



MEMORANDUM

FC 14 (01-02-07)

TO: Board of Directors **FROM:** Board Audit Committee

SUBJECT: Board Audit Committee (BAC) **DATE:** March 14, 2023
February 15, 2023 Regular Meeting Summary.

This memorandum summarizes agenda items from the meeting of the Board Audit Committee (BAC) held on Wednesday, February 15, 2023.

Attendees:

Valley Water Board members in attendance were: Director Richard Santos (District 3), Director Jim Beall (District 4) and Committee Chairperson Barbara F. Keegan (District 2).

Staff members in attendance were: Huggen Angeles, Emmanuel Aryee, Ingrid Bella, Sarah Berning, Kathy Bradley, Jessica Collins, Concepcion Gayotin, Walter Gonzalez, Andy Gschwind, Christopher Hakes, Brian Hopper, Robert Marmito, Patrice McElroy, Anthony Mendiola, Nicole Merritt, Tony Ndah, Carlos Orellana, Luz Penilla, Alison Phagan, Donald Rocha, Amandeep Saini, Manpreet Sra, Darin Taylor, Sherilyn Tran, Kristen Yasukawa, and Tina Yoke.

Guest in attendance was: George Skiles (Sjoberg Evashenk Consulting).

Public in attendance was: None.

1. Election of 2023 Board Audit Committee Chair and Vice Chair.

The Committee considered this Item without a staff presentation.

Public Comments:
None.

It was moved by Director Santos and seconded by Director Beall, and unanimously carried that Director Keegan remain Chairperson and Director Beall would become Vice Chairperson.

2. Approval of December 9, 2022 and January 20, 2023 Board Audit Committee Meeting Minutes.

The Committee considered this Item without a staff presentation.

Public Comments:
None.

It was moved by Director Beall and seconded by Director Santos, and unanimously carried that the minutes be approved.

REGULAR AGENDA:

3. Review and Discuss the 2023 Board Audit Committee (BAC) Work Plan.

Darin Taylor reported on the following:

Summary from Meeting Agenda Memo:

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. Committee Work Plans also serve as Annual Committee Accomplishments Reports.

The attached BAC Annual Work plan contains the following changes relative to the version reviewed by the BAC at the January 20, 2023 meeting:

1. Added a discussion of the audit charter for the May 2023 BAC Meeting, which will allow the new BAC member to have the opportunity to review the charter and provide comments, as appropriate. Per the BAC's Charter, Article IX, Paragraph 1, "The Committee shall periodically review the Audit Charter and shall make any recommendations regarding changes to the Board for final approval."
2. Removed District Counsel Audit Recommendation Status Updates from the Work Plan because all the recommendations were implemented in 2022
3. Moved the Auditor's Activity Report topic up from the March BAC meeting to February because the report is available
4. Moved the Quarterly Financial Status Update for Mid-Year Review out from the February BAC meeting to March to accommodate heavy staff workloads

Looking forward, the topics of discussion identified for the March 15th, 2023, BAC Meeting can be summarized as follows:

- 2023 BAC Work Plan
- 2022-2024 Annual Audit Work Plan
- Receive a Quarterly Financial Status Update for Mid-year Review

Darin Taylor and George Skiles were available to answer questions.

Public Comments:

None.

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

- The Capital Improvement Program (CIP) Performance Audit Status Update from the Chief Audit Executive (CAE) will be added as a new March BAC agenda topic and included in the BAC Work Plan.
- The Committee requested staff to provide final reports with Management's responses regarding audits completed in the last 10 years.

4. Discuss the Board Audit Committee's 2023 Self-Evaluation Process.

George Skiles reported on the following:

Summary from Meeting Agenda Memo:

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.

On December 13, 2022, the Board approved the latest revision of the BAC Audit Charter that provides detailed guidance regarding how the BAC should carry out its functions and to guide the work of the Chief Audit Executive (CAE), Sjoberg Evashenk Consulting, Inc.

According to Article 9, paragraph 4 of the BAC Audit Charter, the BAC shall conduct a self-evaluation of its performance annually. The Committee shall conduct the evaluation of its performance to determine whether it is functioning effectively and to discuss with the Independent Auditor any observations related to the effectiveness of the Committee. The Committee shall prepare a formal report based upon each such self-evaluation and shall provide such report to the full Board following its adoption by the Committee.

At its January 19, 2022, BAC meeting the committee discussed the prior year's self-Evaluation process, which was based on filling out a questionnaire. The general consensus was that a questionnaire-based self-evaluation process did not produce sufficiently valuable insight regarding the performance or effectiveness of the committee. During the discussion it was decided that the CAE would conduct interviews with the Committee members to obtain insight regarding the Committee's performance as well as opportunities for improvement. At its January 20, 2023, BAC meeting the committee agreed to continue this interview-based approach for the 2023 self-evaluation.

Interviews with BAC members occurred during the week of January 30, 2023. Consistent with prior years, members of the BAC generally agreed that the overall governance and activities of the committee were aligned with its charter; members have a clear understand of the role and responsibility of the BAC, strive to ensure the BAC acts independently of Valley Water management, meet regularly as scheduled, adhere to the annual work plan, maintain open lines of communication with the Independent auditor, engage in ongoing assessments of corrective action taken by management in response to audit findings and recommendations, routinely evaluate risk and systems of internal control, and strive for continuous improvement of the BAC and audit processes within Valley Water. However, members did raise specific areas where improvements may be achieved, and value added. These include:

- Enhancing the BAC's approach and consideration of emerging risks, including revisiting the 2021 Risk Assessment and considering risk factors that may pose future threats
- Promoting transparency by developing a repository of Board-commissioned audits
- Maintaining and increasing open communication between Board directors and the Chief Audit Executive
- Continuing to emphasize Valley Water's collaborative approach to audits, focusing on continuous improvement while minimizing the potentially adversarial nature of audits and building buy-in from management and staff

The purpose of this agenda item is to discuss the annual self-evaluation process for calendar year 2023.

Darin Taylor and George Skiles were available to answer questions.

Public Comments:
None.

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

- Staff's support of the overall Recommendation Status Report to continue to be provided semi-annually.
- The CAE will provide updates periodically to the full Board regarding status of audits.
- The Committee requested staff to create an Audit Repository to facilitate access and to include a link on the BAC web page.

5. Receive and Discuss a Status Update on the Implementation of Audit Recommendations, Authorize Staff to Close Completed Board-Directed Audits and Provide Additional Direction as Necessary, and Discuss Timing of Next Update.

Darin Taylor reported on the following:

Summary from Meeting Agenda Memo:

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. Since the previous report back in May 2022, management has reported that 58 of the 73 pending recommendations have been addressed, of which 2 were deemed low priority or unnecessary as conditions have changed since the initial audit, bringing the total number of pending recommendations down to 15. Of the 10 audits that were still open in the previous report, 1 was closed (2015 Mitigation and Monitoring Compliance), and since then 7 more are now considered complete and ready to be closed. The Chief Audit Executive (CAE) will consider any completed Board-directed audits for follow-up as part of the annual audit planning cycle. With this report, there are a total of 15 active audit recommendations related to 2 audit reports that have not been fully resolved, as shown in the table below as "Pending/Underway".

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	%
2014 Transparency Compliance Audit	22	2	9%	0	0%	20	100%
*2015 Mitigation and Monitoring Compliance Audit	15	0	0%	0	0%	15	100%
*2015 Consultant Contracts Audit	11	0	0%	0	0%	11	100%
*2019 Lower Silver Creek Audit	27	0	0%	0	0%	27	100%
2019 Contract Change Order Audit	7	0	0%	0	0%	7	100%
2020 District Counsel Audit	5	1	20%	0	0%	4	100%
2020 Real Estate Services Audit	13	1	8%	0	0%	12	100%
2020 Safe, Clean Water Program Grant Management	11	0	0%	4	36%	7	64%
2021 Permitting Best Practices Audit	14	0	0%	11	79%	3	21%
*2022 Human Resources Audit	15	0	0%	0	0%	15	100%
TOTALS:	140	4	3%	15	11%	121	86%
<i>* = Management directed Audits</i>							

The BAC is requested to receive and discuss the information and provide guidance to staff as necessary. Additionally, the BAC is requested to provide guidance regarding the timing of the next report. Staff recommends returning no earlier than 6 months from the date of this report. If the BAC agrees, staff will return to provide the next update at the August 2023 BAC meeting.

Darin Taylor, George Skiles, and Brian Hopper were available to answer questions.

Public Comments:
None.

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

- The Committee expressed concern about the independence of staff reporting on the implementation of audit recommendations versus the Chief Audit Executive (which is the practice at the State level) and requested further discussion.
- The Committee was not ready to close the completed Board-directed audits at this time and the timing for the next update report will require further discussion.
- The Committee requested staff to bifurcate Management-directed audits from Board-directed audits and share the recommendation tracker with the Committee including details for all open and closed audits for the past 10 years.

6. Discuss the 2022 – 2024 Annual Audit Work Plan.

Darin Taylor and George Skiles reported on the following:

Summary from Meeting Agenda Memo:

On January 11, 2022, the proposed 2022-2024 Annual Audit Work Plan was approved by The Board. At its January 19th meeting, the Board Audit Committee (BAC) identified the top 3 areas of interest to be audited in 2022: 1) ID #1, CIP Process; 2) ID #3, Emergency Response; and 3) ID #6, Data Management.

At its April 20th meeting, the BAC authorized staff to seek approval from the full Board to

initiate the CIP Process Audit as the first audit for 2022 and to authorize Sjoberg Evashenk Consulting, Inc. to conduct the audit.

At its May 24th, 2022, meeting, Valley Water's Board of Directors authorized staff to proceed with the CIP Process Audit, and authorized Sjoberg Evashenk Consulting, Inc. to conduct the audit.

On October 19th, 2022, the BAC authorized staff to seek agreement from the full Board regarding the recommendation to modify the 2022-2024 Annual Audit Work Plan (Attachment 1) by removing the audit objective related to the organizational alignment of Risk Management from the work plan. At the November 22nd, 2022, Board Meeting, the Board agreed with the recommendation, and authorized staff to modify the 2022-2024 Annual Audit Work Plan accordingly.

At its January 20th, 2023, meeting, the BAC authorized staff to inform the full Board of plans for the Chief Audit Executive (CAE) to review the most recent Risk Assessment, and to solicit feedback from Board members and executive management regarding risk-related themes as it relates to the Annual Audit Work Plan. Once the CAE has completed this exercise, staff intends to return to the BAC to discuss the feedback gathered and seek authorization to incorporate any proposed changes to the Annual Audit Work Plan, that would then be brought to the full Board for approval.

For this item, the BAC is asked to discuss the annual audit work plan and provide any further direction as necessary.

Darin Taylor, George Skiles, Patrice McElroy, and Brian Hopper were available to answer questions.

Public Comments:
None.

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

- The CAE will solicit feedback regarding the priorities from the full Board and other interested parties for the Annual Audit Work Plan and will provide a status update report.
- The Committee requested for the CAE to consider a gap analysis for the Management-directed, HR Audit.
- The Committee requested for the CAE to review the Risk Assessment based on the current environment and return with recommendations.

7. Receive and Discuss a Report from the Independent Chief Audit Executive (CAE), Sjoberg Evashenk Consulting, Regarding their performance in Calendar Year 2022, and Evaluate the Performance of the CAE.

George Skiles reported on the following:

Summary from Meeting Agenda Memo:

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.

Per the BAC Charter, Article III “Composition”, Paragraph 9 “Committee Evaluation of Auditor Performance”, the BAC is tasked annually with evaluating Board Auditor performance. The purpose of this agenda item is to receive and discuss the Board Auditor Activity Report from the CAE to assist in performing the evaluation.

Past activity reports from the CAE provided a summary of accomplishments and activities, meeting attendance, task order completion, and a financial overview.

On January 20, 2023, the Committee requested the CAE to prepare and submit the annual performance report. For this agenda item, the CAE will present the 2022 Annual Performance Report for BAC consideration and evaluation.

George Skiles was available to answer questions.

Public Comments:
None.

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

- The Committee provided positive feedback to the CAE regarding their performance in the Calendar Year 2022.

8. Adjourn.

Chairperson Keegan adjourned the meeting at 3:41 p.m.

The next regularly scheduled meeting is March 15, 2023.

Board member comments and suggestions can be forwarded to Nicole Merritt, Assistant Deputy Clerk II at (408) 630-3262 or by email to nmerritt@valleywater.org.

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