m., on March 18, 2026.



Santa Clara Valley Water District

File No.: 26-0206

Agenda Date: 2/18/2026
Item No.: 3.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes No
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Approval of January 21, 2026, Board Audit Committee Minutes.

RECOMMENDATION:

Approve the minutes.

SUMMARY:

In accordance with the Ralph M. Brown Act, a summary of Committee discussions, and details of all actions taken by the Board Audit Committee, during all open and public Committee meetings, is transcribed and submitted to the Committee for review and approval.

Upon Committee approval, minutes transcripts are finalized and entered into the Committee's historical records archives and serve as historical records of the Committee's meetings.

ENVIRONMENTAL JUSTICE IMPACT:

The approval of minutes is not subject to environmental justice analysis.

ATTACHMENTS:

Attachment 1: 01212026 BAC Minutes

UNCLASSIFIED MANAGER:

Wendy Ho, 408-630-3864



BOARD AUDIT COMMITTEE MEETING
DRAFT MINUTES

REGULAR MEETING
WEDNESDAY, JANUARY 21, 2026
1:00 PM

(Paragraph numbers coincide with agenda item numbers)

1. CALL TO ORDER:

A regular meeting of the Santa Clara Valley Water District (Valley Water) Board Audit Committee (Committee) was called to order in the Valley Water Headquarters Building Boardroom at 5700 Almaden Expressway, San Jose, California, and by Zoom teleconference, at 1:00 p.m.

1.1 Roll Call.

Committee members in attendance were: District 6 Director Tony Estremera, District 2 Director and Vice Chairperson Shiloh Ballard, and District 4 Director Jim Beall, Chairperson presiding, constituting a quorum of the Committee.

Staff members in attendance were: Edgar Alcaez, Emmanuel Aryee, Aaron Baker, Lisa Bankosh, James Bohan, Theresa Chinte, Jessica Collins, Enrique De Anda, Rachael Gibson, Mark Greene, Linh Hoang, Wendy Ho, Cecil Lawson, Linda Mason, Patrice McElroy, Anthony Mendiola, Nicole Merritt, Carlos Orellana, Luz Penilla, Kirsten Struve, Manpreet Sra, Darin Taylor, Metra Ulloa, Zuberi White, Kristen Yasukawa, and Tina Yoke.

Public in attendance were: Tammy Lohr-Schweitzer and Rae Dade (Baker Tilly), and George Skiles (Sjoberg Evashenk Consulting).

2. TIME OPEN FOR PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA:

Chairperson Beall declared time open for public comment on any item not on the agenda. There was no one present who wished to speak.

2.1. Election of 2026 Board Audit Committee (BAC) Chairperson and Vice Chairperson.

Recommendation: Nominate and elect the 2026 BAC Chairperson and Vice Chairperson.

The Committee considered this Item without a staff presentation and Linda

Mason reminded the Committee to call for public comment.

Public Comments:
None.

It was moved by Director Estremera and seconded by Vice Chairperson Ballard and unanimously carried that Chairperson Beall remain Chairperson and Vice Chairperson Ballard would remain Vice Chairperson.

3. APPROVAL OF MINUTES:

3.1. Approval of December 19, 2025, Board Audit Committee Meeting Minutes.

Recommendation: Approve the minutes.

The Committee considered the attached minutes of the December 19, 2025 Committee meeting.

Public Comments:
None.

It was moved by Director Estremera and seconded by Vice Chairperson Ballard and was unanimously carried that the minutes be approved.

4. REGULAR AGENDA:

4.1. Receive and Discuss 2025 Water Conservation Program Performance Audit Report with Management Response; Refer the Final 2025 Water Conservation Program Performance Audit Report to the Board.

Recommendation: A. Receive and discuss the 2025 Water Conservation Program Performance Audit Report with Management Response, and
B. Refer the final 2025 Water Conservation Program Performance Audit Report to the Board.

Tammy Lohr-Schweitzer and Rae Dade reviewed the information on this item, per the attached Committee Agenda Memo, and corresponding presentation materials contained in Attachment 2 were reviewed as follows: Tammy Lohr-Schweitzer reviewed Slides 1-2, and 6-12, and Rae Dade reviewed Slides 3-5.

Tammy Lohr-Schweitzer, Rae Dade, and Kirsten Struve were available to answer questions.

Public Comments:
None.

The Committee received and discussed the information, and noted the following:

- The Committee confirmed that the recommendations presented were limited to the 2030 water conservation goals, noted that additional staffing would assist with achieving future 2050 conservation goals, and expressed support for long-term planning.

- The Committee noted the development of an engagement strategy to support water conservation efforts for hard-to-reach populations.
- The Committee noted the Consultant's recommendations for additional resources were timely for the upcoming Board budget process.
- The Committee confirmed the identified best practices were based on guidelines from state and federal agencies and other water wholesalers, and expressed support for understanding which agencies are considered best practice leaders.
- Vice Chairperson Ballard expressed support for following up on further information regarding the breakdown of the various sectors in the community related to achieving the Board's water conservation's goals for 2030, 2040, 2050 and how those compare to other agencies.
- The Committee noted Valley Water is currently following the majority of best practices and expressed support for this item to be brought to a future Board Budget Work Study session.

It was moved by Director Estremera and seconded by Vice Chairperson Ballard and the following Recommendation was unanimously approved:

- B. Refer the final 2025 Water Conservation Program Performance Audit Report to the Board.

Director Estremera left the meeting and did not return.

4.2. Receive and Discuss Audit Follow-up Conducted by Chief Audit Executive (CAE); and Provide Feedback As Needed.

- Recommendation:
- A. Receive and discuss audit follow-up conducted by CAE; and;
 - B. Provide feedback as needed.

George Skiles reviewed the information on this item, per the attached Committee Agenda Memo and reviewed the information contained in Attachments 1 and 2.

George Skiles was available to answer questions.

Public Comments:
None.

The Committee received and discussed the information, took no formal action, and noted the following:

- The Committee expressed support for the audit remaining open until all recommendations have been implemented to the Board's satisfaction.

4.3. Request Chief Audit Executive (CAE) Activity Report from Sjoberg Evashenk Consulting, Inc. to Evaluate CAE Performance, and Direct CAE to Return to Present Report at a Later Date.

- Recommendation:
- A. Request Chief Audit Executive (CAE) activity report from Sjoberg Evashenk Consulting, Inc. to evaluate CAE performance; and
 - B. Direct CAE to return to present report at a later date.

George Skiles reviewed the information on this item, per the attached Committee Agenda Memo.

George Skiles was available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and noted the following:

- The Committee expressed support for staff's recommendations to request the CAE activity report and to direct the CAE to present the report at a future BAC meeting.

4.4. Discuss Board Audit Committee's (BAC) Annual Self-Evaluation Process of Calendar Year 2025 Activities; Provide Guidance Regarding Preferred Method to Conduct Process; and Direct Chief Audit Executive (CAE) to Conduct Self-Evaluation Process and Return to Provide Summary of Discussions.

- Recommendation:
- A. Discuss BAC's annual self-evaluation process of calendar year 2025 activities; and
 - B. Provide guidance regarding preferred method to conduct process; and
 - C. Direct CAE to conduct self-evaluation process and return to provide summary of discussions.

George Skiles reviewed the information on this item, per the attached Committee Agenda Memo.

George Skiles and Darin Taylor were available to answer questions.

Public Comments:
None.

The Committee received and discussed the information, took no formal action, and noted the following:

- The Committee expressed support for continuing with the current Committee member interview process and periodically conducting an in-depth evaluation of the Committee's audit function and role in relation to the Board.
- The Committee expressed support for staff's recommendations to direct the CAE to conduct the self-evaluation process and return to provide a summary of discussions at a future BAC meeting.

4.5. Discuss the Options to Extend Terms, Allow to Expire, or Terminate the On-Call Services Agreement with Board Auditor, Plante Moran, Which is Set to Expire Effective July 5, 2026.

- Recommendation:
- A. Discuss options to extend terms, allow to expire, or terminate the On-Call Services Agreement with Board Auditor, Plante Moran, which is currently scheduled to

expire effective July 5, 2026; and

- B. Approve recommendation to:
 - i. Exercise option to extend the On-Call Services Agreement with Board Auditor, Plante Moran for one year; or
 - ii. Allow the expiration of the On-Call Services Agreement with Board Auditor, Plante Moran; or
 - iii. Exercise option to terminate the On-Call Services Agreement with Board Auditor, Plante Moran prior to the expiration date of July 5, 2026.

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo, and reviewed the information contained in Attachments 1-3.

Darin Taylor was available to answer questions.

Public Comments:
None.

The Committee received and discussed the information, and noted the following:

- The Committee noted Plante Moran is assigned to the Asset Management Audit and expressed support for extending the agreement to allow completion of the audit.

It was moved by Vice Chairperson Ballard and seconded by Chairperson Beall and the following Recommendation was approved by majority vote:

- B. Approve recommendation to:
 - i. Exercise option to extend the On-Call Services Agreement with Board Auditor, Plante Moran for one year.

- 4.6. Discuss the Status of the On-call Management Services Agreement for the Chief Audit Executive (CAE) and Recommend the Board of Directors Initiate a Request for Proposal (RFP).

Recommendation: A. Discuss the status of the On-call Management Services Agreement for the CAE, and
B. Recommend the Board of Directors initiate an RFP.

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo.

Darin Taylor was available to answer questions.

Public Comments:
None.

The Committee received and discussed the information, took no formal action, and noted the following:

- The Committee expressed support for further discussion regarding best practices in auditing public agencies to potentially inform the scope of services prior to issuing an RFP.
- The Committee confirmed the past selection process of the CAE, expressed support for Board member involvement in the process, and continued this item to the February 18, 2026, BAC meeting for further discussion.

4.7. Discuss 2026 Annual Audit Plan (Risk Assessment, Asset Management, Pacheco Reservoir Project, and Investigations Process), and Provide Feedback as Needed.

- Recommendation:
- A. Discuss 2026 Annual Audit Plan,
 - B. Provide feedback as needed.

Darin Taylor and George Skiles reviewed the information on this item, per the attached Committee Agenda Memo.

Darin Taylor and George Skiles were available to answer questions.

Public Comments:
None.

The Committee received and discussed the information, took no formal action, confirmed the sequencing of the 2026 audits, and noted the update on the 2026 Annual Audit Plan.

4.8. Review and Discuss 2026 Board Audit Committee (BAC) Work Plan.

- Recommendation: Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2026 BAC Work Plan.

Darin Taylor reviewed the information on this item, per the attached Committee Agenda Memo, and per the information contained in Attachment 1.

Darin Taylor was available to answer questions.

Public Comments:
None.

The Committee received the information, took no formal action, and without further discussion, noted the update on the 2026 BAC Work Plan.

5. CLERK REVIEW AND CLARIFICATION OF COMMITTEE REQUESTS:

This is an opportunity for the Clerk to review and obtain clarification on any formally moved, seconded, and approved requests and recommendations made by the Committee during the meeting.

Nicole Merritt confirmed the Committee approved Chairperson Beall remain Chairperson and Vice Chairperson Ballard remain Vice Chairperson under Item 2.1; approved to refer the final 2025 Water Conservation Program

Performance Audit Report to the Board and noted support for future discussion at a Board Budget Work Study session under Item 4.1; noted audit follow-up conducted by CAE under Item 4.2; noted support for CAE activity report and to direct the CAE to present the report at a future BAC meeting under Item 4.3; noted support to direct the CAE to conduct self-evaluation process and return to provide a summary of discussions at a future BAC meeting under Item 4.4; approved to exercise option to extend the On-Call Services Agreement with Board Auditor, Plante Moran for one year under Item 4.5; expressed support for further discussion regarding best practices in auditing public agencies and continued this item to the February 18, 2026, BAC meeting for further discussion under Item 4.6; noted update to 2026 Annual Audit Plan under Item 4.7; and noted update for 2026 BAC Work Plan under Item 4.8.

6. ADJOURN:

- 6.1. Adjourn. The Next Regular Meeting is Scheduled at 1:00 p.m. on February 18, 2026.

Chairperson Beall adjourned the meeting at 2:18 p.m. The next regular meeting was scheduled to occur at 1:00 p.m. on February 18, 2026.

Nicole Merritt,
Deputy Clerk (Committee Meetings)

Date approved:

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Santa Clara Valley Water District

File No.: 26-0165

Agenda Date: 2/18/2026

Item No.: 4.1.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes No
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Receive the Fiscal Year 2025-2026 Second Quarter Financial Status Update as of December 31, 2025.

RECOMMENDATION:

Receive the Fiscal Year 2025-2026 second quarter financial status update as of December 31, 2025.

SUMMARY:

Valley Water's Fiscal Year 2025-26 Second Quarter closed on December 31, 2025. The second quarter financial status update presentation (Attachment 1) summarizes cash and investment balances, the debt portfolio and includes a detailed comparison, and analysis, of the budget to actual status of revenues and expenditures for all funds as of December 31, 2025.

These financial statements have been prepared by Valley Water for informational purposes only and have not been audited by the external auditor. No party is authorized to disseminate these unaudited financial statements to the State Comptroller or any nationally recognized rating agency, nor are they authorized to post these financial statements on the Electronic Municipal Market Access (EMMA) or any similar financial reporting outlets or redistribute the information without the express written authorization of the Chief Financial Officer of Valley Water. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale of Valley Water bonds, notes or other obligations; and investors, and potential investors, should rely only on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the World Wide Web at <https://emma.msrb.org/>.

ENVIRONMENTAL JUSTICE IMPACT:

There are no environmental justice impacts associated with this item.

ATTACHMENTS:

File No.: 26-0165

Agenda Date: 2/18/2026
Item No.: 4.1.

Attachment 1: PowerPoint

UNCLASSIFIED MANAGER:
Darin Taylor, 408-630-3068

Q2 FY2025-26 Financial Status Update

Board Audit Committee, February 18, 2026

The FY 2025-26 unaudited financial statements contained herein have been prepared by Valley Water for information only and have not been audited by the external auditor. These financial statements remain subject to change by Valley Water and remain subject to review by external auditor. Changes made by the external auditor, including changes in response to the outsider auditor's review, could be material. No party is authorized to disseminate these unaudited financial statements to the State Comptroller or any nationally recognized rating agency nor post these statements on the Electronic Municipal Market Access (EMMA) or any similar financial reporting outlets or redistribute the information without the express written authorization of the Chief Financial Officer of Valley Water. The information herein is not intended to be used by investors or potential investors in considering the purchase or sale Valley Water bonds, notes or other obligations; and investors, and potential investors, should rely on information filed by Valley Water on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the World Wide Web at <https://emma.msrb.org/>.

Agenda

- **Financial Status**
 - **Cash and Investments**
 - **Debt Portfolio**
- **Q2 FY26 Financial Status Update**
 - **Revenue**
 - **Operating and Capital Expenditures**
 - **Reserves**

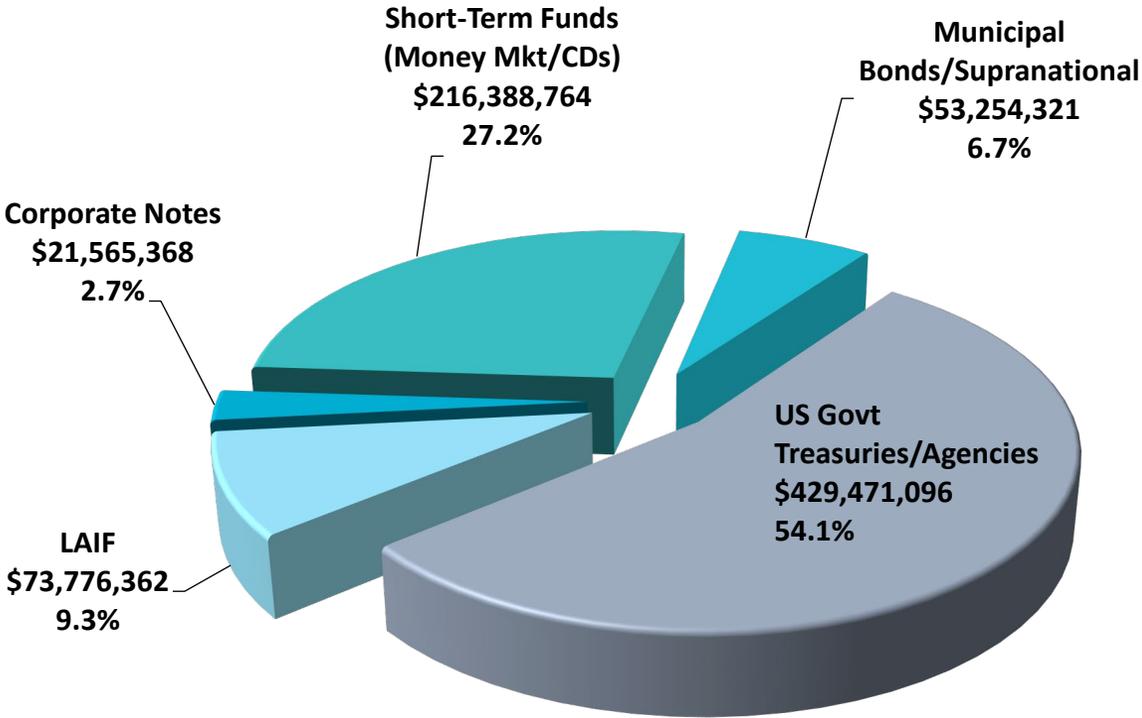
Financial Status Update – Cash & Investments

3

\$300 million or 38% of portfolio very liquid (LAIF & Short-Term deposits)

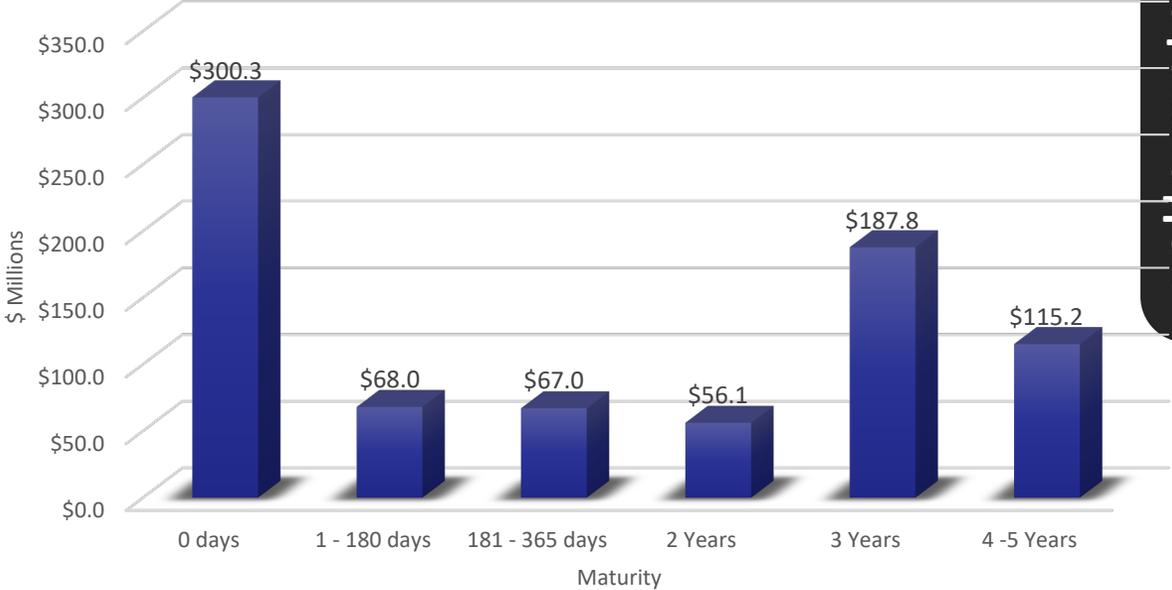
YTD Q2 FY 2026 interest earnings: \$15M, 3.69%

SCVWD Investment Portfolio Composition



SCVWD Portfolio Book Value as of December 31, 2025: \$794,455,912

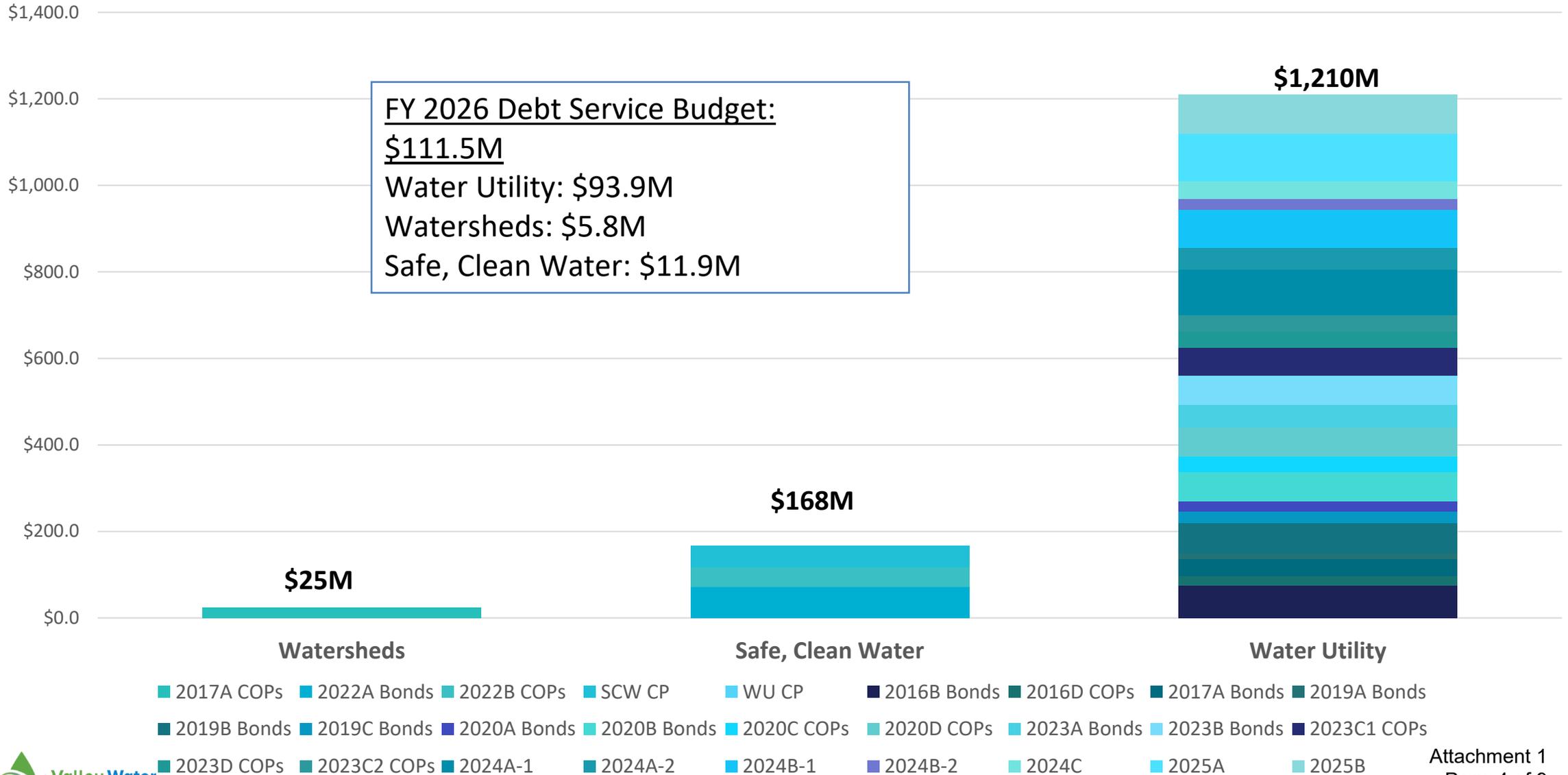
Valley Water Portfolio Aging Report December 31, 2025 Portfolio Book Value: \$794 Million



valleywater.org

Financial Status Update – Outstanding Debt

Outstanding Debt 12/31/2025: \$1,402.6 Million



Financial Status Update – Debt Portfolio

Ample access to cash at low interest rates

\$400M Short-term credit facilities

- \$150M Bank Line of Credit with U.S. Bank
- \$250M CP Program

FY 2026 Financing Plan

- Board approval of \$1 billion CWIFP loan package for Dam Safety Program on September 9, 2025
 - Provide long-term financing for Almaden, Calero, Coyote, and Guadalupe Dam Seismic Retrofit projects
 - Pending USACE/OMB Approval
- WIFIA Master Agreements: \$146.7M SCW; \$579M Anderson
 - Application submitted to EPA to increase the Anderson Dam Seismic Retrofit Project WIFIA Loan by \$639M, from \$579M to \$1.2B, pending OMB Approval
- FY 2026 debt issuance plans:
 - Short-term debt for capital projects: WU \$212M; SCW \$30M
 - WU Refunding Bonds:
 - 2025A/B \$200M; priced 8/26/2025, TIC 4.5%, \$14M debt service savings, closed 9/10/2025
 - 2026A/B ~\$364M; \$212M FY26 capital; 2023C1 (\$64M), 2023D (\$37M), 2017A/2019A (51M) for economic savings
 - Board authorization ~May 2026; issuance~ August/September 2026

Q2 FY26 - Revenues

Lower treated water revenue anticipated due to West Pipeline project

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(\$ in millions)	FY26 Adj Budget	Q2 FY26 Actuals	Q2 FY26 % Rec'd	Q2 FY25 Actuals	Q2 FY25 % Rec'd*
Groundwater Production Charges	\$ 200.3	\$ 95.1	47%	\$ 83.5	45%
Treated Water Revenue	220.4	108.8	49%	118.9	56%
Surface/Recycled Water Revenue	2.6	1.1	43%	0.9	23%
1% Ad-valorem Property Tax	157.6	57.8	37%	56.5	38%
Safe Clean Water Special Parcel Tax	55.1	-	0%	-	0%
Benefit Assessment	6.9	-	0%	-	0%
State Water Project Tax	28.0	0.5	2%	0.7	3%
Capital Reimbursements	56.3	12.9	23%	12.0	28%
Interest Income & Other	18.6	29.8	160%	23.8	155%
Total Revenue	\$ 745.9	\$ 306.0	41%	\$296.3	43%

*Q2 FY26 % received based Q2 YTD Actuals divided by FY26 Adjusted Budget

(\$ in millions)	FY26 Adj Budget	Q2 FY26 Actuals	Q2 FY26 % Rec'd	Q2 FY25 Actuals	Q2 FY25 % Rec'd*
General Fund	\$ 13.5	\$ 7.2	53%	\$ 5.2	42%
Watershed Stream Stewardship Fund	141.8	53.0	37%	59.1	42%
Safe Clean Water Fund	108.9	10.1	9%	6.9	8%
Water Utility Enterprise Fund	474.2	234.3	49%	224.0	50%
Service Funds	0.7	1.5	221%	1.1	183%
Benefit Assessment Funds	6.9	-	0%	-	0%
Total Revenue	\$ 745.9	\$ 306.0	41%	\$296.3	43%

*Q2 FY26 % received based Q2 YTD Actuals divided by FY26 Adjusted Budget

Observations

- Q2 FY26 revenue was \$306.0M or 41% of FY26 Budget
- SCW Special Parcel, Benefit Assessment and State Water Project Tax revenues will be received in second-half of the fiscal year
- Groundwater production charges \$95.1M or 47% of Budget and \$11.6M higher than Q2 FY25 actuals
- Treated water revenue \$108.8M or 49% of Budget and \$11.1M lower than Q2 FY25 actuals due to West Pipeline project
- Capital reimbursements of \$12.9M, which varies year-over-year depending on progress of grant-funded projects
- Interest Income and Other \$29.8M, or 160% of budget, due to investment income on bond proceeds (\$13.5M) and water sales from the Central Valley Project (\$1.3M) and the State Water Project (\$4.8M)

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Q2 FY26 - Operating and Capital Outlays

Expenditures on target in first half of fiscal year

7

(\$ in millions)	FY26 Adj Budget	Q2 FY26 Actuals	Q2 FY26 % Spent	Q2 FY25 Actuals	Q2 FY25 % Spent
General Fund	\$ 91.1	\$ 38.4	42%	\$ 34.9	39%
Watershed Stream Stewardship Fund	94.8	45.7	48%	40.3	43%
Safe Clean Water Fund	43.5	16.8	39%	15.9	42%
Water Utility Enterprise Fund	391.9	163.8	42%	180.4	46%
Service Funds	51.7	18.5	36%	20.2	41%
Benefit Assessment Funds	5.8	0.6	11%	0.7	13%
Total Operating Outlays	\$ 678.8	\$ 283.7	42%	\$ 292.6	44%

Note 1: Operating Adjusted Budget includes Adopted Budget and current year budget adjustments
 Note 2: Budgetary Basis Actuals includes actuals and encumbrances as of 12/31/25
 Note 3: % Spent is Q2 YTD Actuals divided by Adjusted Budget

(\$ in millions)	FY26 Adj Budget	Q2 FY26 Actuals	Q2 FY25 % Spent	Q2 FY25 Actuals	Q2 FY25 % Spent
General Fund	\$ 20.4	\$ 1.6	8%	\$ 2.7	16%
Watershed Stream Stewardship Fund	57.9	18.1	31%	6.1	15%
Safe Clean Water Fund	123.5	57.3	46%	58.8	37%
Water Utility Enterprise Fund	396.3	200.5	51%	84.0	23%
Service Funds	6.3	1.2	20%	2.0	20%
Total Capital Outlays	\$ 604.3	\$ 278.8	46%	\$ 153.5	26%

Note 1: Capital Project Adjusted Budget includes Adopted Budget and prior year capital carryforward budget
 Note 2: Budgetary Basis Actuals includes actuals and encumbrances as of 12/31/25
 Note 3: % Spent is Q2 YTD Actuals divided by Adjusted Budget

Observations

- Q3 FY26 Operating Expenditures of \$283.7M or 42% of Adjusted Budget
- Water Utility Enterprise, Safe Clean Water and Watershed Stream Stewardship Funds on target
- Insurance premium payments in second half of fiscal year
- Benefit Assessment Funds expenses in second half of fiscal year

- Q2 FY26 Capital Expenditures of \$278.8M or 46% of Adjusted Budget; trending higher than last fiscal year
- GF 8% spent due to timing of the HQ Bldg., Small Caps / Facility Mgmt., and Security Upgrades & Enhancements projects
- WSS Fund 31% spent primarily due to the timing of the Watersheds Asset Rehab, Lower Guadalupe River Restoration and SF Bay Shoreline projects
- Service Funds 20% spent primarily due to IT and Fleet capital expenditures primarily taking place in the second half of FY

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Reserve Balances

- FY26 projected year-end reserve balances higher than FY26 Adopted Budget due to unexpended capital project funds carried forward from FY25 to FY26

(\$ in millions)	FY26 Adopted Budget	FY26 Projected Year-end	FY26 Projected vs Adopted
Restricted Reserves			
Safe Clean Water Fund	\$ 177.8	\$ 154.6	\$ (23.3)
Water Utility Enterprise Fund	65.5	75.5	10.0
Restricted Reserves Subtotal	243.4	230.1	(13.3)
Committed Reserves			
General Fund	19.7	26.1	6.4
Watershed & Stream Stewardship Fund	161.1	200.8	39.7
Water Utility Enterprise Fund	92.8	94.0	1.2
Service Funds	23.4	29.3	5.9
Committed Reserves Subtotal	297.1	350.2	53.1
Total Reserves	\$ 540.5	\$ 580.3	\$ 39.8

Q2 FY26 Financial Update Summary

- Will continue to monitor performance of revenues in second half of fiscal year
- Operating expenditures estimated to end FY within budgeted levels
- First half capital expenditures trending higher than prior fiscal year
- Will highlight any significant developments as well as identify any potential budget actions necessary in second half of fiscal year

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Santa Clara Valley Water District

File No.: 26-0039

Agenda Date: 2/18/2026

Item No.: 4.2.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes No
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Receive a Status Update on the Implementation of Audit Recommendations; Authorize Staff to Close Completed Board-Directed Audits or Refer Them to the Chief Audit Executive (CAE) for Follow-up Review; and Discuss Timing of Next Update.

RECOMMENDATION:

- A. Receive a status update on the implementation of audit recommendations;
- B. Authorize staff to close completed Board-directed audits or refer them to the CAE for follow-up review, and
- C. Discuss timing of the next update.

SUMMARY:

The Board Audit Committee (BAC) was established to assist the Board of Directors (Board), consistent with direction from the full Board, to identify potential areas for audit and audit priorities, and to review, update, plan, and coordinate execution of Board audits.

The last status report to the BAC was in August 2025. At that time, there were four (4) Board-directed audits, and two (2) Program-required audits that were still open. As of this report, one (1) Board-directed audit, and one (1) program-required audit are now fully implemented. The other audits are still open, along with an additional Board-directed audit that has been added since the August 2025 report (see Attachment 1). Currently, there are twenty-three (23) active audit recommendations that are not fully resolved and are marked as "Pending/Underway." Since the August report, five (5) audit recommendations have been marked as "Completed/Implemented" (see Attachment 2).

A brief high-level summary about the efforts made by staff to address pending recommendations for a given audit based on the detailed updates provided by recommendation owners in Attachment 2 are provided below.

- **2020 SAFE, CLEAN WATER PROGRAM GRANT MANAGEMENT AUDIT** (completed):
On September 2, 2020, TAP International, Inc., along with subconsultants Greta McDonald and Drummond Kahn, initiated the Grants Management Performance Audit to: (1) determine

the extent to which Valley Water’s grants management and administration program is operating effectively, and (2) determine if opportunities exist to better align Valley Water’s grant management and administration program and processes with best practices for grants management internal controls. Presentation of the Safe, Clean Water Program Grant Management Audit final report was approved by the Board Audit Committee on January 13, 2021, and was presented to the full Board at the March 23, 2021, Board meeting. The audit identified 11 recommendations to enhance operating effectiveness and identify opportunities to incorporate best practices. As of this report, all eleven (11) recommendations have been achieved. The key accomplishment achieved since the last report in February 2025 was the completion of the Board-approved Grants Redesign Project that implemented updates and improvements to the administration of the Safe, Clean Water Grants and Partnerships Program. This included updates for all grant types, the Mini-Grant Program, and the Standard Grant Program that addresses the audit recommendations. Staff worked with consultants and internal subject matter experts to implement the approved Grants Redesign Project recommendations. The redesigned Mini-Grant Program was launched in Fall 2024 and accepts applications year-round. The redesigned Standard Grant Program includes a streamlined application, simplified match funding requirements, expanded eligible project costs, and a project readiness criterion to evaluate due diligence and financial viability. It includes a streamlined budget template, reduced invoicing and reporting requirements, and insurance costs as eligible cost for both grant opportunities. The Office of Civic Engagement presented the final update to the BAC in December 2025.

- **2021 PERMITTING BEST PRACTICES AUDIT**

On October 13, 2020, TAP International Inc. was requested to conduct the Permitting Best Practices Audit that resulted in fourteen (14) recommendations to enhance communication and processing speed, introduce best practices where appropriate, and improve the customer experience. Presentation of the Permitting Best Practices Audit final report was approved and recommended by the Board Audit Committee on May 26, 2021, and presented to the full Board at the July 13, 2021, Board meeting. Since July 2021, eight (8) of the fourteen (14) recommendations have been implemented. Key improvements include reducing processing time for low-risk, repetitive permit applications, establishing dedicated environmental planner support and streamlined California Environmental Quality Act (CEQA) review, identifying workflows and IT system requirements, and completing a procurement process for permit database upgrades. In addition, a Billing Process and Policy was created to address financial controls, and permit forms and webpages were updated. Finally, an updated fee rate schedule developed and adopted by the Board. To date, six (6) out of the fourteen (14) audit recommendations remain “Pending/Underway,” none of which are identified as “High” priority. The majority of the pending recommendations pertain to the permit database upgrade, which is well underway. In addition, the Water Resources Protection Manual is being updated by contract staff to provide clear requirements for use of Valley Water lands. Staff will return to provide a status report at the May 20, 2026, BAC meeting.

- **2023 CAPITAL IMPROVEMENT PROGRAM (CIP) PERFORMANCE AUDIT**

On May 24, 2022, the Board approved the initiation of the CIP Performance Audit, which resulted in eight (8) problem statements, each with a recommendation (some with sub-recommendations) for a total of fifteen (15) individual recommendations intending to improve

the CIP planning processes, enhance the CIP 5-year plan, and improve transparency and consistency of the information reported in the CIP. Presentation of the CIP Performance Audit final report was approved by the BAC on August 16, 2023, and presented to the full Board at the October 24, 2023, Board meeting. Since October 2023, staff has initiated the implementation of the recommendations. Implementation of the recommendations should ensure projects are selected and prioritized using defined criteria, that key goals and milestones in the CIP plan are achievable given agency resources, continue ongoing efforts to implement leading practices as identified in the audit final report, enhance quality assurance procedures, and ensure compliance with Change Management procedures. As of this report, twelve (12) recommendations have been implemented. Currently, three (3) recommendations are still pending, of which two (2) are identified as high priority, and one (1) as medium. Staff estimates the recommendations will be fully implemented by Q4 of FY26. Staff continues to work on implementing the remaining recommendations and will return to provide a status report at the September 16, 2026, BAC meeting.

- **2024 HUMAN RESOURCES PERFORMANCE AUDIT**

On March 26, 2024, the Board approved the initiation of the Human Resources (HR) Performance Audit. The audit was conducted between August and November 2024, which resulted in ten (10) recommendations. The presentation of the HR Performance final report was approved and recommended by the Board Audit Committee on March 19, 2025, and subsequently presented to the full Board at the April 8, 2025, Board meeting. Since April 2025, seven (7) of the ten (10) recommendations have been implemented, and three (3) audit recommendations are identified as "Pending/Underway," of which two (2) are identified as High priority, and one (1) as medium. Key improvements include conducting monthly all-employee team meetings, providing change management and communication training to HR leadership, continuing to prioritize required training for all new supervisors, and enhancing the effectiveness of the supervisory training program and incorporating additional topics. An HR Operations Plan outlining key initiatives was developed and reviewed and approved by HR Leadership in Q4 2025. Next steps involve ensuring that a representative from HR with a strong understanding of system needs is highly involved in evaluating the Enterprise Resource solution system capabilities against HR's system needs. Other steps include implementing a careful process for successful system adoption, taking steps to prevent harassment by offering regular Equal Employment Opportunity (EEO) training. Staff will continue to work on implementing the remaining recommendations and return to provide a status report at the March 18, 2026 BAC meeting.

- **2025 WATER CONSERVATION PROGRAM PERFORMANCE AUDIT:**

On February 12, 2025, Valley Water engaged Baker Tilly (Auditor) to conduct the performance audit of the Water Conservation Program. The audit focused on reviewing Valley Water's conservation strategies and evaluating Valley Water's overall approach to conservation and to identify best practices, opportunities to further enhance its strategic approach to promoting or incentivizing conservation, and lessons learned from past practices within Valley Water and other water agencies. Staff presented the audit report with management's responses to the BAC at its January 21st, 2026, BAC meeting and is expected to present the information to the full Board on February 24th, 2026. The result of the audit produced five (5) recommendations, two (2) of which staff have already implemented. As of this report, three (3) of the five (5)

recommendations remain open.

- **2023 CLOSE-OUT AUDIT OF THE 2012 SAFE, CLEAN WATER PROGRAM (a Program-required audit)** (completed):
On April 27, 2023, Valley Water engaged Moss Adams LLP (Auditor) to conduct the performance close-out audit of the voter-approved 2012 Program (Measure B), which ended in June 2021. The result of the audit produced five (5) recommendations intended to develop a conflict of interest policy that applies to the Independent Monitoring Committee, continue implementing the remaining recommendations of the grants management and administration performance audit, examine project key performance indicators (KPIs) in future iterations of the program and make revisions as needed to better reflect KPIs that are within Valley Water's control and focus on outcome-based KPIs, implement strategies to promote project continuity for projects heavily reliant on external agency cooperation, and conduct robust training and establish annual refresher training for staff involved in contracting processes. Staff presented the audit report with management's responses to the BAC at its March 20th, 2024, BAC meeting, and subsequently to the full Board at its April 23rd, 2024, Board meeting. Since the last update to the BAC in August 2025, the last two (2) outstanding recommendations have been completed. The Board adopted a new IMC resolution with conflict-of-interest provisions in September 2025, and the independent performance audit of the renewed Safe, Clean Water Program was completed, with the Board receiving the final report and management response in November 2025. As of this report, all five (5) recommendations have been implemented.
- **2024 RENEWED SCW PROGRAM PERFORMANCE AUDIT (a Program-required audit)**:
On October 2, 2024, a task order was issued to conduct the first audit of the renewed Safe, Clean Water and Natural Flood Protection Program (SCW Program or Program). The renewed SCW Program, effective July 1, 2021, replaced the previous 2012 Safe, Clean Water and Natural Flood Protection Program (2012 Program) in its entirety. To ensure accountability and transparency, the program 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. At the request of the Independent Monitoring Committee (IMC) and subsequent Board direction, staff initiated this audit earlier than five (5) years. Valley Water engaged PMA Consultants to conduct this independent performance audit, which was approved. The primary objective of this independent performance audit was to assess the implementation of the renewed SCW Program for the period from July 1, 2021, through June 30, 2024. The audit focused on key aspects, including governance, transparency, compliance, and performance. The audit was conducted between August and November 2024 and resulted in nine (9) recommendations. The presentation of the Renewed SCW Program Performance Audit final report was approved and recommended by the Board Audit Committee on October 15, 2025, and subsequently presented to the full Board at the November 19, 2025, Board meeting. Key improvements include strengthening governance and partnership management, as well as enhancements to reporting processes for greater transparency. This includes documenting compliance with Measure S, improving clarity in Board resolutions, refining funding reconciliation and change control practices, and enhancing public reporting of project schedules and key performance indicators (KPIs). Additional improvements focus on implementing stronger oversight tools, improving data accuracy, and better aligning KPIs with controllable contributions, financial sustainability, and current project activities to support

informed Board engagement.

The final audit report, including management responses, was presented in October 2025. As a result, there are no significant implementation updates at this time; however, since the completion of the audit, one (1) recommendation has been completed. Staff will return to the Board Audit Committee at the October 21, 2026 with future status updates as recommendations progress.

Additionally, at its February 15th, 2023, BAC meeting the committee referred four (4) completed implementations to the CAE for a follow-up review to confirm that the actions implemented by staff met the intent of the recommendations. The CAE concluded that three could be closed, but the 2020 Real Estate Services Unit (RESU) audit should remain open until the four (4) recommendations that are partially implemented are completed. As of this report, the outstanding recommendations include measuring the efficiency of property acquisition efforts, including identifying external factors which delay issuance of the first written offer or lengthen the negotiation period; tracking and reporting all costs associated with leasing or licensing Valley Water property, and ensuring applicable fees are at market rate. RESU has completed development of the required metrics and analyses and anticipates final closing of the audit soon.

Staff intends to return to provide the next general update at the August 19th, 2026, BAC meeting.

The BAC is requested to receive the information provided today, and provide guidance to staff as necessary, including whether to close the completed board-directed audit (2020 Safe, Clean Water Program Grant Management Audit) or refer it to the CAE for follow-up review.

ENVIRONMENTAL JUSTICE IMPACT:

The proposed recommendations are not subject to environmental justice analysis. Audits are conducted to identify areas that may expose Valley Water to risk, or areas that may need to implement new processes in order to meet the Board's priorities.

ATTACHMENTS:

Attachment 1: Audit Recommendation Status Table

Attachment 2: Audit Recommendation Status Updates (detailed).

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

Table 1:

Board-directed Audit Name	Total Number of Recommendations	# of Recommendations Not Selected for Further Analysis	%	# of Recommendations Either Pending or Underway	%	# of Recommendations Either Completed or Implemented	%
2020 Safe, Clean Water Program Grant Management Audit	11	0	0%	0	0%	11	100%
2021 Permitting Best Practices Audit	14	0	0%	6	43%	8	57%
2023 Capital Improvement Program Performance Audit	15	0	0%	3	20%	12	80%
2024 Human Resources Performance Audit	10	0	0%	3	30%	7	70%
2024 Board Policies Compliance Audit (in progress)							
2025 Water Conservation Program Performance Audit	5	0	0%	3	60%	2	40%
2025 Capital Project Delivery Audit (in progress)							
2025 Water Usage and Demand Forecasting (in progress)							
2025 Centralized/Decentralized Contracting Practices Audit (in progress)							
2026 Asset Management Audit (Start in CY26 Q1)							
2026 Pacheco Reservoir Project Audit (Start in CY26 Q2)							
2026 Investigations Processes Audit (Start in CY26 Q3)							
2026 Risk Assessment (Start after selection of next CAE)							
Subtotal:	55	0	0%	15	27%	40	73%

RED TEXT = New Audits underway; Data will be added when final report is accepted

Table 2:

Program Audit Name	Total Number of Recommendations	# of Recommendations Not Selected for Further Analysis	%	# of Recommendations Either Pending or Underway	%	# of Recommendations Either Completed or Implemented	%
2023 Close-out Audit of the 2012 Safe, Clean Water Program	5	0	0%	0	0%	5	100%
2024 Renewed Safe, Clean Water Program Performance Audit	9	0	0%	8	89%	1	11%
Subtotal:	14	0	0%	8	57%	6	43%
GRAND TOTALS:	69	0	0%	23	33%	46	67%

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District Management Audit Program
External Audits and Internal Reviews - Implementation Summary Report

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
294	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	2		<p>F2: CPRU's Permit Process Could be Better at Meeting Customer and its Own Expectations for Timeliness and Communication</p> <ul style="list-style-type: none"> - Permittees Want Faster Permit Processing and Better Communication with Applicants - CPRU Has Mixed Success in Meetings Its Goals for Timely Permit Processing <p>F3: Timeliness Concerns Attributed to Multiple Factors</p> <ul style="list-style-type: none"> - Engineers Spend More Time Reviewing Permits - Bottlenecks Occur at the End of the Permit Review Process - Permit Applicants Experience Challenges in Meeting Insurance Requirements - Some Permit Applications Are Not Recorded on a Timely Basis - Permit Review Activities Need Better Standardization and Clarity - Permit Processing is Primarily a Manual Process - CPRU Does Not Consistently Plan for Large Reviews 	The CPRU Manager should complete standardization of permit review policies, practices, roles, and responsibilities.	Low	Pending/Underway	<p>Management Response: Management agrees with the recommendation. CPRU will update and complete the existing permit review policies, practices, and instruction guidance for various types of transactions to bring consistency in the review of projects. Target Implementation Date: June 2022</p> <p>Auditor Response: Management's response generally addresses the recommendation. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 02/2026: Ongoing The WRPO update was approved by the Board on August 12, 2025. Updates to the Water Resources Protection Manual are underway and expected to be taken to the Board in June 2026.</p> <p>Revised Target Implementation Date: June 2026 for Water Resources Protection Manual</p>
297	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	5		<p>F2: CPRU's Permit Process Could be Better at Meeting Customer and its Own Expectations for Timeliness and Communication</p> <ul style="list-style-type: none"> - Permittees Want Faster Permit Processing and Better Communication with Applicants - CPRU Has Mixed Success in Meetings Its Goals for Timely Permit Processing <p>F3: Timeliness Concerns Attributed to Multiple Factors</p> <ul style="list-style-type: none"> - Engineers Spend More Time Reviewing Permits - Bottlenecks Occur at the End of the Permit Review Process - Permit Applicants Experience Challenges in Meeting Insurance Requirements - Some Permit Applications Are Not Recorded on a Timely Basis - Permit Review Activities Need Better Standardization and Clarity - Permit Processing is Primarily a Manual Process - CPRU Does Not Consistently Plan for Large Reviews 	The CPRU Manager should assign customer liaison responsibilities (to one or two individuals) to ensure consistent and timely communication on permit applications to help meet customer expectations.	Low	Pending/Underway	<p>Management Response: Management partially agrees with the recommendation. In general, the assignment of liaison responsibilities will increase confusion and will take more time of the staff reviewing the permit to provide and explain the details of customer's request to the liaison. CPRU Manager will explore the role of a liaison where this may increase efficiency and coordinate with IT to explore other tools to integrate with the database (See response to Recommendation 6). CPRU Manager will request additional resources from Management. Use of additional technicians to assist in background research for projects and review of routine, low-risk tasks will free up time to allow engineers to ensure consistent and timely communication on permit applications. Target Implementation Date: October 2022</p> <p>Auditor Response: Management's response generally addresses the recommendation. The use of additional resources – either a liaison or technician(s) – to perform provide customer service, would allow engineers more time to perform the technical reviews of permit applications and help to reduce review times. These additional resources may be critical to meeting customer's expectations while Valley Water's planned implementation of a new information systems for customer resource management (CRM) is undertaken that will also interface with another new information system that is planned to replace the current CPRU database. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 02/2026: Ongoing Since April 2024, VW executed an agreement with Timmons Group for implementation services for the Cityworks Software. CPRU and IT have been working with the Timmons Group on the design requirements for Cityworks as a replacement for the current CPRU database. For IT-based improvements, see Recommendation 6.</p> <p>Revised Target Implementation Date: June 2026 (IT improvements)</p>

District Management Audit Program
External Audits and Internal Reviews - Implementation Summary Report

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
298	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	6		<p>F4: Local Agencies' Strategies Could Benefit Valley Water</p> <ul style="list-style-type: none"> - Some Agencies Utilize Online Customer Service Portals to Upload Permit Application and to Check Permit Status - One Agency Uses a Project Coordinator to Facilitate Communication and Timely Processing - Other Agencies Identify Themselves Differently; Renaming CPRU May Avoid Confusion - Other Agencies Outreach Annually to Publicize Agency's Permit Services 	<p>The CPRU Manager, in collaboration with Valley Water Information Technology Unit, should continue efforts to identify and implement the solutions for desired functionality needed to strengthen permit processing, which include:</p> <ul style="list-style-type: none"> a. Electronic submission of permit applications and supporting documents that automatically creates an electronic permit review file. b. Expanded search function for researching past projects and permits. c. Customizable dashboards and/or reports that facilitate management oversight of permit processing timeliness, invoice aging, and other measures of performance. d. Tools, such as a request form or ticketing system, to help CPRU track requests for services in addition to permit reviews received from internal and external stakeholders. e. Ability for customers to self-check the status of their applications and other service requests through interface of the new customer resource management system with the new document management system. f. Minimize the administrative burden of tracking and reporting time spent on permit review and other asset protection services by CPRU and other Valley Water units. 	Low	Pending/Underway	<p>Management Response: Management agrees and will approach the implementation of this recommendation in phases:</p> <ol style="list-style-type: none"> 1. Modernize processes, support submission of permit applications, track requests, complete reviews, facilitate online reporting for customers and reduce administrative burden of tracking and reporting through the selection and implementation of a new CPRU online portal. Management will consider options to include this functionality within other active projects such as the Wells Management System Upgrade and Access Valley Water. (6a, d, e, f) 2. Expand search/research functions and reduce administrative burden via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022. (6b, f) 3. Create Dashboards and reports via the implementation of the Data Consolidation Capital Project Proof of Concept currently underway and scheduled for completion in October 2022, the ERP Capital Project currently underway. (6c)" <p>Target Implementation Date: Varies</p> <p>Auditor Response: Management's response generally addresses the recommendation. A target date to complete all activities should be established and a follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 02/2026: Ongoing.</p> <ol style="list-style-type: none"> 1. Ongoing. Work with the Timmons Group to implement Cityworks is underway. Timmons currently estimates that the new online portal will take approximately 1 year to implement. Cityworks will include all the functionality recommended by the audit items a thru e. Cityworks will reduce staff labor answering questions from customers on project status, allow for automated customer guidance on how to submit a complete application, and allow for dashboards to monitor and track customer submittals and timelines which the current database cannot do. 2. Ongoing. CPRU has specified that its online customer service portal must have expanded and agile search capabilities. 3. Ongoing. CPRU has specified that its online customer service portal must have configurable dashboards for management. <p>Revised Target Implementation Date: June 2026</p>
304	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	12		<p>F5: Update Needed for Fee Schedule and Cost Recovery Strategy</p> <ul style="list-style-type: none"> - Valley Water Recovers Only a Small Percentage of CPRU's Operating Costs from Permit Fees and Other Services - Updating Valley Water's Fee Schedule, Based on a Fee Study, Could Help Ensure Appropriate Cost Recovery - Updated Guidance for Billing for Staff Time Spent Reviewing Permits is Needed - Other Local Water Agencies Charge Hourly Rate Instead of Flat Fee for Inspections 	<p>The CPRU Manager should adopt a risk-based permit review strategy to reduce processing time for low-risk, repetitive types of permit applications. Clarify in the strategy how time spent on the review of permit applications and other processing tasks should be tracked and invoiced.</p>	Low	Pending/Underway	<p>Management Response: Management agrees with this recommendation.</p> <ol style="list-style-type: none"> a. CPRU Manger will consider strategies to reduce processing time for low-risk, repetitive types of permit applications. CPRU Manager and experienced staff, through permit guidance instructions will add further clarity for new and less experienced staff and reduce ambiguity in the process. (Target Date: June 2022) b. Implementation of Recommendation 6 via the implementation of the Data Consolidation Capital Project Proof of Concept and the ERP Capital Project and the results of the fee study with the implementation of Recommendation 11, and results from Recommendation 13 will provide better information and insight to strategize the tracking and invoicing of permit applications and other processing tasks. (Target Date: June 2023 depending on the research outcome in Recommendation 13) <p>Target Implementation Date: Varies</p> <p>Auditor Response: Management's response generally satisfies the recommendation. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 02/2026:</p> <ol style="list-style-type: none"> a. Complete b. Ongoing. See Recommendation 6. <p>Revised Target Implementation Date: Recommendation 6—June 2026.</p>
305	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	13		<p>F6: Robust Internal Control Framework Needed to Ensure Accurate and Timely Invoicing and Collection of Fee Payments</p>	<p>The CPRU Manager and the Chief Financial Officer should seek to identify an IT solution to ensure timely and accurate recording of invoices, payments, and deposits. One option to consider is to use Valley Water's core financial management information system.</p>	Low	Pending/Underway	<p>Management Response: Management agrees and will engage in the research, specification, selection, procurement, and implementation of a comprehensive tool capable of ensuring accurate recording of invoices, payments, and deposits. Target Implementation Date: June 2023 depending on research outcome.</p> <p>Auditor Response: Management's response generally addresses the recommendation. A follow-up audit to assess CPRU's efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 02/2026: Ongoing.</p> <p>See Recommendation 6 for IT upgrade status. CPRU has specified that its online customer service portal must have an ability to integrate invoicing.</p> <p>Revised Target Implementation Date: Recommendation 6—June 2026</p>

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External Audits and Internal Reviews - Implementation Summary Report

Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
306	2021 Permitting Best Practices Audit	Community Projects Review Unit (CPRU)	14		F6: Robust Internal Control Framework Needed to Ensure Accurate and Timely Invoicing and Collection of Fee Payments	The CPRU Manager, in coordination with the Chief Financial Officer, should establish processes for invoicing and collection of payments that includes a robust framework of financial management internal controls, in particular the segregation of duties for billing and collections; cash management; monitoring of aging receivables; and reconciliation.	Low	Pending/Underway	<p>Management Response: Management agrees and will approach the implementation of this recommendation in phases: 1. Implement the suggested financial management internal controls under the current CPRU data base system, (Target date – July 2021). 2. Engage a consultant to assist in the development of a billing and revenue collection policy that incorporates best practices (Target date – March 2022). 3. Implement an IT solution for invoicing that is linked to Valley Water’s core financial system and aligns with Valley Water’s billing and revenue collection policy (Target date – June 2023 depending on the research outcome (R13) Target Implementation Date: Varies.</p> <p>Auditor Response: Management’s response generally addresses the recommendation. A follow-up audit to assess CPRU’s efforts to implement this recommendation should be included in the annual audit work plan for 2023.</p> <p>Status 02/2026: a. Complete. b. Complete. c. Ongoing. See Recommendation 6 for IT upgrade status. CPRU has specified that its online customer service portal must have an ability to integrate invoicing. Currently CPRU has to create invoices in Oracle and MuniBilling which created additional work to address the recommendation in the interim.</p> <p>Revised Target Implementation Date: June 2026</p>
344	2023 Capital Improvement Program Performance Audit	Business Planning and Analysis (CIP Team)	1	b	Schedule and spending targets established in the CIP 5-Year Plan may not be achievable.	Improve CIP goal attainment, including the likelihood that expenditure and schedule targets are met, by identifying specific staff and contract resources required to complete projects, including the type of resource, quantity of resource, and timing of the need for the resource	High	Pending/Underway	<p>Management agrees and believes this recommendation will be addressed through the implementation of our new resource planning/staff forecasting tool VEMO.</p> <p>01/09/26: The development of new functionalities of Vemo is underway. In the interim, the Budget Office has developed a tool for Capital Project managers to use for estimating labor hours. Estimated to be fully implemented by Q4, FY26.</p>
345	2023 Capital Improvement Program Performance Audit	Business Planning and Analysis (CIP Team)	1	c	Schedule and spending targets established in the CIP 5-Year Plan may not be achievable.	Improve CIP goal attainment, including the likelihood that expenditure and schedule targets are met, by conducting and formally memorializing analyses of common cost and schedule delays in the Lessons Learned database in ProjectMates and share results agency-wide	High	Pending/Underway	<p>Management agrees and will implement this recommendation through ProjectMates.</p> <p>01/09/26: The implementation of the Lessons Learned database in ProjectMates is underway. Estimated to be fully implemented by Q4, FY26. The documentation and formal memorialization of common cost and schedule delays, via the new Table 5 in Vena is deemed complete. Change Management Categories are tracked and monitored. Additionally, Valley Water staff held trainings on: 1) Lessons Learned Training on 6/24/25 for Construction phase, Design and Construction phases, and Construction contract procurement best practices; and 2) Construction Cost Estimating Training on 06/25/25.</p>
348	2023 Capital Improvement Program Performance Audit	Business Planning and Analysis (CIP Team)	2	c	Valley Water’s performance in delivering capital projects is obscured by the lack of a robust performance measurement system	Develop a performance measurement system that effectively demonstrates Valley Water’s performance in achieving the goals of the CIP and the capital infrastructure goals of its master plans. This includes incorporating anticipated timelines within which the results of recent process improvements are expected to be evident and measurable in CIP outcomes.	Medium	Pending/Underway	<p>Management agrees. Management is proposing a two-year implementation period for ProjectMates, with a follow-up audit to validate success (e.g. follow-up audit to be initiated in FY26 to allow time for implementation of ProjectMates and Vemo).</p> <p>01/09/26: Implementation underway. Estimated to be fully implemented by Q4, FY26.</p>

District Management Audit Program
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Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
358	2023 Close-out Audit of the 2012 Safe, Clean Water Program	Chief of Staff/District Counsel	1		Valley Water does not have a conflict-of-interest policy that applies to the Independent Monitoring Committee (IMC) members. Conflicts of interest, whether real or perceived, can harm the Program's reputation and integrity.	Develop a conflict-of-interest policy that applies to IMC members and incorporate education on conflicts of interest into IMC orientation and training procedures.	Low	Completed/Implemented	Management Response: Management agrees with the recommendation. Staff will evaluate the processes and committees to which the conflict-of-interest policy would be applicable. A plan and policy are expected to be in place by October 2024. Update as of 01-14-26 Status is "Completed" The Board adopted the new IMC resolution that included conflict of interest provisions at the September 23, 2025 meeting.
360	2023 Close-out Audit of the 2012 Safe, Clean Water Program	Business Planning and Analysis (SCW Team)	3		Some Program KPIs relied on external organizations for completion, which made them more difficult to achieve on schedule. Additionally, some KPIs were based on outputs instead of outcomes, which created limitations in the measurement of the Program's impact on the community.	Examine KPIs in future iterations of the Program and make revisions as needed to better reflect KPIs that are within Valley Water's control and focus on outcome-based KPIs. Where KPIs are not able to be fully within Valley Water's control, consider defining Valley Water's level of responsibility (e.g., primary or contributing responsibility) and develop strategies for addressing external factors that limit the ability of the KPIs to be achieved.	Medium	Completed/Implemented	Management Response: Staff acknowledges the recommendation and sees the upcoming independent audit of the renewed Safe, Clean Water and Natural Flood Protection Program (Renewed Program Audit) as the appropriate opportunity to review the KPIs. The renewed Program replaced the 2012 Program in its entirety and includes a new priority, new projects, and KPIs. The renewed Program has three categories of KPIs, namely Performance-based, requiring completion of a specific activity; Fiscal-based, requiring full allocation to be expended to accomplish desired outcomes; and Schedule-based, requiring project completion according to a timeline, and these will be reviewed as part of the Renewed Program Audit. Background: The Safe, Clean Water Program Resolution No. 20-64, Section Q states "While the Safe, Clean Water and Natural Flood Protection program is in effect, the Board of Directors shall conduct independent professional audits of the Program to provide for accountability and transparency at least every five years." Following a recommendation from the Independent Monitoring Committee in February 2023, the Board approved two separate audits: a closeout audit for the 2012 Program (the current audit) and a distinct audit for the renewed Safe, Clean Water Program. The renewed Program, which voters approved in 2020 and became effective on July 1, 2021, is now in its third year of implementation. Staff expects to engage an auditor for the renewed Program by July 2024 and will share the 2012 Program closeout audit recommendations with the new auditor Update as of 01-14-26 PMA Consultants, LLC has completed the independent professional audit of the renewed Safe, Clean Water Program. On November 12, 2025, the Board received the final report, titled "Safe, Clean Water and Natural Flood Protection Program (Measure S) Performance Audit Report, FY 2022-24" (Renewed Program Audit), together with management's response. The report includes recommendations related to examining and revising certain key performance indicators (KPIs). Staff will report on progress toward implementing these recommendations as part of the updates on the Renewed Program Audit.
364	2024 Human Resources	HR Deputy	1	b	Due to leadership changes and insufficient communication, HR employees struggle to trust Department leadership	Develop a Departmental operating plan that details key initiatives to build confidence in the strategic direction of the Department.	High	Completed/Implemented	Although Management agrees with this finding, we believe there is more to it. Valley Water's employment engagement survey conducted in 2023 resulted in a focus on trust and communication as an entire agency. Over the last year, Human Resources (HR) has diligently focused on these areas. The annual 2024 department retreat concentrated on this area, and all employees committed to adding 2025 performance goals, a clear sign of our collective dedication to improving trust and communication. B. Operation Plan – During the January 2025 all-employee meeting, the HR leadership communicated the 2025 goals and objectives. The department will also develop an operating plan that provides information on key initiatives. 12/30/2025 Status: During the January 2025 all-employee meeting, the HR leadership communicated the 2025 goals and objectives. The department also developed an operating plan that provides information on key initiatives. The Operations Plan was reviewed and approved by HR Leadership and our Chief in Q4 2025. While the document is completed and this audit item is completed, HR intends to communicate the HR Operations plan with chiefs and all staff during a date to be determined in Q1 2026.
365	2024 Human Resources	HR Deputy	1	c	Due to leadership changes and insufficient communication, HR employees struggle to trust Department leadership	Review HR employee classifications for HR staff to determine whether their job function suggests they should be confidential positions.	Medium	Pending/Underway	Although Management agrees with this finding, we believe there is more to it. Valley Water's employment engagement survey conducted in 2023 resulted in a focus on trust and communication as an entire agency. Over the last year, Human Resources (HR) has diligently focused on these areas. The annual 2024 department retreat concentrated on this area, and all employees committed to adding 2025 performance goals, a clear sign of our collective dedication to improving trust and communication. C. Position Evaluation- Management will review and evaluate the positions within the Human Resources Department to address confidentiality. 12/30/2025 Status: The evaluation and review of Position Evaluations was moved to a target completion date closer to Q1/Q2 2026 as contract negotiations are being conducted during Q4 2025. A draft proposal of contract language was developed and will be shared with the BUs. However, until contract negotiations are completed, a policy cannot be finalized.
366	2024 Human Resources	HR Deputy	2	a	Staff report that changes to processes, systems, and departmental organization are not always well-communicated, resulting in confusion and inconsistent change adoption.	Employ the principles of change management to effectively communicate and integrate changes within the Department.	Medium	Completed/Implemented	Although Management agrees with this finding, we believe there is more to this finding. There are times when information is provided to staff, but the timeline implementation is quick, which can cause staff concerns. Human Resources Management is committed to a Human Resources Environment that is fair and transparent and changes are implemented in the best way for the department. 12/30/2025 Status: The change management training session for the HR Leaders was completed on Tuesday, September 16, 2025.

District Management Audit Program
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Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
368	2024 Human Resources	Human Resources & IT	3	a	The Department is experiencing challenges using Infor, the District's enterprise resource planning system (ERP), as its human resource information system (HRIS) due to challenges with system implementation and lack of system integration.	As the District seeks a new ERP system, ensure that a representative from HR with a strong understanding of system needs is highly involved in evaluating system capabilities against HR's system needs.	High	Pending/Underway	Management agrees with the recommendations and are in process of obtaining an ERP to address our HRIS deficiencies. Human Resources recently implemented an HRIS unit within the department. Not having the unit greatly hindered the ability to understand the functionality and interfaces needed for an effective and efficient ERP system. Key HR staff have been identified to be part of the evaluation and implementation of the ERP. In addition to an ERP system Valley Water will contract with an implementation partner certified in implementing the solution provider's software. The Request for Proposal (RFP) for both the software solution and the implementer was published in January 2025. 12/30/2025 Status: RFP completed Q1 2025. Efforts have been made to address HRIS deficiencies, including the establishment of an HRIS team and the completion of an initial vendor evaluation through the RFP process. Based on these findings, the evaluation approach is being intentionally expanded from Payroll-only to include HCM functionality, ensuring the selected solution best supports long-term operational and strategic needs. This refinement reflects a continual improvement approach to selecting the right ERP solution. Estimated implementation Q3/Q4 2026.
369	2024 Human Resources	Human Resources & IT	3	b	The Department is experiencing challenges using Infor, the District's enterprise resource planning system (ERP), as its human resource information system (HRIS) due to challenges with system implementation and lack of system integration.	After a new system is selected, conduct a thorough implementation process to support successful system adoption.	High	Pending/Underway	Management agrees with the recommendations and are in process of obtaining an ERP to address our HRIS deficiencies. Human Resources recently implemented an HRIS unit within the department. Not having the unit greatly hindered the ability to understand the functionality and interfaces needed for an effective and efficient ERP system. Key HR staff have been identified to be part of the evaluation and implementation of the ERP. In addition to an ERP system Valley Water will contract with an implementation partner certified in implementing the solution provider's software. The Request for Proposal (RFP) for both the software solution and the implementer was published in January 2025. 12/30/2025 Status: Item 3b cannot be started until item 3a is completed.
373	2024 Renewed SCW Prog	CFO, Financial Planning & Management Services	1		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.	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.	Low	Pending/Underway	Response: Management agrees with the recommendation and staff will implement this recommendation. Implementation Date: Q4, FY26 for FY2026-2027 Annual Rate Setting Report (May 2026).
374	2024 Renewed SCW Prog	CFO, Financial Planning & Management Services and AO, Office of Integrated Water Management – Business Planning and Analysis Unit	2		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.	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.	High	Pending/Underway	Response: Management agrees with the recommendation and staff will implement the recommendation. Implementation Date: Q4, FY26
375	2024 Renewed SCW Prog	AO, Office of Integrated Water Management – Business Planning and Analysis Unit	3		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.	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.	High	Pending/Underway	Response: Management agrees with the recommendation and staff will implement the recommendation. Implementation Date: Q4, FY26
376	2024 Renewed SCW Prog	AO, Office of Integrated Water Management – Business Planning and Analysis Unit and COB, Office of the Clerk of the Board	4		A prior audit recommendation to implement a conflict-of-interest policy for the Independent Monitoring Committee (IMC) has not yet been finalized or implemented.	Finalize and implement a formal Conflict of Interest framework for the Independent Monitoring Committee.	Medium	Completed/Implemented	Response: 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 - COMPLETED
377	2024 Renewed SCW Prog	COB, Office of the Clerk of the Board	5		Ongoing vacancies on the IMC have made it challenging to consistently meet quorum requirements and distribute workload among members.	Partner with the Board to enhance recruitment strategies, to identify, attract, and recruit qualified candidates.	Medium	Pending/Underway	Response: Management agrees with the recommendation and staff will explore additional recruitment strategies in partnership with the Board of Directors. Implementation Date: Q4, FY26

District Management Audit Program
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Line #	Audit Name	Action Item Owner	Ref #	Sub Ref #	Finding	Summary of Recommendation	Priority Ranking (H, M, L)	Status	Recent Updates/Notes
378	2024 Renewed SCW Prog	COO, Watersheds	6		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.	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.	High	Pending/Underway	Response: 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
379	2024 Renewed SCW Prog	COO, Watersheds	7		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.	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.	High	Pending/Underway	Response: 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. Implementation Date: Q4, FY26
380	2024 Renewed SCW Prog	DOO, Watersheds Operations and Maintenance Division	8		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.	Enhance procedures to ensure accurate data entry and processes for ensuring final reports align with source data.	Low	Pending/Underway	Response: Management agrees with the recommendations and staff will develop a process to verify that the data entered is in alignment with the work performed. Implementation Date: Q4, FY26
381	2024 Renewed SCW Prog	COO, Watersheds	9		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.	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.	Medium	Pending/Underway	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. Implementation Date: Q4, FY26
382	2025 Water Conservation Program	Water Supply Planning and Conservation Unit	1		Valley Water's Water Conservation team is understaffed compared to peer agencies, which may limit capacity to manage workloads and poses risk to achieving the District's long-term conservation goals.	To ensure the Water Conservation team can meet the District's long-term conservation goals, Valley Water should consider adding at least five additional staff to the Water Conservation team who are dedicated to stakeholder engagement and administrative and program support.	Medium	Pending/Underway	Response: This recommendation is consistent with the 2021 Water Conservation Strategic Plan findings, recommending an additional 6 full-time staff to meet the Board's 2040 goal. In 2021, three full-time staff were added. Since the program meets its annual water savings metric, the remaining three positions are documented as unfunded needs in the budget process. Additionally with the adoption of the Board's 2050 Target, an additional ten (10) full-time staff will need to be added to the program. Management will continue to monitor the programs progress towards meeting its annual metric to guide adding additional staff in a phased approach to be mindful of water rate affordability concerns. Implementation Date: Ongoing
383	2025 Water Conservation Program	Water Supply Planning and Conservation Unit	2		Valley Water employs a multiple channel outreach approach similar to its peers but does not currently have a formal integrated communications strategy. Along with limited staffing capacity, this may constrain its ability to effectively engage diverse and underserved populations and fully realize the potential of its water conservation programs.	To build on the District's existing outreach activities, the Water Conservation team should work with other District departments, including the Office of Communications, to develop and implement a formalized, comprehensive, data-driven strategic engagement strategy that clearly defines target audiences, messaging priorities, and outreach methods.	Medium	Pending/Underway	Response: Management agrees with this recommendation and will incorporate the development of a data-driven strategic engagement strategy as part of the 5-year update to the 2021 Water Conservation Strategic Plan. A RFP is under development with the goal of hiring a consultant in late 2026. Implementation Date: 2026 - 2028
384	2025 Water Conservation Program	Administrative Services/External Affairs	3	a	The effectiveness of Valley Water's water conservation programs is constrained by capacity challenges and opportunities to improve alignment with the following key support departments: Procurement, Communications, and IT.	To address the capacity and coordination needs impacting water conservation activities, the District should evaluate workload and staffing needs in the Procurement, Communications, and IT departments to ensure support for water conservation and other District priorities.	Low	Completed/Implemented	Response: The Procurement and Information Technology teams have refined their processes to better track, manage, and enhance services that rely on externally managed IT contracts, thereby supporting water conservation initiatives and other Valley Water business functions more effectively. While the current staffing from the Office of Communications is sufficient to support the existing goals and outcomes defined by the Water Conservation and Communications business units, should the recommended cross-functional engagement strategy be developed and implemented, the need for additional staffing and workload evaluation would be warranted. Implementation Date: Completed
385	2025 Water Conservation Program	Administrative Services/External Affairs	3	b	The effectiveness of Valley Water's water conservation programs is constrained by capacity challenges and opportunities to improve alignment with the following key support departments: Procurement, Communications, and IT.	To address the capacity and coordination needs impacting water conservation activities, the District should continue the current procurement audit to review and streamline procurement processes.	Low	Completed/Implemented	Response: The Procurement and Information Technology teams have refined their processes to better track, manage, and enhance services that rely on externally managed IT contracts, thereby supporting water conservation initiatives and other Valley Water business functions more effectively. While the current staffing from the Office of Communications is sufficient to support the existing goals and outcomes defined by the Water Conservation and Communications business units, should the recommended cross-functional engagement strategy be developed and implemented, the need for additional staffing and workload evaluation would be warranted. Implementation Date: Completed

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386	2025 Water Conservation Program	Water Supply Planning and Conservation Unit	3	c	The effectiveness of Valley Water's water conservation programs is constrained by capacity challenges and opportunities to improve alignment with the following key support departments: Procurement, Communications, and IT.	To facilitate better coordination, the Water Conservation team should formalize collaboration efforts with the Communications department by establishing a clear framework that defines roles, responsibilities, and decision making authority for the annual water conservation campaign.	Low	Pending/Underway	<p>Response: The water conservation team meets with the Procurement, Communications, and IT teams on a monthly basis to facilitate coordinating various work activities and ensure that existing roles and responsibilities are well defined. During times of the development of water conservation campaigns, which are now year-round, meetings with the communications team occur every two weeks. With respect to communications, the Water Conservation Unit leads: campaign priorities and campaign funding. Creative development is collaborative and campaign execution and media buys are lead by the Communications team.</p> <p>Management will incorporate establishing a clear framework, roles, responsibilities and decision-making authority as part of the RFP under finding #2.</p> <p>Implementation Date: 2026 - 2028</p>

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Santa Clara Valley Water District

File No.: 26-0164

Agenda Date: 2/18/2026
Item No.: 4.3.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes No
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Continue Discussion on the Status of the On-call Management Services Agreement for the Chief Audit Executive (CAE) and Recommend the Board of Directors Initiate a Request for Proposal (RFP).

RECOMMENDATION:

- A. Continue discussion on the status of the On-call Management Services Agreement for the CAE, and
- B. Recommend the Board of Directors initiate an RFP.

SUMMARY:

At the January 21st, 2026, BAC meeting staff introduced this topic for consideration. After some discussion, the committee decided to continue this topic at the next committee meeting, and asked staff to investigate other opportunities to include best auditing practices in the scope of services of the next request for proposal.

Summary of Staff Research

Accordingly, staff has attached four guidance publications related to local government auditing best practices as references for the continued discussion as follows:

- Attachment 1 is titled "The role of auditing in public sector governance" by the Institute of Internal Auditors
- Attachment 2 is titled "Guide to selecting a Chief Audit Executive" by the Association of Local Government Auditors
- Attachment 3 is titled "Audit Committee Guidance" by the Association of Local Government Auditors
- Attachment 4 is titled "ALGA Recommends Independent In-House Audit Capacity" by the Association of Local Government Auditors

Further staff research has found that to be credible and effective, public sector audit activities must have:

- Organizational independence
- A formal legal mandate
- Unrestricted access to people, records, and systems
- Sufficient and protected funding
- Competent, professionally qualified leadership
- Objective and skilled staff
- Stakeholder support
- Adherence to professional audit standards (e.g., IIA standards)

Without these elements, audit functions cannot fully protect the public interest.

Recommendation to Initiate an RFP

The current CAE agreement with Sjoberg Evashenk Consulting, Inc. (A4570A/CAS5183) is set to expire on November 22, 2026 after the completion of the five-year agreement including the initial three-year term and two one-year time extensions. To ensure continuity of audit operations and allow sufficient time for the incoming CAE to complete the tri-annual risk assessment and develop the recommended 2027 audit plan by November 30, 2026 as required by the Audit Charter, staff recommends that the BAC proceed with the proposed timeline for the RFP process to select a new CAE:

- 1) February 18, 2026 (BAC Meeting):
 - a) Request BAC recommendation to the full Board to initiate an RFP for a new CAE agreement.
- 2) February 24, 2026 (Board Meeting):
 - a) Seek Board approval to initiate the RFP.
 - b) If approved, staff will work with Procurement to issue the RFP.
- 3) August 25, 2026 (Board Meeting)
 - a) Request Board approval of the new CAE agreement
 - i) If Sjoberg is re-selected, the risk assessment can begin in August.
 - ii) If a new firm is selected, Sjoberg will complete activities through November 22, 2026
 - iii) If a new firm is selected, the new CAE firm can initiate the Risk Assessment in August.

In the past, the Board Audit Committee (BAC) has expressed a desire to be involved in the evaluation process to select the CAE. During the last CAE procurement process, the BAC selected one of its members to join two staff members on the Evaluation Committee to ensure the BAC's interests and

desires informed the selection process. In this way, the evaluation process was conducted in a manner that maintained the integrity of the procurement process and was unaffected by the Brown Act. The BAC is requested to provide direction on whether or not to assign a committee member to the Evaluation Committee for this procurement (assuming full Board approval). If a BAC member is not assigned to the Evaluation Committee, then the Evaluation Committee would be comprised of staff only.

ENVIRONMENTAL JUSTICE IMPACT:

There are no environmental justice impacts associated with this item.

ATTACHMENTS:

- Attachment 1: Role of Auditing in Public Sector Governance
- Attachment 2: Guide to Selecting a Chief Audit Executive
- Attachment 3: Audit Committee Guidance
- Attachment 4: ALGA Recommends In-House Audit Capacity

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068

Supplemental Guidance: **THE ROLE OF AUDITING IN PUBLIC SECTOR GOVERNANCE**

2nd Edition

Release Date: Jan. 2012



**The Institute of
Internal Auditors**

Global

Supplemental Guidance: The Role of Auditing in Public Sector Governance

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Executive Summary

This second edition of “The Role of Auditing in Public Sector Governance” came about as a result of the extraordinary demand for guidance related to auditing in the public sector. Just as the first edition did, this edition presents information on the importance of the public sector audit activity to effective governance and defines the key elements needed to maximize the value the audit activity provides to all levels of the public sector. The guidance is intended to point to the roles of audit (without differentiating between external and internal), methods by which those roles can be fulfilled, and the essential ingredients necessary to support an effective audit function. As such, it may not be fully applicable in every jurisdiction, particularly where public sector audit roles and responsibilities are specifically defined by governing institutes or legal mandates to exclude certain functions or assign them to other entities.

Introduction

This guidance presents the importance of the public sector audit activity to effective governance and defines the key elements needed to maximize the value the public sector audit activity provides to all levels of the public sector. The principles discussed are relevant to national, regional (i.e., state or provincial), and local (i.e., county, city, or village) governments, as well as quasi-governmental and international government organizations. They also may apply to other publicly funded entities. In this guidance, all of these entities will be referred to as public sector organizations or entities.

This guide is addressed primarily to elected and appointed public sector officials, as well as all advocates of good government. Its purpose is to encourage readers to reflect on the public sector audit activities that now serve their jurisdictions and evaluate how those audit activities can be supported to fulfill their highest role in the governance of public sector entities most effectively. In those jurisdictions where a public sector audit activity is needed, this guidance can provide the initial direction for decision-makers on the outcomes and services they should expect and the elements that are needed to establish an effective audit activity.

Detailed guidance on the standards and other tools for creating and improving public sector audit services are available from The Institute of Internal Auditors (IIA).

Internal and External Auditing in a Public Sector Context

This guidance addresses the role of public sector auditing, including both internal and external public sector auditing. Myriad public sector audit activities and reporting relationships exist among different jurisdictions and in different forms of government. The key point, however, is that public sector audit activities must be configured appropriately to enable public sector entities to fulfill their duty to be accountable and transparent to the public while achieving their objectives effectively, efficiently, economically, and ethically.

Public Sector Governance

Governance is defined as the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the organization's activities toward the achievement of its objectives. In the public sector, governance relates to the means by which goals are established and accomplished. It also includes activities that ensure a public sector entity's credibility, establish equitable provision of services, and assure appropriate behavior of government officials — reducing the risk of public corruption.

The Role of Public Sector Auditing

Auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The public sector auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of public sector programs, policies, operations, and results. Foresight identifies trends and emerging challenges. Auditors use tools such as financial audits, performance audits, investigations, and advisory services to fulfill each of these roles.

Key Elements of an Effective Public Sector Audit Activity

An effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their public sector entity accountable. Auditors perform an especially important function in those aspects of governance that are crucial for promoting credibility, equity, and appropriate behavior of public sector officials, while reducing

the risk of public corruption. Therefore, it is crucial that audit activities are configured appropriately and have a broad mandate to achieve these objectives. The audit activity must be empowered to act with integrity and produce reliable services, although the specific means by which auditors achieve these goals vary. At a minimum, public sector audit activities need:

Organizational independence. Organizational independence allows the audit activity to conduct work without interference by the entity under audit. The audit activity should have sufficient independence from those it is required to audit so that it can both conduct and be perceived to conduct its work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditors' work and the ability to rely on reported results. Independence is greatly impacted by how a chief audit executive¹(CAE) is appointed and can be terminated. The *International Professional Practices Framework* (IPPF) Practice Advisory 1110-1 states that "the CAE, reporting functionally to the board and administratively to the organization's chief executive officer, facilitates organizational independence." Important parts of this independence are the CAE's ability to be protected from management or political interference or retaliation resulting from carrying out legitimate duties in accordance with the Standards. The CAE also should be free to staff the audit activity without interference from management or undue political influence from public officials.

A formal mandate. The audit activity's powers and duties should be established by the public sector's constitution, charter, or other basic legal document. Among other topics, this document would address procedures and requirements of reporting and the obligation of the audited entity to collaborate with the auditor.

Unrestricted access. Audits should be conducted with complete and unrestricted access to employees, property, and records as appropriate for the performance of audit activities.

¹ Chief audit executive (CAE) describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and The IIA's *International Standards for the Professional Practice of Internal Auditing* (Standards). Different terminology may be used for the senior person responsible for managing an external audit activity. The term CAE will be used in this publication. However, the concepts generally apply to both internal and external audit activities.

Sufficient funding. The audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organization being audited because the budget impacts the audit activity's capacity to perform its responsibilities.

Competent leadership. The head of the audit activity must be able to independently and effectively recruit, retain, and manage highly skilled staff without undue managerial or political influence. The leader should be knowledgeable of applicable audit standards, professionally qualified — preferably certified — and competent to oversee and manage an audit function. Moreover, the CAE should be an articulate public spokesperson for the audit activity.

Objective staff. An audit activity's staff must be objective. Audit staff must have impartial attitudes and avoid any conflict of interest. Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. A conflict of interest may exist even if no unethical or inappropriate act results. Such a conflict can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. Moreover, a conflict of interest could impair an individual's ability to perform audit duties and responsibilities objectively.

Competent staff. The audit activity needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards.

Stakeholder support. The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed public sector officials, as well as by the media and involved citizens.

Professional audit standards. Professional audit standards, such as the *International Professional Practices Framework* (IPPF) promulgated by The Institute of Internal Auditors, support the implementation of the previous elements and provide a framework to promote quality audit work that is systematic, objective, and based on evidence. Just as many public sector entities have adopted internal control standards — either as requirements or guidance for

public sector managers — audit activities should conduct their work in accordance with recognized standards.

The discussion on the following pages details key public sector governance principles and describes the services and contributions that governments can derive from their audit activities. We invite readers to consider these elements in evaluating current or planned audit activities, to determine whether they are positioned to achieve their objectives of public accountability and service improvement.

KEY POINTS

RECOMMENDATIONS

To protect the public interest, every public sector entity requires independent audit activities providing a range of assurance and advisory services — from financial attestation to performance and operational efficiency — whether through the use of internal or external audit services or a combination of the two. The public sector audit activity's mandate should be as broad as possible to enable it to respond to the full scope of the entity's activities.

Although the means to accomplish them will vary, all public sector audit activities require:

- Organizational independence.
- A formal mandate.
- Unrestricted access.
- Sufficient funding.
- Competent leadership.
- Objective staff.
- Competent staff.
- Stakeholder support.
- Professional audit standards.

The public sector entity must establish protections to ensure that audit activities are empowered to report significant issues to appropriate oversight authorities. One means of accomplishing this protection is through creation of an independent audit committee.

To preserve independence, public sector auditors' advisory services should never assume a management role. Moreover, auditors must maintain independence and objectivity for any subsequent audits conducted where advisory services have been provided previously.

Public Sector Governance

Public sector auditors play an important role in effective public sector governance. The term governance refers to how an organization makes and implements decisions — “the processes by which organizations are directed, controlled, and held to account.” Because public sector entities throughout the world are structured differently — with different and possibly overlapping mandates and jurisdictions — no single governance model applies to all of them. Nevertheless, certain governance principles are common across the public sector. Common principles of corporate governance encompass the policies, processes, and structures used by an organization to direct and control its activities, to achieve its objectives, and to protect the interests of its diverse stakeholder groups ethically.

Principles of Governance

The following basic governance principles are described in terms applicable to the public sector.

Setting direction. Good governance establishes policies to guide an organization’s actions. In the public sector, policy may be directed through broad national goals, strategic plans, performance goals, legislative guidance, designated oversight organizations, or legislative oversight committees. A public sector entity’s policies — or at least its priorities — can generally be found in its strategic plan, operational plan, or budget, which allocates limited resources to specific activities.

“The conventional wisdom is that government cannot be effective in the absence of public trust. Government auditors play a central role in fostering such trust, and have even been referred to as the guardians of public trust. Without them, citizens would lack credible insight into the soundness of the many inner workings of government.”

Richard Chambers
IIA President and CEO
2011

Instilling ethics. Good governance includes clearly articulated ethical values, objectives, and strategies; appropriate tone at the top; and internal control. It should align policies and procedures to encourage employee and public official behavior that is consistent with the public sector organization’s ethics and values. An important element necessary to achieve behavior that is consistent

with good ethics is setting and enforcing clear lines of accountability that hold people responsible for doing the right thing.

Overseeing results. Good governance requires continuing oversight to ensure that policy is implemented as intended, strategies are met, and the overall performance of the public sector entity meets expectations while conforming with policies, laws, and regulations.

Accountability reporting. Because public sector entities act as “agents” to use resources and authority to accomplish established goals, public sector entities must account for how they use the resources and the results they have accomplished. Accordingly, good governance requires regular financial and performance reporting that is validated for accuracy by an independent auditor. Accountability also implies imposing penalties or sanctions against those who have misapplied the resources for purposes other than intended.

Correcting course. When the organization has not achieved its financial or operational performance goals, or when problems are detected in operations or the use of funds, a good governance system will identify the root cause of the problems, determine the corrective actions needed, and follow up to determine whether those actions were implemented effectively. Auditors’ findings and recommendations represent critical input to good governance that can lead organizations to remedy identified weaknesses and deficiencies promptly and appropriately.

Governance Principles Critical To The Public Sector

Unique governance principles arise from the unique nature of the public sector. For example, unique to the public sector is the importance of political forces, the not-for-profit nature, and the ultimate objective of public service for many public sector activities. Simultaneously, public sector entities hold coercive (e.g., police, taxation, and regulatory) powers over citizens and economic enterprises, and thus they must enact protections to ensure fairness and accountability in the use of those powers and in the delivery of the expected services. These protections are fundamental in political systems in which citizens endow the public sector entities with their powers. In general, any form of public sector entity can benefit from accountability measures that ensure officials use resources and authority to meet the mandated goals and objectives. Moreover, good public governance requires fair and impartially enforced laws and regulations. The absence

of good governance structures and lack of adherence to basic governance principles increases the risk of public corruption, which is defined as the misuse of entrusted power for private gain. Therefore, in addition to the basic governance principles described in the previous section, upholding the principles of accountability, transparency, integrity, and equity are essential in the public sector.

Accountability. “Accountability is the process whereby public sector entities, and the individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure. In effect, accountability is the obligation to answer for responsibility conferred.” (Source: IFAC, *Governance in the Public Sector: A Governing Body Perspective*, 2001).

Transparency. The principle of transparency relates to the openness of a public sector entity to its constituents. Good governance includes appropriate disclosure of key information to stakeholders so that they have the relevant facts about the public sector entity’s performance and operations necessary to clearly understand motives and reach correct conclusions about the impacts of its actions. Accordingly, the public sector’s decisions, actions, and transactions must be conducted in the open. Many public sector entities are required by law to make public documents available upon request. Additionally, many public sector entities are required by law to publish meetings notices including specific agenda items. Although the public’s interest is sometimes served by protecting information from disclosure — such as instances where national security, criminal investigations, or the proprietary information of a private company would be compromised — the transparency of public sector actions and information plays a significant role in public oversight.

Auditors can provide a direct link between transparency and the credibility of the public sector entity. Lawmakers and the public look to audits for assurance that public sector actions are ethical and legal, and that financial and performance reporting accurately reflect the true measure of operations.

Integrity. The principle of integrity calls for public officials to act consistently with the ethical principles and the values, expectations, policies, and outcomes of the public sector entity. The erosion of public trust if public information and

actions are not credible and reliable undermines the public sector's legitimacy and ability to govern. The political, social, economic, and environmental costs to society can be extensive. The principle of integrity also applies when information is disseminated to lending authorities or other principals who have an interest other than an ownership share. The consequences of violating the expectation of the highest integrity can be swift and shattering when the people's trust in the public sector, its institutions, and leadership is undermined.

Equity. The principle of equity relates to how fairly public sector officials exercise the power entrusted to them. The public grants its agents — public sector officials — both money and power to carry out their responsibilities. However, it is concerned with the misuse of public sector power, waste of resources, and any other issues involving corruption or poor management that could negatively impact the entity's obligations and service delivery to citizens.

Public sector equity can be measured and evaluated across four dimensions:

1. **Service costs** are paid using taxes and fees charged by the public sector entity and borrowed funds that will be paid from future taxes. Service costs also may include indirect or future costs resulting from current public sector action or inaction.
2. **Service delivery** includes direct services, such as transportation infrastructure, public education, and health, as well as indirect services such as financial stewardship and human capital management.
3. **Police and regulatory power** concerns the public sector entity's use of its coercive powers: arrest, property seizure, eminent domain, and regulatory processes such as granting liquor licenses or building permits.
4. **Exchange of information** relates to transparent decision-making, including access to public sector officials and records, and the ability to be heard.

Public Sector Auditing

Definitions and Origins of Auditing

“The need for financial accountability has existed ever since it became necessary for one individual to entrust the care of his possessions or business to another.” — Committee to Review the Functioning of Financial Institutions (Wilson Committee), 1980.

The public sector represents a principal-agent relationship (see Figure 1). The officials — acting as the principal’s (the public) agent — must periodically account to the principal for their use and stewardship of resources and the extent to which the public’s objectives have been accomplished. An effective audit activity reduces the risks inherent in a principal-agent relationship. The principal relies on the auditor to provide an independent, objective evaluation of the accuracy of the agent’s accounting and to report on whether the agent uses the resources in accordance with the principal’s wishes.

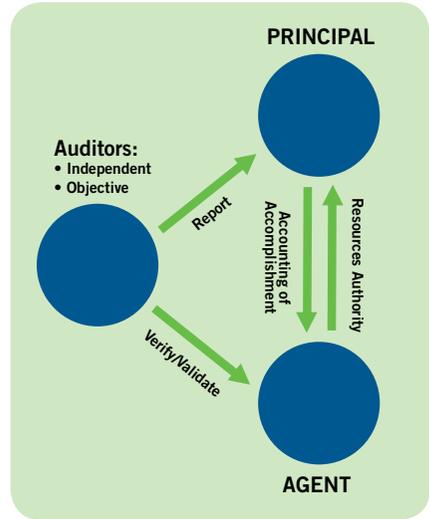


Figure 1 – 3 Party Relationship

The need for a third party to attest to the believability (credibility) of the financial reporting, performance results, compliance, and other measures arises from several factors inherent in the relationship between the principal and its agent:

1. **Conflicts of interest** – Agents may use their resources and authority to benefit their own interests rather than the principal’s interests.
2. **Remoteness** – Operations may be physically removed from the principal’s direct oversight.
3. **Complexity** – The principal may not possess the technical expertise needed to oversee the activity.
4. **Consequence of error** – Errors may be costly when agents are stewards of large amounts of resources and are responsible for programs affecting citizens’ lives and health.

Some current definitions of auditing illustrate the variability in the roles of auditors, while underscoring the fundamental elements of the profession. For example:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” — The IIA, 2011

“Audit serves an accountability relationship. It is the independent, objective assessment of the fairness of management’s representations on performance or the assessment of management’s systems and practices, against criteria, reported to a governing body or others with similar responsibilities.” — Canadian Comprehensive Audit Foundation, 1991

Although public sector auditing has broadened its focus from individual transactions to control systems and program operations, public sector auditing should retain the defining characteristics that are the basis of its credibility — the value it provides to the governance process — including:

- Independence from the parties being audited and an objective attitude toward the subject under audit.
- Use of systematic processes to collect and analyze substantial and appropriate evidence.
- Comparison to criteria for formulating conclusions. Examples of criteria include standards, goals/targets, benchmarks, and laws.
- Use of widely accepted professional audit standards. The credibility of the audit activity strengthens public governance by providing for accountability and protecting the core values of the public sector, which it does by assessing whether managers and officials conduct the public’s business transparently, fairly, honestly, and in accordance with laws and regulations.

Audit Roles

As an essential element of a strong public sector governance structure, auditing supports the governance roles of oversight, insight, and foresight. Because the public sector’s success is measured primarily by its ability to deliver services successfully and carry out programs in an equitable and appropriate manner, public sector audit activities should have the authority and the competency to evaluate financial and program compliance, effectiveness, economy, and efficiency. Moreover, auditors also must protect the core values of the public sector, as it serves all citizens.

Oversight. Auditors assist decision-makers in exercising oversight by evaluating whether public sector entities are doing what they are supposed to do, spending funds for the intended purpose, and complying with laws and regulations. Audits focusing on oversight answer the questions, “Has the policy been implemented as intended?” and “Are managers implementing effective controls to minimize risks?” Auditing supports the governance structure by verifying agencies’ and programs’ reports of financial and programmatic performance and by testing their adherence to the organization’s rules and aims. Moreover, oversight audits contribute to public accountability by providing access to this performance information to stakeholders within and outside of the organization under audit. Elected and appointed officials as well as public sector managers are responsible for setting direction and defining organizational objectives. In addition, managers have the duty to assess risks and establish effective controls to achieve objectives and avert risks. In their oversight role, government auditors assess and report on the success of these efforts.

Oversight also describes the role many public sector auditors have to detect and deter public corruption, including fraud, waste, or abuse, and other misuses of the power and resources entrusted to government officials. Auditors monitor the effectiveness of management’s internal control structure to identify and reduce the conditions that breed corruption. In many areas of the world, public sector auditors also are responsible for responding to allegations of corruption in the public sector organizations they serve through detection and deterrence.

“Auditing has evolved as systems, transactions, and operations have become more complex. In its earliest origins (evidence points to audits conducted in Babylonia and Mesopotamia as early as 3,000 B.C.), auditing verified the existence of assets. Over time, auditing shifted from a detailed focus on confirming or validating individual transactions to evaluating the effectiveness of systems that control transactions. In the 20th century, public sector auditors also moved well beyond economic and financial transactions and conditions. Since the introduction of social programs, some government auditors have been called upon to validate the effectiveness of the government services themselves. Or, they may be required to determine whether the organization has established mechanisms to measure and report on its effectiveness.”

Colleen G. Waring, CIA, CGAP
Performance Auditing Training
Course manual

Detection. Detection is intended to identify inappropriate, inefficient, illegal, fraudulent, or abusive acts that have already transpired and to collect evidence to support decisions regarding criminal prosecutions, disciplinary actions, or other remedies. Detection efforts can take many forms including:

- Audits or investigations based on suspicious circumstances or complaints that include specific procedures and tests to identify fraudulent, wasteful, or abusive activity. Alternatively, red flags that appear during the course of an audit initiated for unrelated reasons may result in added procedures to specifically identify acts of fraud, waste, or abuse.
- Audits such as payroll, accounts payable, or information systems security audits, that test an organization's disbursements and related internal controls.
- Audits requested by law enforcement officials that analyze and interpret complex financial statements and transactions for use in investigating and building evidentiary cases against perpetrators.
- Reviews of potential conflicts of interest during the development and implementation of laws, rules, and procedures.

Deterrence. Deterrence is intended to identify and reduce the conditions that allow corruption. Auditors seek to deter fraud, abuse, and other breaches of public trust by:

- Assessing controls for existing or proposed functions.
- Assessing organizational or audit-specific risks.
- Reviewing proposed changes to existing laws, rules, and implementation procedures.
- Reviewing contracts for potential conflicts of interest.

Successful detection efforts may also have a deterrent effect.

Insight. Auditors provide insight to assist decision-makers by assessing which programs and policies are working and which are not, sharing best practices and benchmarking information, and looking horizontally across public sector entities and vertically among the levels of the public sector to find opportunities to borrow, adapt, or reengineer management practices. The audit activity helps institutionalize organizational learning by providing ongoing feedback to adjust policies. Auditors conduct their work systematically and objectively to develop a

detailed understanding of operations and draw conclusions based on evidence. Therefore, audits can provide an insightful description of problems, resources, roles, and responsibilities that, combined with understanding of the root cause of the problem and useful recommendations, can encourage stakeholders to rethink solutions to problems. Not only can the performance of the specific program under audit be improved, but working through the issues brought to light by a particular audit can enhance the capacity of the public sector and the public to deal with similar problems. Audits focusing on insight contribute importantly to answering the broader question, “Has the policy brought about the intended results?” Concurrently with the accountability function, audits contribute to improving the operations of the public sector.

Foresight. Auditors also help their organizations look forward by identifying trends and bringing attention to emerging challenges before they become crises. The audit activity can highlight challenges to come — such as from demographic trends, economic conditions, or changing security threats — and identify risks and opportunities arising from rapidly evolving science and technology, the complexities of modern society, international events, and changes in the nature of the economy. These issues often represent long-term risks that may far exceed the terms of office for most elected or appointed officials, and can sometimes receive low priority for attention where scarce resources drive more short-term focus on urgent concerns. Additionally, a common audit approach — risk-based auditing — focuses the audit on the organization’s overall risk management framework, which can help identify and deter unacceptable risks. Through risk-based auditing, the audit activity provides useful and relevant information to the organization for managing its risks.

Audits focusing on foresight help answer the question: “What policy revisions or implementation would meet a future need or risk?” When public sector auditors focus on trends and look forward, they support decision making. Auditors also play a key role in helping managers understand and initiate risk assessments. Additionally, auditing’s own risk assessment ensures that audit resources are used effectively to address the areas of greatest exposure.

Through these roles, auditors protect core public values. By providing oversight, insight, and foresight services, public sector auditors help ensure that managers and officials conduct the public’s business transparently, fairly, and honestly, with equity and integrity, while performing their own work using the highest

standards of integrity. Auditors should not only assess the potential abuse of power, but also should be cognizant of their own power within an organization.

Auditors can serve as a check on abuse of power. Public sector auditors — whether appointed by the legislature or the executive or elected by the voters — must be prepared to recognize and report corruption, abuse of authority, or failure to provide equity or due process in the exercise of a governmental police or regulatory activity. Because such reporting may challenge powerful or entrenched interests, auditors require some measure of job protection to be able to report independently.

Auditors must not abuse their own power. The auditor's unique role in the public sector confers power that could be susceptible to abuse. Therefore, the auditor's own work must reflect the same principles of transparency, equity, and integrity that are expected of the public sector. This means auditing issues that matter to people, writing accurate and balanced reports, and making audit reports available for public examination. Some public sector auditors may even find themselves presenting their audit findings in televised hearings or committee meetings. And certainly, public sector auditors must conduct their work with integrity and in full compliance with laws and regulations.

Reporting Line of Public Sector Auditors

Reporting relationships affect the audit activity's independence and scope of work. Reporting line refers to the organizational structure under which the CAE is appointed and controlled relative to the activities subject to audit.

Public sector entities around the globe are complex and diverse. A single governance model for support and oversight of the audit activity will not serve all public sector entities. Many structures rely on some combination of external and internal audit activities - based on needs and circumstances. Regardless of the public sector entity's structure, the organizational placement of the audit activity should provide sufficient safeguards to prevent the audited entity from interfering with audit's ability to perform its work and report the results objectively.

Globally, public sector entities at all levels have created internal audit activities to serve organizations through their focused, real-time presence within the organization.

Although the internal audit activity can add significant value to the organization because of its detailed familiarity and understanding of operational conditions, it may be hampered in upholding the public trust if protections to its independence are not established and cannot be maintained. Public sector entities must establish protections to ensure that internal audit activities are empowered to report significant issues to appropriate oversight authorities. Safeguarding auditor independence is particularly needed when the internal audit activity reports to officials who also may be held accountable for any significant problems. Examples of such protections include statutory requirements that:

- Prevent the audited organization from interfering with the conduct of audit work, staffing of the audit activity, and publication of the audit report.
- Ensure the CAE reports to the highest executive level in the public sector entity and that report distribution requirements ensure the transparency of audit results.
- Require notification to an external oversight entity in the event of plans to dismiss the CAE.
- Require that completed audit reports be made available to the public.

The reporting line of the auditor is tied to the function's independence, which is the most fundamental element of an effective and credible public sector audit activity. Because the public sector auditor's role is to provide unbiased and accurate information on the use and results of public resources, auditors must be able to conduct and report on their work without interference or the appearance of interference. Independence is achieved when the audit activity reports outside the hierarchy of the

organization and activities under audit and when auditors are free to conduct their work without interference, restrictions, or pressures from the organization being audited. Such interference can occur if the audited entity limits access to records or employees, controls budget or staffing for engagements, or has authority to overrule or modify audit reports. Individual auditors also need to have independence, which means that the auditors are free from conflicts of interest or biases that could affect their impartiality, the appearance of impartiality, or how the auditor conducts the work or reports results.

"The professionals who audit federal, state, and local governments or other public entities must cope daily with career-threatening political risks from which private-sector internal auditors are largely immune."

Richard Chambers
IIA President and CEO
2011

Types of Audits and Other Services

Public sector auditors conduct audits with different types of objectives. Financial reporting requirements, compliance requirements, and performance indicators for public sector functions vary between jurisdictions and types of activity (e.g., public health, law enforcement, national security, and environmental protection) and results may take years to materialize. Consequently, the means to assess public sector financial regularity and performance vary widely. Accordingly, individual public sector auditors demonstrate different types of skills, competencies, and specializations. For instance, public sector auditors need to understand accounting standards and systems to examine financial accountability; program operations and performance measurements to assess the compliance, success, or progress of government activities; and standards and good practices for public sector governance, management, and internal control. In some cases, auditors can assess the reliability of existing indicators, but they also must be able to measure performance to independently evaluate achievements of a variety of public programs. Moreover, to make useful recommendations on how to improve operations, they must be able to apply standards and good practices specific to managing the type of operation being examined.

Selection of the type of audit or service to be performed is based on the audit activity's authority and purpose, as well as the needs and issues to be addressed. The audit activity's scope of work depends on the authority granted to it by its enabling legislation and the needs or risks the organization faces. A broader focus allows the audit activity flexibility to use a risk-based approach to auditing, focusing on the areas of greatest concern or risk, while contributing value across the entire organization. The broadest audit focus also considers the organization's governance activities, which can help the organization achieve its objectives and priority goals and improve its governance framework, including its ethical code. The narrowest audit focus involves testing individual transactions for errors or for compliance with contract terms, policies, regulations, or laws. The auditors' scope of work can vary between these extremes, and include activities such as reviewing internal controls, processes, and systems to identify systemic weaknesses and propose operational improvements. Usually, both types of focus are necessary to varying extents to achieve the most effective impact from a public sector audit activity.

Risk management systems and controls. Auditors assess the adequacy of corporate governance and the control environment; the effectiveness of processes to identify, assess, and manage risks; the assurance provided by control policies, procedures, and activities; the completeness and accuracy of information and communication systems and practices; and the effectiveness

of management's monitoring and evaluation activities. Many jurisdictions have developed a systems audit to assess the full scope of the organization's financial and performance control systems and to identify deficiencies and recommend corrective actions.

Performance. Auditors systematically gather evidence to assess aspects of program performance beyond financial reporting. Because the types of public sector services are broad, the types of objectives appropriate for performance auditing will vary. Also, depending on the jurisdiction, the range and focus of performance auditing will vary. In its broadest context, performance audit objectives might assess:

- **Effectiveness** – evaluates program accomplishments. Has a program achieved its objectives? What are the program's outcomes or results, both intended and unintended?
- **Efficiency** – examines productivity, unit cost, or indicators such as utilization rates, backlogs, or service wait times. Do operations maximize outputs in relation to costs and other resource inputs (e.g., number of license renewals per staff hour)?
- **Economy** – examines the extent to which a public sector operation has minimized its use of inputs (e.g., money, staff resources, equipment, or facilities) consistent with the quality needs of the program. For example, an economy audit may evaluate the validity of a competitive procurement process to ensure that costs were controlled.
- **Compliance** – tests the organization's conformity with objective requirements, standards, or criteria. These types of audits typically assess compliance with laws and regulations, contract requirements, grant requirements, and organizational policies and procedures. A relatively new service, environmental auditing, helps to examine compliance with environmental regulations.
- **Data reliability** – assesses internal controls and reporting for nonfinancial matters, such as performance measures.
- **Policy and other prospective (forward-looking) evaluation** – assesses program or policy alternatives, forecasts potential program outcomes under various assumptions, or evaluates the advantages or disadvantages of various legislative proposals. Auditors also may compile benchmarking or best practice information to assist in evaluating program design or management practices.

- **Risk assessment** – identifies risks that may affect achievement of an organization’s strategic and financial goals and objectives and assesses management’s response to those risks. In the public sector, risks go beyond normal financial and operational risks, and can include political and societal risks. For instance, some public sector risks involve the political and economic consequences of the public’s perception of fair and equitable treatment of citizens, animals, the environment, and others. Auditors also conduct risk assessments to select and plan audits.

Financial/regularity. Auditors express an opinion on the presentation of the financial statements in accordance with established or accepted accounting principles (regularity). Often performed by external auditors — either commercial auditors or auditors from another branch of the public sector — this type of audit focuses on accounting appropriately for assets and expenditures as reported by the public sector entity. In addition to the financial statement opinion, financial audits also can examine the reliability of specific financial information, compliance with relevant procedures and rules, or the safeguarding of assets.

Advisory, assistance, or investigative services. Auditors may provide objective, expert advice in a range of areas in which they possess expertise. Based on their knowledge and expertise, they may provide technical advice on issues related to good governance, accountability, ethical practices, and anticorruption programs; effective risk assessment and management; internal controls; sound business processes; information technology systems development and operations; project management; program evaluation; and other areas affecting the effectiveness, efficiency, and economy of operations. In addition, auditors may provide services (e.g., control and risk assessment workshops) and training in areas such as fraud awareness, performance measurement, and control design. They also may provide advice on implementing audit recommendations.

In providing advisory/assistance services, auditors should remain independent. Although auditors may, in an advisory role, provide technical advice and make recommendations to management, they may not make management decisions or assume a management role. Moreover, they must maintain independence and objectivity for subsequent audits conducted in any program that has received significant levels of advice or assistance in its formative stages. In other words, auditors should not audit their own work.

Audit And Other Oversight Committees in the Public Sector

A corporate governance practice common in the private sector is the use of audit committees to provide strengthened oversight of the financial and ethical integrity of publicly held companies. Because this oversight responsibility is essential to effective governance, public sector entities also may look to the audit committee to play a similar role. Moreover, depending on the specific circumstances of these entities, audit committees operate within a variety of governance arrangements. Notwithstanding, many public sector entities have found alternative means to fill the audit committee's role.

The Audit Committee's Role

The audit committee can greatly strengthen the independence, integrity, and effectiveness of public sector audit activities by providing independent oversight of the internal and external audit work plans and results, assessing audit resource needs, and mediating the auditors' relationship with the organization. Audit committees also ensure that audit results are aired and any recommended improvements or corrective actions are addressed or resolved.

Every public sector organization should evaluate its governance structure to determine whether an audit committee is appropriate for its particular situation. In some public sector entities, audit committees are formed as subcommittees of the legislative branch or board of directors. Other entities may form audit committees comprising members of the public who are selected by the legislative or executive branches. Some public sector entities have formed audit committees composed of ministers or managers of outside oversight agencies, members of the management hierarchy under audit, or a combination. An example of the former approach is the central harmonization units within the Finance Directorates of certain European Union countries, which oversee the audit activities within other agencies and may form an audit committee to which other agencies' internal auditors provide reports.

The need for, and composition of, the audit committee will depend on individual circumstances, the nature of the audit activity, and the decision of the legislative or governing body.

Audit Committee Best Practices

Where an audit committee is established, depending on the characteristics of the jurisdiction, it should strive to:

1. Operate under a formal mandate, preferably legislation, with sufficient authority to complete its mandate.
2. Include independent members who collectively possess sufficient knowledge of audit, finance, risk, and control.
3. Be chaired by a member who is not the individual to whom a CAE reports administratively.
4. Assess the effectiveness of the organization's governance, risk management, and control frameworks and legislative and regulatory compliance.
5. Provide oversight to the organization's internal and external audit activities, including ensuring adequate coverage and resources, approving the internal audit charter and audit plans, reviewing the audit activity's performance, and approving the appointment or termination of internal and external auditors.
6. Oversee the organization's financial reporting and accounting standards.
7. Provide a direct link and regular reporting to the organization's governing board, council, or other authority.

Conclusion

Because public sector auditing is key to good public governance, it is crucial that it maintain the right resources for the right amount of time with an appropriately broad mandate to achieve the organization's governance objectives. The public sector audit activity's mandate should be sufficiently broad to enable it to respond to the full scope of the entity's activities. Although auditors may be able to add value to any segment of the organization for which they can provide independent, objective assurance at a minimum, every public sector entity requires some form of independent audit activity that has authority to evaluate the full range of public sector activities.

Full audit coverage is frequently provided by complementary external and internal audit entities. However, in some smaller public sector entities, one audit entity alone, or an entity that is a hybrid of internal and external audit characteristics, may be appropriate.

Ultimately, public sector auditing strengthens public governance by providing for accountability and protecting the core values of the public sector entity, ensuring managers and officials conduct the public's business transparently, fairly, and honestly, as well as with equity and integrity. Elected and appointed officials at all levels of the public sector should support effective audit activities by establishing independent audit functions that meet all of the key elements.

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About The Institute

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

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ALGA

Association of Local Government Auditors

Guide to Selecting a Chief Audit Executive

ALGA's Mission

ALGA empowers our local government auditing community through excellence in advocacy, education, communication, and collaboration to protect and enhance the public good while embracing diversity, equity, and inclusiveness.

To find out more about establishing an effective performance audit function, contact us:

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[Learn more!](#)



This guide provides organizations hiring a chief audit executive with advice on identifying the best leader for the position.

What is Performance Auditing?

Your chief audit executive will be responsible for implementing a performance audit function that effectively assesses how well government programs are operating. Performance auditing is a powerful and widely accepted tool for independently evaluating a broad range of government activities, including to what extent government activities are:

- **Effective** – achieving objectives and accomplishing results.
- **Efficient** – maximizing outputs in relation to inputs (for example, productivity, cost per unit, and so on).
- **Economical** – minimizing costs and needed resources, including staffing, to align with program goals.
- **Equitable** – being fair and impartial in providing services and applying regulations.
- **Compliant** – adhering to established laws, contract terms, and policies and procedures.
- **Ethical** – exercising integrity in using public resources to achieve public benefits.
- **Using reliable data** – maintaining and reporting accurate and complete information.

What should you look for in a Chief Audit Executive?

Performance audits can cover myriad government operations. For example: street maintenance, compliance with election laws, criminal rehabilitation programs, governance, and school effectiveness. Effective chief auditor executives are able to support their staff in applying fundamental principles of good management as they analyze various scenarios. Note: A successful chief audit executive does not need to be a certified public accountant!

In addition, they should select a staff who have a range of technical backgrounds, strong curiosity, and enthusiasm for continuous learning. Some audit functions supplement their work with technical consultants; however, a performance audit office does not require subject-matter expertise in every area it audits.

The following lists summarize key executive qualifications, personal characteristics, and technical qualifications that should be expected from or developed by a performance audit function. Most of these should be found in the chief audit executive, but they can also be supplemented by the combined abilities of the performance audit staff.

Executive Qualifications and Personal Characteristics

- **Integrity** – has a reputation for honesty, credibility, and ethics beyond reproach.
- **Manager** – effectively directs an audit function and staff.
- **Strategic Planner** – sets and maintains an effective organizational vision and objectives.
- **Collegial** – builds consensus among diverse stakeholders.
- **Responsive** – can align audit efforts to further organizational needs.
- **Unbiased** – has a reputation for candid, fair statement of facts.
- **Diplomatic** – can handle delicate situations with tact and respect.
- **Motivator** – inspires positive change.
- **Critical Thinker** – can skillfully apply, analyze, and synthesize information.
- **Innovative** – approaches problems in new and different ways.

Technical Qualifications

- **Standards** – has proficiency in interpreting, applying, and coaching staff to conform with professional audit standards.
- **Governance** – understands of the principles of effective governance (for example: planning, oversight, and accountability reporting).
- **Analysis** – understands quantitative and qualitative analytical methods (for example: statistics, surveys, and modeling).
- **Performance Management** – understands performance measurement techniques and elements of performance (for example: input economy, process efficiency, and effectiveness of outputs and outcomes).
- **Communications** – effectively expresses ideas and concepts both orally and in written formats; is articulate, clear and concise; and can explain complex information in non-technical terms.
- **Project Management** – can apply the principles of project management, such as delivering projects on time and within resource constraints.
- **Research** – knows research techniques and a broad range of sources for audit criteria.
- **Information Systems** – understands general concepts of information systems and data management.

How can you ensure accountability of your Chief Audit Executive?

Make your expectations clear. ALGA resources can help! You can monitor an audit function's impact and performance by:

- Instituting [performance measures](#) — such as “percentage of audit recommendations addressed by management,” “percentage of auditor time on direct (audit) work,” or “audit client satisfaction with auditor professionalism.”
- Obtaining [peer reviews](#) in accordance with professional standards.
- Establishing an [audit committee](#) to ensure the audit function is empowered to report significant issues to appropriate oversight bodies.

ALGA provides various useful publications for public officials seeking to create a performance audit function.

Our [model legislation](#) provides example language for different organizational structures and lists qualifications for candidates.

Our [guidance on outsourcing](#) discusses the benefits and risks of outsourcing the audit function.



ALGA

Association of Local Government Auditors

Audit Committee Guidance

ALGA Advocacy Committee

The committee works to promote the value of independent performance auditing throughout the local government community.

The committee provides professional resources and support to those in local government communities without audit functions, with new audit functions and with established audit functions.

The committee also provides support for local government communities that are considering diminishing the capacity of the audit function.

ALGA's Mission

ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics.

ALGA Member Services



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www.algaonline.org



Why establish an independent audit committee?

Improve government accountability. Audit committees in the public sector help enhance accountability. Audit committees assist local legislatures in fulfilling their governance and oversight responsibilities for the:

- integrity of financial information
- suitability of internal controls
- compliance with regulatory requirements
- performance of government auditors
- performance of audit firms engaged by the governing body

Follow best practices. Audit committees play an important role in ensuring the quality of the annual audits, and ensuring that management implements audit recommendations. They also ensure that the audit function has sufficient resources, competence, and independence from the executive branch to perform audits efficiently and effectively.

Ensure independence. Audit committees ensure that audit functions are empowered to report significant issues to appropriate oversight authorities. The audit committee can prevent management interference with audits or suppression of audit findings.

Are audit committees required?

Audit committees are required for publicly traded U.S. companies. The Sarbanes-Oxley act, created in the wake of widespread failures of auditor independence and corporate governance, mandates the establishment and minimum duties of audit committees for all publicly traded companies in the United States.

Audit committees are required in some states and localities. Audit committees for local governments are sometimes required by state law (as in the state of Florida) or by city or county charters, municipal codes, or other local law. The Government Finance Officer Association (GFOA) recommends that all state and local governments formally establish audit committees by charter, enabling resolution, or other legal means.

What are the audit committee's responsibilities?

Specific responsibilities of the audit committee vary depending on the form of government and reporting relationship of the auditor. If the auditor is elected, for example, the audit committee may serve in a purely advisory capacity to the elected auditor. At a minimum, the audit committee oversees or advises the audit function.

Support and oversight of the government audit function: The audit committee may be directly responsible for recruiting, appointing, overseeing, and removing (if needed) the auditor. The committee may also make recommendations to the auditor relating to the annual audit plan and to the governing body regarding the auditor’s budget. An elected auditor may consider establishing an audit committee to ensure that audit issues receive appropriate attention from the legislature, and to safeguard against challenges to independence from management.

Oversight of contracts with accounting firms: The audit committee may also be responsible for the requests for proposals, selection process, and monitoring the work of commercial public accounting firms performing the annual financial audits or other audit services.

Many audit experts, including the Institute for Internal Auditors (IIA), see the audit committee’s role as including not only oversight of financial and performance auditing but also of governance, risk management, financial reporting, internal control, compliance, and ethics. Some audit committees are charged with conducting investigations and managing complaints and anonymous employee communications. Regardless of the specific duties assigned, every audit committee must be independent of the entity’s management (executive branch) and must obtain sufficient expertise to properly understand and monitor not only the entity’s audits, but also its financial systems, internal controls, and fraud risks.

How should the audit committee be structured?

Members should be independent of management. To enhance the independence of the committee, and to enable the auditors to communicate freely about management’s shortcomings, no members of the audit committee should be employees of the entity management (executive branch).

Members should collectively be knowledgeable about financial matters and government. Audit committee members should have collective specific expertise necessary to effectively exercise their committee duties. For this reason, while some audit experts recommend that the audit committee be composed solely of members of the governing body, we recommend that audit committees include both members of the legislative body and financial/management experts from the community.

The audit committee should have the authority and resources to seek outside expertise when necessary. We also recommend that, as required by Sarbanes-Oxley for corporate audit committees, local government audit committees be provided with the resources to hire outside experts, including legal counsel, when necessary.

Stagger terms to ensure continuity. Terms of audit committee members should be staggered to ensure continuity.

Advocacy Committee

Jay Poole, Chair
City Auditor
Chesapeake, VA

Laura Doud
City Auditor
Long Beach, CA

Paul Duggan
Director, Audit Services
Regional Municipality of York
Ontario, Canada

Leif Engstrom
Chief City Auditor
Albany, NY

Ann-Marie Hogan
City Auditor
Berkeley, CA

David Jones
City Auditor
Seattle, WA

Bill Miller
County Auditor
Johnson County, KS

Amanda Noble
Deputy City Auditor
Atlanta, GA

Carolyn Smith
Internal Auditor
Columbus City
Schools, OH

Beth Woodward
Senior Mgmt. Auditor
Portland, OR

Patra Carroll, Advisor
Audit Supervisor
Maricopa County, AZ

**Craig Kinton, Advisor and
Liaison to Board**
City Auditor
Dallas, TX

More Info

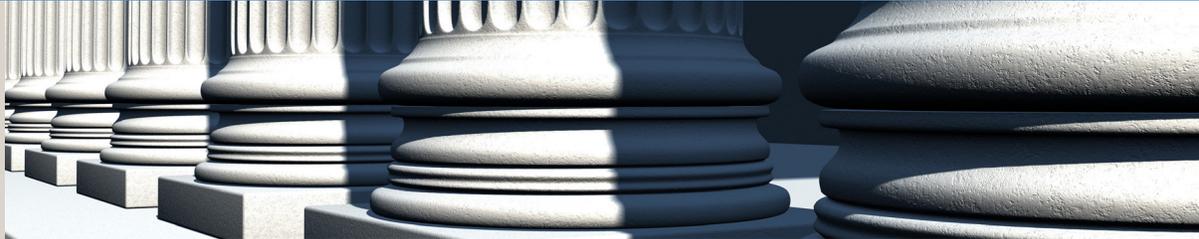
To find additional resources from the Advocacy Committee, visit the committee page on ALGA’s website at www.algaonline.org.



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ALGA Recommends Independent In-House Audit Capacity



ALGA's Mission

ALGA empowers our local government auditing community through excellence in advocacy, education, communication, and collaboration to protect and enhance the public good, while embracing diversity, equity, and inclusion.

Advocacy Committee

The committee works to promote the value of independent performance auditing throughout the local government community.

The committee provides professional resources and support to those in local government communities without audit functions, with new audit functions and with established audit functions.

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Association of Local Government Auditors

Local governments should retain independent, in-house staff, which provides the most effective, efficient, and transparent approach to auditing for accountability.

In-house auditors are positioned to:

- Better understand the local government's culture and organization;
- More quickly respond to requests from elected officials;
- Build sustained trust with elected officials and management;
- Monitor long-term performance and implementation of audit recommendations; and
- Objectively manage co-sourced or outsourced audits.

Unlike consultants, in-house auditors develop an in-depth knowledge of the local government that can be leveraged in their audit work and provide continuity of review and oversight. Their commitment to long-term improvements within the local government enhances elected officials' ability to carry out their responsibilities for good governance and prudent use of the local government's resources. Independent in-house auditors are the most effective and efficient way to deliver performance audit services, providing more value for the money spent when compared to outsourcing.

Outsourcing the entire audit function comes with critical risks

Outsourcing an entire audit function removes key benefits of an independent, in-house audit function and carries significant risks. Specifically, contracting out the entire audit function poses significant risks to the credibility and independence of the contracted auditors and their audits.

- The contracted auditors, the audit itself, or the audit report may be subject to management influence or interference, particularly when management directly selects and oversees the contracted auditors, and there is no independent auditor to manage the procurement and contract.
- Some consultants hired to perform "auditing services" do not perform audits that adhere to auditing standards of quality, objectivity and independence, issuing reports with findings and recommendations that can be unreliable and may not assist elected officials in carrying out their duties.

ALGA strongly discourages outsourcing the audit function completely. However, if under limited circumstances a local government has a need to outsource its audit function, the governing body must vigorously scrutinize any outsourcing plan to ensure that the outsourcing method and subsequent oversight of the contract maintains the auditor’s independence from management. To safeguard the value of government audit services, local governments should:

- Retain at the very minimum an independent in-house chief audit executive (i.e., the head of the in-house audit function).
- Empower the chief audit executive and audit committee with the responsibility for managing the request for proposal and awarding the contract that outsources the audit function as well as coordinating and monitoring all audits performed under contract.
- Require that audit work be done in accordance with recognized auditing standards, and that all reports must specify which standards were followed. This promotes quality control, professional judgement, and independence.

If properly managed, co-sourcing performance audits can be beneficial.

Co-sourcing or contracting for a specific performance audit can strengthen an independent, in-house audit function. Co-sourcing allows the in-house audit function to add to its capabilities, respond more quickly to unexpected needs, and/or obtain specific subject-matter expertise. In turn, the contracted assistance can leverage the in-house staff’s organizational knowledge to enhance the audit work performed.

To ensure the quality, independence and transparency of audit services, the local government must:

- Require that independent in-house auditors be responsible for managing requests for proposal and awarding and monitoring contracts for co-sourced audits or subject-matter expertise.

Risks must be mitigated when outsourcing annual financial audits.

Local governments can simultaneously outsource annual financial audits and retain a strong, independent in-house audit function. In fact, local governments typically contract for required financial statement audits with accounting firms that specialize in financial audits. The in-house audit function’s knowledge of the organization’s internal controls can assist the contracted financial audit work.

To protect the integrity of audit results and to promote quality control, professional judgement and independence, local governments must:

- In addition to generally accepted auditing standards, require the financial statement audit work be conducted in accordance with *Government Auditing Standards* in the United States or the *Public Sector Accounting Board Standards* in Canada. All reports must specify these standards were followed.



Find more resources from ALGA’s Advocacy Committee at algaonline.org/page/support.



Santa Clara Valley Water District

File No.: 26-0163

Agenda Date: 2/18/2026

Item No.: 4.4.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes No
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Discuss 2026 Annual Audit Plan (Risk Assessment, Asset Management, Pacheco Reservoir Project, and Investigations Process), and Provide Feedback as Needed

RECOMMENDATION:

- A. Discuss 2026 Annual Audit Plan; and
- B. Provide feedback as needed.

SUMMARY:

On November 19, 2025, the Chief Audit Executive (CAE) presented the proposed topics for the 2026 Annual Audit Plan to the Board Audit Committee (BAC) based on his individual interviews with each of the Board members. The BAC discussed and ultimately agreed to recommend the following topics to the full Board:

- 1) Risk Assessment, including developing the 2026 Risk Assessment pursuant to Section 7.4 of the BAC Charter for the purpose of identifying and prioritizing potential audit topics and informing future audit plans.
- 2) Asset Management, including reviewing and evaluating Valley Water's infrastructure maintenance programs, encompassing various elements related to operations and maintenance. This includes assessing how Valley Water develops and maintains its asset inventories. The evaluation will include:
 - a. Valley Water's methods and approach to determining the condition of existing assets.
 - b. Practices related to scheduling predictive and preventative maintenance, monitoring maintenance backlogs, and work order scheduling.
 - c. The extent to which Valley Water relies on outsourced service providers to augment in-house resources, and how well inventories are planned, maintained, and optimized to enhance overall operational efficiencies.
 - d. The use of asset management software or systems to extend the lifespan of critical infrastructure while minimizing operational costs.
- 3) Pacheco Reservoir Project, including evaluating whether best practices were followed during

each phase of the project through termination of the project.

- 4) Investigations Process, including evaluating the effectiveness, efficiency, and integrity of Valley Water's processes for investigating allegations of employee, Board officer, and Board member misconduct, including:
- a. Adherence to applicable laws, policies, collective bargaining agreements, and ethical standards governing workplace investigations.
 - b. Appropriate separation of duties and independence in the handling of investigations involving management, senior leadership, or Board members;
 - c. Timeliness in the initiation, conduct, and resolution of investigations;
 - d. Consistent standards, procedures, and outcomes across similar cases;
 - e. Clear roles, responsibilities, and reporting lines for Human Resources staff, investigators, management, legal counsel, and appropriate oversight;
 - f. Accurate, complete, and secure maintenance of investigation case records;
 - g. Implementation of recommendations and identification of systemic issues or patterns of misconduct; and
 - h. Consistency with the practices of other public, private, and non-profit organizations related to complaint intake, investigation processes, and outcomes.

At its meeting on December 9, 2025, the Board approved the audit assignments and respective target start dates for each audit:

1. Risk Assessment
 - Assign to the Chief Audit Executive
 - Anticipated start date to be determined following the selection of the next CAE
2. Asset Management
 - Assign to Plante Moran
 - Anticipated start in Q1 of Calendar Year 2026
3. Pacheco Reservoir Project
 - Assign to Sjoberg Evashenk Consulting
 - Anticipated start in Q3 of Calendar Year 2026
4. Investigations Process
 - Assign to Baker Tilly Advisory Group
 - Anticipated start in Q2 of Calendar Year 2026

Audits Pending from Prior Years

Several audit projects initiated in the prior year remain in progress:

- The Board Policy Compliance Audit is in the reporting phase with a preliminary draft report for review expected in February 2026. This project has been delayed due to resource issues on both sides.
- The Capital Project Delivery audit commenced later than anticipated and remains in the

fieldwork stage, with completion projected for late Q2 2026.

- The Centralized and Decentralized Contracting Practices audit remains in the fieldwork stage, but experienced delays extending its expected completion to late Q1 2026.
- The Water Conservation Strategies audit was presented to the Committee at the January 21, 2026, BAC Meeting, and is scheduled to be presented to the full Board at its February 24th, 2026, board meeting.
- The Water Usage and Demand Forecasting audit is now in the reporting stage.

The purpose of this agenda item is to present and discuss the 2026 Annual Audit Plan and receive any feedback the Board deems appropriate.

ENVIRONMENTAL JUSTICE IMPACT:

There are no Environmental Justice impacts associated with this item. The Annual Audit Workplan serves as a tool for communicating audit priorities as determined by the BAC and the Board of Directors.

ATTACHMENTS:

None.

UNCLASSIFIED MANAGER:

Darin Taylor, 408-630-3068



Santa Clara Valley Water District

File No.: 26-0162

Agenda Date: 2/18/2026

Item No.: 4.5.

COMMITTEE AGENDA MEMORANDUM Board Audit Committee

Government Code § 84308 Applies: Yes No
(If "YES" Complete Attachment A - Gov. Code § 84308)

SUBJECT:

Review and Discuss 2026 Board Audit Committee (BAC) Work Plan.

RECOMMENDATION:

Review and discuss topics of interest raised at prior BAC meetings and approve any necessary adjustments to the 2026 BAC Work Plan.

SUMMARY:

Per the BAC's Charter, Article III, Paragraph 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."

Under direction of the Clerk, 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 staff. Work Plans are dynamic documents managed by Committee Chairs and are subject to change.

The 2026 BAC work plan (Attachment 1) identifies planned discussion topics for the upcoming year and when those topics may appear before the committee. At the January 21, 2026, BAC meeting, the Committee requested that discussion regarding initiation of the Chief Audit Executive RFP be brought forward to the February BAC meeting. In addition, the Single Audit report was rescheduled from the February meeting to the March BAC meeting.

Looking forward, the topics of discussion identified for March 18, 2026, BAC Meeting can be summarized as follows:

1. Discuss and Conduct Annual Self-Evaluation
2. Discuss CAE Activity Report to Evaluate Performance
3. Discuss Board Audit Committee Charter
4. Discuss Scope of Annual Audit Training
5. Single Audit Report

6. 2024 HR Audit Annual Update
7. 2026 BAC Work Plan
8. 2026 Annual Audit Plan

Upon review, the BAC may make changes to be incorporated into the work plan.

ENVIRONMENTAL JUSTICE IMPACT:

The BAC Work Plan is not subject to environmental justice analysis. The BAC Work Plan serves as a tool utilized by the BAC to identify topics to be discussed during the public meeting and when that topic may be presented.

ATTACHMENTS:

Attachment 1: 2026 BAC Work Plan

UNCLASSIFIED MANAGER:

Wendy Ho, 408-630-3874

BOARD AUDIT COMMITTEE 2026 WORKPLAN

January 1, 2026 to December 31, 2026

	DATE:	Jan-21	Feb-18	Mar-18	Apr-15	May-20	Jun-17	Jul-15	Aug-19	Sep-16	Oct-21	Nov-18	Dec-16
No. of Topics:		8	5	8	3	4	5	2	4	7	6	3	3
# Board Audit Committee Management													
1	Discuss and Conduct Annual Self-Evaluation	•		•									
2	Request and Discuss CAE Activity Report to Evaluate Performance	•		•									
3	Discuss Board Audit Committee Audit Charter			•									
4	Discuss Scope of Annual Audit Training			•									
5	Receive Annual Audit Training						•						
6	Review and Update BAC Work Plan	•	•	•	•	•	•	•	•	•	•	•	•
7	Provide Draft BAC Work Plan for Upcoming Year												•
Board Audit Committee Special Requests													
8	Review of Joint Powers Authority (JPA) audits						•						
9	Discuss Initiating Chief Audit Executive RFP	•	•										
10	Discuss Plante Moran Contract (expires 07/05/26)	•											
Board-directed Audits													
11	2021 Permitting Best Practices					•							
12	2023 CIP Performance									•			
13	2024 Human Resources Audit			•									
14	2024 Information Technology Audit (Closed-Session)				•								
15	2024 Board Policies and Compliance Audit												
16	2025 Water Conservation Audit	•											
17	2025 Centralized and Decentralized Contracting Practices												
18	2025 Capital Project Delivery Audit												
19	2025 Water Usage and Demand Forecasting Audit												
20	2026 Audit - TBD												
Other Audits													
21	2024 SCW Program Performance Audit										•		
CAE Standing Topics													
22	Review and Update Annual Audit Plan	•	•	•	•	•	•	•	•	•	•	•	•
23	Discuss next Annual Audit Plan								•	•			
24	Discuss Draft 2027 Annual Audit Plan										•		
25	Discuss Proposed 2027 Annual Audit Plan, Assign Audit Firms, and Recommend Proposed 2027 Annual Audit Plan with assignments for Board Approval											•	
Miscellaneous 3rd-Party Financial Audits													
26	Financial Status - Periodic Updates		•			•				•			
27	Discuss Audit for upcoming Fiscal Year (presented by Vasquez)						•						
28	Audit Report of the Water Utility Enterprise Funds								•				
29	Audited Financial Statements										•		
30	Single Audit Report			•									
Staff Standing Topics													
31	Audit Recommendations Implementation Status		•						•				
32	Receive Audit Analysis Report from CAE	•									•		
Committee Clerk Action Items (not included in count shown in Row 3 above)													
33	Provide BAC Summary Report to full Board	•	•	•	•	•	•	•	•	•	•	•	•
34	Election of BAC Chair and Vice Chair	•											
BAC Topics for Future Work Plan													
35	Provide Report on Tri-annual Risk Assessment (Target CY 2026)									•			

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