



Santa Clara Valley Water District

File No.: 19-1148

Agenda Date: 1/14/2020

Item No.: 4.3.

BOARD AGENDA MEMORANDUM

SUBJECT:

Approve Recommendation from Board Audit Committee to Approve the Fiscal Years 2018-2019 to 2020-2021 Annual Audit Work Plan Updated by the Board Independent Auditor, TAP International, Inc.

RECOMMENDATION:

- A. Approve the addition of the Fiscal Year 2020-2021 Property Management Audit to the Fiscal Year 2018-2019 to Fiscal Year 2020-2021 Annual Audit Work Plan; and
- B. Approve the Updated Fiscal Year 2018-2019 to Fiscal Year 2020-2021 Annual Audit Work Plan.

SUMMARY:

On May 23, 2017, the Board approved an on-call consultant agreement with TAP International, Inc. (TAP International) for Board Independent Auditing Services. The agreement requires TAP International to work with the Board and the Board Audit Committee (BAC) to develop an annual audit program, assess operational risks, advise on potential audits to ensure Santa Clara Valley Water District (Valley Water) is in full compliance with its policies, procedures, and regulations, and conduct audits as directed by the Board and BAC.

On September 26, 2018, TAP International presented the final Risk Assessment Model to the BAC assessing operational risks to Valley Water. The Risk Assessment Model developed heat maps of Valley Water operational areas based on risk impact (low, moderate, and high risk). The results of the risk assessment include input from Valley Water's Board of Directors, management, and staff and was used to assist in the development of an Annual Audit Work Plan. The highest risk areas include procurement, contract change order management, succession planning, and fraud prevention.

On December 3, 2018, TAP International presented a draft Audit Work Plan to the BAC. The draft Audit Work Plan identified 41 potential audits to conduct, ranked by highest risk, based on the results of the risk assessment previously conducted by Valley Water's independent auditor, Board of Directors, and management and staff.

The BAC reviewed the draft Audit Work Plan and on January 22, 2019, identified and recommended three audits for the full Board's input and approval. These audits include performance audits of Valley Water's Counsel's office, Real Estate Services, and an audit of contract change order processes. The

Board approved the implementation of these three audits on February 26, 2019.

On June 25, 2019, the Board approved the FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan. The Board Independent Auditor, TAP International, Inc., initiated the audits as planned, within the limits TAP International's consultant agreement with Valley Water. Currently, the agreement has funding for approximately 2-4 audits and expires on May 8, 2020.

As requested by the Board Audit Committee, TAP International updated the FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan to include the FY 2020-2021 Property Management Audit, to audit whether Valley Water is implementing the encroachment program consistent with the Board's guiding principles. As part of the FY 2020-2021 Ad-hoc Board Audits included in the FY 2018-2019 to FY 2020-2021 Annual Audit Work Plan, the Board Audit Committee also identified three desk reviews to be performed by TAP International including: key controls and financial management regarding the extension of grants; risk management review of Valley Water hiring practices; and review of the Board Agenda preparation process. These desk reviews are not full and formal audits, and they are designed to quickly identify the need, or lack of need, for a formal audit. To the extent formal audits are recommended as a result of the desk reviews, approval will be sought from the full Board before their initiation.

FINANCIAL IMPACT:

There is no financial impact with this item.

On February 26, 2019, the Board approved an amendment increasing the not-to-exceed amount in the on-call consultant agreement with TAP International, Inc. (Agreement A4071A) from \$405,000 to \$1,005,000. This funding covers the three audits identified in the Annual Audit Work Plan for FY 2018-2019 and approximately 2-4 audits in FY 2019-2020. Additional audits identified in the Annual Audit Work Plan will not be initiated without first returning the Board to obtain funding approval.

CEQA:

The recommended actions do not constitute a project under California Environmental Quality Act (CEQA) because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS:

Attachment 1: Annual Audit Work Plan FY18-19 to FY 20-21.

UNCLASSIFIED MANAGER:

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