



# Santa Clara Valley Water District

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**File No.:** 22-1307

**Agenda Date:** 11/22/2022

**Item No.:** 4.3.

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## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Consider the October 19, 2022, Board Audit Committee Recommendation to Remove Objective 1 Related to Risk Management Organizational Alignment; Keep Objective 2 Related to Operational Performance Audit Objective for Consideration at a Later Date; and Authorize Staff to Update FY 22-24 Annual Audit Workplan.

### **RECOMMENDATION:**

Consider recommendations resulting from the October 19, 2022, Board Audit Committee (BAC) meeting to:

- A. Remove Objective 1 related to Risk Management organizational alignment from the FY22-24 Annual Audit Work Plan;
- B. Keep Objective 2 related to operational performance audit objective for consideration at a later date; and
- C. Authorize staff to update FY22-24 Annual Audit Workplan accordingly.

### **SUMMARY:**

The BAC was established by the Valley Water Board of Directors (Board) to identify potential areas and priorities for auditing; to review, update, plan, and coordinate the execution of Board audits. Furthermore, the BAC Charter states in Article 1 - Purpose, Paragraph 6 that "In carrying out its functions, the Committee shall emphasize: (a) the identification of organizational risk; (b) service delivery; (c) operational efficiency; (d) effectiveness of Valley Water programs; (e) project delivery; (f) establishment of an Annual Workplan to guide the Committee's work; and (g) oversight and monitoring of Valley Water operations and compliance with all applicable regulatory requirements."

At the December 16th, 2020, BAC meeting the BAC reviewed and discussed the District Counsel Audit Final Report. Recommendation #5 from the District Counsel Audit was addressed to the Board Audit Committee as follows: "The Board Audit Committee should ensure that the scope of the audit currently proposed in the annual audit work plan for the risk management function, include an evaluation of the advantages and disadvantages of implementing alternative organizational alignments for the Risk Management Unit and the Workers' Compensation programs."

At the January 13th, 2021, Committee meeting, the BAC discussed options to evaluate Risk Management organizational alignment and voted to recommend to the full Board that the Fiscal Year 2019-2021 (FY19-21) Annual Audit Work Plan (Attachment 1) be updated to incorporate a Risk

Management organizational analysis as part of the planned Risk Management audit (Audit ID 4).

At the January 26th, 2021, Board meeting, the Board received and discussed the recommendations resulting from the District Counsel Audit. The Board decided to delay any implementation of the recommendations until a new District Counsel was appointed, had an opportunity to become familiar with their organization, and had a chance to review the report and findings from the audit. A new District Counsel was appointed, effective June 1st, 2021.

At the October 20th, 2021, BAC meeting, Committee Chair Keegan noted that a new District Counsel had begun working and recommended that discussion of the alignment of the Risk Management Unit be deferred for several months to allow the District Counsel and the interested Board members to further evaluate the placement of the Risk Management Unit within the District Counsel's authority.

On January 11th, 2022, the Board approved the Fiscal Year 2022-2024 (FY22-24) Annual Audit Work Plan (Attachment 2) which also includes a Risk Management performance audit (Audit ID 19). The Risk Management audit objectives are to: 1) evaluate whether there are advantages or disadvantages from realigning business functions; and 2) assess if risk management business processes would gain any benefit from an update.

At the April 20th, 2022, BAC meeting, the BAC discussed the necessity of evaluating the Risk Management organizational alignment. District Counsel informed the BAC he had conducted a high-level survey of other agencies regarding alignment and found that there are other agencies that align Risk Management with District Counsel. The BAC requested District Counsel continue its analysis and return to the BAC in six (6) months with a conclusion and final recommendation regarding organizational alignment.

At the October 19th, 2022, BAC Meeting, the BAC received comments from District Counsel stating that Risk Management can be organized in many ways, including alignment with District Counsel. District Counsel also noted that the current working relationship with Risk Management is good and functioning as desired. District Counsel further noted that Risk Management does not operate independently of the business side of Valley Water but rather serves in an advisory and supportive role. As a specific example, even though the purchasing of insurance is generally considered a risk management function, at Valley Water the Chief Executive Officer makes the ultimate purchasing decision upon the recommendation of the Risk Manager and the District Counsel.

During the discussion, the BAC asked for the input of the Chief Audit Executive (CAE). The CAE stated that Risk Management is an executive level responsibility, but the functional placement can vary from agency to agency.

In conclusion, the BAC Members authorized staff to request removing the audit objective related to the organizational alignment of Risk Management from the FY22-24 Annual Audit Workplan. This would not impact objective 2 (assess if risk management business processes would gain any benefit from an update), and that will be retained for consideration at a later date.

To assist the Board in evaluating this recommendation, the BAC requested additional information about the coordination between Risk Management and other functions at Valley Water. Further

examples include review and advice on indemnification and limitation-of-liability provisions in negotiated contracts. While Risk Management provides input on these types of provisions, it is ultimately up to the project managers and their chain of command to decide what provisions are acceptable (for contracts approved under delegated authority in the Executive Limitations) or should be recommended to the Board (for contracts requiring Board approval). Also, during FY22, the Risk Manager provided training to staff on how to read and understand insurance certificates to help staff better understand how contractual insurance requirements play out in real-life contract administration. Further, Risk Management coordinates closely with Finance in the budgeting and management of the risk management reserve (Fund 72).

The Board is requested to discuss the information provided and approve the BAC recommendation to authorize staff to update the FY22-24 Annual Audit Workplan accordingly.

**ENVIRONMENTAL JUSTICE IMPACT:**

There are no Environmental Justice impacts associated with this item.

**FINANCIAL IMPACT:**

There is no financial impact associated with this item.

**CEQA:**

The recommended action does not constitute a project under CEQA because it does not have the potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

**ATTACHMENTS:**

Attachment 1: FY19-21 Annual Audit Workplan

Attachment 2: FY22-24 Annual Audit Workplan.

**UNCLASSIFIED MANAGER:**

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