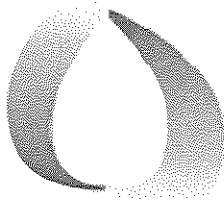


NOTICE OF BOARD WORKSHOP

OF THE
BOARD OF DIRECTORS
OF THE



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

WILL BE HELD ON
WEDNESDAY, JANUARY 7, 2015

10:00 A.M.

AT THE OFFICE OF THE AGENCY
6075 KIMBALL AVENUE, BUILDING A,
CHINO, CA 91761



AGENDA

**BOARD
WORKSHOP MEETING
OF THE
BOARD OF DIRECTORS**

**WEDNESDAY, JANUARY 7, 2015
10:00 A.M.**

**INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS
6075 KIMBALL AVENUE, BUILDING A
CHINO, CALIFORNIA 91710**

**CALL TO ORDER
OF THE INLAND EMPIRE UTILITIES AGENCY BOARD OF DIRECTORS MEETING**

FLAG SALUTE

PUBLIC COMMENT

Members of the public may address the Board on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) of Section 54954.2 of the Government Code. Those persons wishing to address the Board on any matter, whether or not it appears on the agenda, are requested to complete and submit to the Board Secretary a "Request to Speak" form, which are available on the table in the Board Room. Comments will be limited to five minutes per speaker. Thank you.

ADDITIONS TO THE AGENDA

In accordance with Section 54954.2 of the Government Code (Brown Act), additions to the agenda require two-thirds vote of the legislative body, or, if less than two-thirds of the members are present, a unanimous vote of those members present, that there is a need to take immediate action and that the need for action came to the attention of the local agency subsequent to the agenda being posted.

- 1. REGIONAL CONTRACT REVIEW UPDATE WORKSHOP**
- 2. ADJOURN**


*A Municipal Water District

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary (909) 993-1736, 48 hours prior to the scheduled meeting so that the Agency can make reasonable arrangements.

Proofed by: CRJ

Declaration of Posting

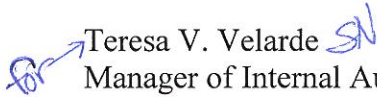
I, April Woodruff, Board Secretary of the Inland Empire Utilities Agency*, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Wednesday, December 31, 2014.

for  #853

April Woodruff

Date: January 7, 2015

To: The Honorable Board of Directors

From:  Teresa V. Velarde
Manager of Internal Audit

Subject: Regional Contract Review Update

RECOMMENDATION

This is an information item for the Board of Directors.

BACKGROUND

At the request of the Board and Executive Management, Internal Audit (IA) has been performing a review of the Agency's Regional Sewage Service Contract (Regional Contract) as implemented with the seven Regional Contracting Agencies (Contracting Agencies). The objectives of the Regional Contract Review are to:

- Evaluate of how each of the seven agencies apply the Regional Contract provisions.
- Determine whether processes are in compliance with the Regional Contract requirements.
- Determine opportunities to improve processes and procedures.
- Make recommendations for consideration as part of the Regional Contract renegotiation.

The Regional Contract was originally established in 1973, for a 50-year term, expiring January 1, 2023. Since the inception of the Regional Contract, new businesses and communities have emerged and existing ones have evolved. These changes warrant updating the Regional Contract to ensure all Contracting Agencies understand its requirements and implement them in a uniform method to ensure equity and fairness in the way fees are assessed.

Revenues from the Regional Wastewater Program make up a substantial portion of the Agency's revenues. In fiscal year ending June 30, 2014, the Regional Wastewater revenue was slightly over 40% of the Agency's total revenue.

Revenues by Contracting Agency are shown below:

| CONTRACTING AGENCY | CONNECTION FEES (RC Fund) | MONTHLY SEWER SERVICE CHARGES (RO Fund) |
|--|--------------------------------------|--|
| CUCAMONGA VALLEY | \$ 1,901,701 | \$ 10,288,244 |
| CHINO | 2,620,202 | 4,592,930 |
| CHINO HILLS | 1,985,132 | 3,892,815 |
| FONTANA | 830,226 | 8,196,601 |
| MONTCLAIR | 262,500 | 1,981,117 |
| ONTARIO | 1,674,395 | 9,532,321 |
| UPLAND | 514,478 | 4,294,863 |
| TOTAL | \$ 9,788,634 | \$ 42,778,891 |
| Total of Connection Fees and Sewer Service Charges: | | \$ 52,567,525 |
| Total Revenues, including Grants and Subsidies per CAFR: | | \$ 124,841,232 |
| Percentage of Above to Total Agency Revenue: | | 42.1 % |

The scope of the Regional Contract Review encompasses the following key areas:

- Public Service Facilities
- Connection Fees
- Monthly Volumetric Sewerage Charges
- Extra-Territorial Fees
- Overall Recordkeeping and Processes
- Contract Administration Practices

To date, IA has submitted, as information items through the Audit Committee, the following audit reports related to this comprehensive Regional Contract Review:

- Interim Audit Report for the City of Chino (December 2014)
- Interim Audit Report for the City of Fontana (December 2014)
- Interim Audit Report for the City of Upland (September 2014)
- Interim Audit Report for the City of Montclair (September 2014)
- “Survey of Comparative Information of the Seven Contracting Agencies” (September 2014)
- “Regional Contract Review – Review of the Ten Year Forecast” (June 2014)
- “Regional Contract Review – Survey of Comparable Agencies (June 2014)

The audit reports provide a detailed account of the audit procedures applied, the findings noted and recommendations made for each of the Contracting Agencies. IA has identified several observations and has made various recommendations to strengthen administrative, accounting, recording, and reporting controls to ensure the intent of the Regional Contract is achieved. Most of the IA recommendations provided can be applied to all Contracting Agencies, as an amendment and/or as part of the Regional Contract review and renegotiation process; and as part of new contract administration practices, in order to ensure all Regional Contracting Agencies apply the Regional Contract in a uniform and consistent manner. A summary of IA’s

recommendations is included in Exhibit A. IA also identified areas where Contracting Agencies should have tighter controls, stronger reconciliation procedures and/or greater oversight to ensure items recorded, reported and collected are appropriate and complete, and to ensure the Regional Contract is administered and applied properly. Following are summaries of the main observations and recommendations noted for each of the four member agencies evaluated to-date, these recommendations can be used throughout the region. The audits for the remaining three member agencies are anticipated for completion by March of 2015.

City of Chino

Observations noted during the City of Chino's review include:

- No connection fees were collected for the Chaffey College – Chino Campus, which opened for services in 2008. IA staff performed a physical observation and estimated that connections fees should have exceeded \$55,000.
- No connection fees were collected for a new classroom building with restrooms at Howard Cattle Elementary in 2012.
- A recount of fixture units was performed with a City of Chino plan checker and found differences in two of the five plans randomly selected for testing. Specifically, IA found that in both instances, the City undercounted fixture units; therefore under-collected connection fees, totaling approximately \$15,000.
- Although Exhibit J of the Regional Contract was recently updated, the audit found there still appears to be some room for varying interpretation and application of the contract category types by the different Contracting Agencies. For example, two items tested were newer housing developments that include a community center with a fitness center and swimming pools. The City of Chino classified the centers as a Category Type I: Retail, Office, Motel/Hotel and similar. Other possible applications would have been a Category Type III: health spa with pool or a Category Type VI: Public facility - community center. The category applied by the City of Chino resulted in the lowest possible connection fees assessed and collected. Had the City selected either Type III or VI, the fees would have increased \$6K to 50K for one center, and approximately \$13K to \$92K for the second center. Varying interpretations of Exhibit J create differences among the Contracting Agencies.
- Revisions to Exhibit J took effect on July 1, 2013. The City of Chino did not immediately implement the updates, therefore fixture unit calculations and resulting EDU totals and CCRA fees were not consistent with the new Exhibit J for the months of July through November of 2013. There is a high likelihood that the City of Chino over-collected connection fees during the four months.

City of Fontana

Observations noted during the City of Fontana's review include:

- No connection fees were collected for the new Kaiser Permanente hospital building at the Fontana Medical Campus, which opened for services in 2013. IA staff performed a physical observation and estimated that connection fees, for the expansion alone, could have exceeded \$1.3 million however; this does not taken into consideration credits for any existing fixture units in any demolished buildings. IA reviewed aerial photographs before and after the new construction and noted that smaller buildings appear to have been removed. The City of Fontana would need to work with Kaiser to document the number of existing fixture units before the expansion and the net increase in fixture units after the expansion in order to collect connection fees according to the requirements of the Regional Contract.
- A recount of fixture units was performed with a City of Fontana plan checker and found differences in one of the five plans randomly selected for testing. Specifically, IA found that the city over-collected and over-reported connection fees and fixture units, totaling approximately \$24,000.
- Although Exhibit J of the Regional Contract was recently updated, the audit found there still appears to be some room for varying interpretation and application of the contract category types by the different Contracting Agencies. For example, two items tested under the Public Service Facilities category were a new State building (owned by Caltrans) and an expansion for an existing City of Fontana building (Police Department). The City of Fontana classified both buildings as a Category Type I: Retail, Office, Motel/Hotel and similar. Another or more appropriate possible application would have been Category Type VI: Public facility. The category applied by the City resulted in a lower connection fees. Had the City selected Category Type VI: Public facility, the connection fees would have increased approximately \$25,000 for the State facility and \$6,000 for the City building.

IA noted that the differences in the categorization are due to the Contracting Agency's staff interpretation of the Regional Contract, Exhibit J and Table 1. The Regional Contract does not distinguish or provide guidance for Public Service Facilities that are "publicly owned" versus "publicly used". In this case, the City of Fontana interprets the use of the building as the defining criteria to apply a category type. For example, if the facility is determined to be operated more like a regular "business office" and the public is typically not allowed in the facility, then the City of Fontana's interpretation is that this should be classified as a Category Type I. Exhibit J states that Public Service Facilities should be categorized as Category Type VI "Public facility" and makes no distinction related to the use or the ownership.

- The City of Fontana is the only Contracting Agency that pays IEUA Sewer Service Fees based on connection EDUs rather than on water consumption for commercial and industrial businesses. The number of EDUs purchased at time of connection is used to

apply to and pay for monthly sewer service fees. This methodology is not consistent with the adopted methodology of converting water consumption into EDUs applied by the other six Contracting Agencies. The City of Fontana has adopted this methodology because the city does not access/obtain water consumption reports the three separate water companies that service its city.

- The City of Fontana is the only Contracting Agency that collects residential sewer service fees through the County property tax collection process. IA recommends IEUA consider the collection of residential monthly sewerage fees for the entire region directly through the County's property tax roll. IEUA and the Contracting Agencies may want to evaluate and consider the model utilized for billing commercial and industrial businesses and determine the possibility of collecting sewage fees for commercial businesses through the property tax roll, as well.

City of Montclair

Observations noted during the City of Montclair's review include:

- The audit identified several differences in the calculation worksheet utilized by the City of Montclair to calculate the number of fixture units when compared to the Exhibit J fixture unit values; therefore creating differences in the connection fees assessed and collected. IA noted several over and under-collections. For items tested during this audit, IA found approximately \$7,000 in over-collections due to the incorrect fixture unit values applied by City staff. These observations are only for the items selected for review. There may be other instances.
- A full-service restaurant (Dragon 99) that should have been categorized as Category III was categorized as a Category 1, creating an under collected amount of approximately \$4,000 in connection fees.
- The City of Montclair Community Center bathrooms and the Splash Pad were both categorized as Category I. Both of these should have been categorized as a Category VI, Public Facility. The categorization difference created an under-collection of over \$8,000.
- No connection fees were collected for an elementary school (Moreno Elementary School) that had new construction for multi-purpose room with restrooms and a high school (Montclair High School) that had new construction for a new building with 32 new classrooms. In both instances, it is not possible to determine the amount of fees that should have been collected without reviewing or observing the number of fixture units. However, in comparison, the City of Montclair also had new construction at a different elementary school for the addition of a multi-purpose room with a kitchen, stage and seating for 500. The total collected for existing fixtures (\$78K) and the new construction (\$24k) was over \$100K.

- The audit identified an instance where a commercial business is not being billed for sewer fees. Additionally, IA has not been able to confirm whether an apartment complex equal to approximately 270 EDUs is reported on the monthly volumetric report to IEUA.
- Sewer billing information has not been identified for the City of Montclair facilities, City Hall and Fire Department. The City stated that city facilities are not included in the billing for sewer services; therefore, no payment is made to IEUA. As a result of our audit, the City of Montclair stated they will begin payments for sewer services for these facilities. However, lost revenues have been incurred for all past years.

City of Upland

Observations noted during the City of Upland's review include:

- The audit found that the City of Upland categorized Caremore Medical Enterprises, a contemporary senior health care facility, as a Category Type 1 (Retail/Office). Another interpretation could have been a Category Type III (Convalescent home/Hospital) or a Category Type VII (Health spa without a pool). The Category I resulted in the lowest fees, had the city applied one of the other categories, the fees collected would have increased by almost \$5,000. This is an example where a different city representative or a different city might have applied a different interpretation; therefore, creating inconsistencies in the application of the Contract.
- A city-owned pet shelter, Upland Animal Shelter, was classified as a Commercial Category I, but could have been classified as either a Public Service Facility or as a hospital. Exhibit J does not provide examples of animal care facilities owned by the Contracting Agency and how they should be classified. The City of Upland applied the Commercial Category I classification and calculated \$36,761 in initial connection fees. Had the City of Upland classified the Upland Animal Shelter as a public facility since it is city owned, the fee calculation would have been \$15,347 higher. If the City had classified the Shelter as a medical facility, because it may perform some medical procedures, the fee calculation would have been \$110,467 higher (NOTE: a similar commercial facility not owned by the city, Pet Time Animal Hospital was also classified as a Commercial Category I):
- For the Upland Fire Station, the initial connection fee calculation was based on the Commercial Category I rather than as a public service facility. The City of Upland calculated \$18,277 for this project. Had the city applied the Category VI, public service facility factor, the fee calculation would have been \$7,630 higher.
- The City of Upland's sewerage billing system requires multiple manual inputs to set billing rates, enter sewerage factors and generate information. The multiple manual entries can and have resulted in errors and therefore under-collections of sewerage revenue. Since the EDU calculations provided to IEUA for calculation of amounts owed to IEUA rely on these same factors, IEUA receives less revenue than entitled to according to the Regional Contract.

IA recommends the City of Upland consider performing additional reconciliations and analysis of billing factors to ensure the accuracy of their EDU calculations and the billing rates and amounts. The audit identified approximately \$5,000 in volumetric fees that were under-collected (annualized) for the sample of items that were selected for audit testing.

- Due to the observations identified through this review, it is Internal Audit's interpretation that the City's sewerage billing system may not capture all accounts that receive sewer services, therefore creating under-collections or shortages to IEUA.

IA recommends IEUA staff work closely with the City of Upland to ensure a comprehensive reconciliation is completed to ensure all sewer service accounts are reported on the IEUA Volumetric report. As a good internal control, reconciliations of the various reports and accounts should be performed periodically. The City of Upland should ensure all sewer service accounts are reported on the IEUA Volumetric report.

Other Observations Noted/Recommendations to Consider:

Additional observations and recommendations were noted during the audit that can be applied to all Contracting Agencies and should be considered as part of renegotiations or updating practices, etc.

- IA recommends that IEUA take the lead to facilitate on-going and regular meetings, tours, and workshops with Contracting Agency staff in the building departments, plan check, utility billing, etc. to discuss items related to the application of the Regional Contract, evolving businesses, new building activity, questionable items and individual situations. The on-going discussions will serve as a means to foster collaboration and maintain on-going dialogue about the application of the Regional Contract, and address questions and issues timely.
- IEUA should consider developing a standardized calculation worksheet to assist all Contracting Agencies in the initial connection fee calculations. Currently, each Contracting Agency has its own different calculation worksheet and sometimes is not consistent with the Regional Contract Exhibit J. The standardized calculation worksheet should mirror the fixture unit types in Exhibit J, and provide additional clarification and uniformity to the fixture count process. The worksheet should be flexible enough to allow for multiple components of a business to be calculated at different commercial categories when necessary, when there is more than one type of business at the same location, for example, a gas station with a mini-mart. The standardized calculation worksheet would provide assistance in computing the initial connection fees so that Contracting Agencies' would not each need to develop their own tools individually, creating a lack of consistency and uniformity. IA noted varying application of fixture counts because agencies' calculation worksheets are not consistent with Exhibit J.
- Require that Contracting Agencies provide copies of the initial connection calculation worksheets for all nonresidential entities included on their monthly Building Activity

Reports. The calculation worksheets would provide additional support for the connections reported and the initial connection fees collected. This would provide IEUA staff greater visibility and documented support for the application of the category types and the fixture counts utilized. This process would also allow IEUA staff to contact the Contracting Agency if any questions or discrepancies are noted at the time that connections are reported rather than identifying them later on.

- IEUA and the Contracting Agencies should consider, as part of the permitting and plan check process, the requirement to have an IEUA representative provide a final sign-off and approval, prior to the Contracting Agency issuing a permit to a business or industry and allowing a connection to the Regional System. This added approval step will ensure that IEUA is in agreement with the interpretation of the contract, and that the appropriate category type and sewage factor has been applied so that the correct connection fees are assessed and collected. This process would reduce or eliminate the different interpretations currently identified after the connection has been granted and after fees have been assessed. Occasional limited audits are not an adequate substitute for oversight and reconciliation procedures.
- Develop and provide additional clarification and descriptive information for the various types of appliances, appurtenances, or fixtures in the descriptions included in Exhibit J. Examples include; defining the nature of an emergency drain, clarifying differences between lavatories, wash fountains, receptors, sinks and mop basins, and defining whether a drinking fountain that includes a separate basin for handicapped access consists of one or two fountains. The audit revealed there were differences in interpretation.
- Although Exhibit J was recently updated and now provides greater detailed definitions for many business types, there still appears to be some room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge and the Regional Contract should continually be updated to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently. The audit identified that there is still a need for additional detailed definitions, clarification and descriptive information for categorizing Public Service Facilities in Exhibit J, to expand and address the differences between publicly owned and publicly used. IEUA should consider documenting additional definitions and descriptions to the classification of businesses in Exhibit J. This would reduce the risk of misclassification of businesses and the potential under-collection of IEUA fees. Examples include; fast-casual restaurants (where orders are placed at a register near the entrance but the restaurant provides table service for the food and beverage service), animal hospitals or shelters and facilities that provide rehabilitative services.
- Consider the City of Upland's cross-departmental approach to the Development Review Process as a regional model for other Contracting Agencies to follow. This team approach to the Development Review Process (or, alternatively a liaison relationship with the Fire Department (which seems to play a role even with Public Service Facilities) facilitates obtaining information about new Public Service Facilities construction to

ensure fee collection (the audit found that a controlled process for collecting connection fees for Public Service Facilities is non-existent or ineffective at several Contracting Agencies). IEUA should discuss this and other approaches with the Contracting Agencies to find ways to obtain information about new Public Service Facilities construction to facilitate fee collection.

- In the audit report “Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs” issued in June 2014, IA noted that other similar agencies (for example Los Angeles County Sanitation District) exclude local governments and schools from connection and sewer fees. IA noted that Contracting Agencies did not collect from most local Public Service Facilities. The Regional Contract requires that connection fees be collected. However, either because of the various oversight entities involved with Public Service Facilities construction or the lack of understanding the Regional Contract requirements, each Contracting Agency applies differently, resulting in inconsistent application and mostly in non-collection of connection fees.
- Add language in the Regional Contract regarding enforcement and the recourse IEUA has when a Regional Contracting Agency over/under collects on the initial connection fees.
- IEUA should standardize the Sewerage Fee Report and require the Contracting Agencies include greater detail and require regular reporting of the ongoing sewerage fees. Requiring an automated itemized list of non-residential charges would provide information that could be reviewed and researched for anomalies and reconciled on a regular basis. Alternatively, an automated interface between IEUA and the Contracting Agencies would provide similar advantages.
- Evaluate the current process used for invoicing each Contracting Agency for monthly sewer fees collected. By establishing a contract for monthly payment instead of relying on the invoice process, each Contracting Agency could provide the EDU information and remit the funds collected to IEUA directly within a reasonable period of time; instead of waiting for an invoice that delays payment for up to 45 days. By reengineering the process, IEUA would receive the monthly sewer fees collected by the member agencies in a more efficient and timely manner.
- The Regional Contract describes a dispute resolution process for Monthly Sewer Service Fees. IEUA should consider adding language in the Regional Contract regarding dispute resolution, enforcement, and the recourse IEUA has when a Regional Contracting Agency over/under collects on connection fees. Currently, the Regional Contract only addresses disputes for sewer fees but not for connection fees.

IA would like to extend its appreciation to the Cities of Chino, Fontana, Montclair and Upland personnel, as well as the IEUA Planning and Environmental Compliance Department personnel for their cooperation and assistance during this review.

IA continues to work with the remaining three Contracting Agencies to finalize the evaluations:

- City of Chino Hills
- City of Ontario
- Cucamonga Valley Water District

PRIOR BOARD ACTION

On December 18, 2013, the Board reconfirmed the approved Internal Audit Department Charter.

On November 20, 2013, the Board approved the Fiscal Year 2013/14 Amended Annual Audit Plan. The Regional Contract Review was scheduled in the Plan.

On July 19, 2013, the Board approved the Fiscal Year 2013/14 Annual Audit Plan.

IMPACT ON BUDGET

None.

Exhibit A - Internal Audit Recommendations for IEUA Management and the Contracting Agencies

| No. | Recommendations | Upland | Montclair | Fontana | Chino |
|-----|--|-----------|-----------|-----------|-------------|
| 1. | <p>CONNECTION FEES RECOMMENDATIONS and FEES: 2013/2014</p> <p>In addition to the regular meetings of the Regional Technical and Regional Policy Committees, IEUA has already begun to provide ad-hoc meetings and training as needed for things such as the updated excel Building Activity Report and the Exhibit J subcommittee. IA noted that great variability and understanding of IEUA, the Regional Contract and Exhibit J exists amongst Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing. In order to develop greater consistency and uniformity throughout the region, IEUA should consider taking the lead in holding quarterly or more regular workshops, meetings, plant tours and similar activities as an avenue where Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing and/or others as well can discuss and ask questions about the application of the Regional Contract and Program. The workshops would provide a forum to discuss questions about category types to apply, definitions, other questionable items and individual situations, and foster cooperation and collaboration among all. A Contracting Agency may encounter questions or situations that could apply to other Contracting Agencies. Frequent and on-going dialogue about the application of the Regional Contract would benefit all Contracting Agencies and the Regional Program to ensure consistent application of the Regional Contract and that issues are addressed on a timely basis.</p> | \$505,462 | \$262,500 | \$830,226 | \$2,620,202 |
| 2. | <p>IEUA and the Contracting Agencies should add language to the Regional Contract regarding IEUA's inspection and verification rights for connection fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported connection fees.</p> | | X | X | X |
| 3. | <p>IEUA Planning and Pretreatment groups should take the lead to exercise the authority provided under Regional Contract Section 26 Inspection of Facilities, and establish an on-going monitoring program to inspect random facilities or those where there is a suspected discrepancy in order to ensure the intent of the Regional Contract is applied and ensure the integrity of the Regional Program.</p> | | | X | |
| 4. | <p>IEUA and the Contracting Agencies should consider, as part of the permitting and plan check process, a requirement that an IEUA representative provide final sign-off and approval prior to the Contracting Agency issuing a permit to a nonresidential entity and allowing a connection to the regional system. This added approval step will ensure IEUA agrees with the interpretation of the contract and the appropriate category type and sewage factor have been applied so correct connection fees are assessed and collected.</p> | X | X | X | X |
| 5. | <p>IEUA and the Contracting Agencies should consider developing a standardized calculation worksheet to assist Contracting Agencies in the connection fee calculations. Currently, each Contracting Agency has its own unique calculation worksheet and it is not always consistent with the Regional Contract Exhibit J. A standardized calculation worksheet should mirror the fixture unit types in Exhibit J and provide additional clarification and uniformity to the fixture count process. The worksheet should be flexible enough to allow for multiple components of a business to be calculated at different commercial categories when there is more than one type of business at the same location (for example, a gas station/minimart with a car wash). A standardized calculation worksheet would provide assistance in computing the connection fees so that Contracting Agencies would not each need to develop their own tools, creating a lack of consistency and uniformity. IA noted varying application of fixture counts because the Contracting Agencies' calculation worksheets are not consistent.</p> | X | X | | X |

Exhibit A - Internal Audit Recommendations for IEUA Management and the Contracting Agencies

| Recommendations | | Upland | Montclair | Fontana | Chino |
|-----------------|--|--------|-----------|---------|-------|
| No. | | | | | |
| 6. | IEUA should consider developing expertise in fixture count techniques and providing regular and ongoing training at the Building Departments of the Contracting Agencies to develop consistency in the IEUA fixture count process across the region, including obtaining IEUA's guidance on the treatment of commercial enterprises whose business type is unique and does not fall into the categories established in Exhibit J. | X | n/a | X | X |
| 7. | IEUA should require that Contracting Agencies provide copies of the connection calculation worksheets for all nonresidential entities included on their monthly Building Activity Reports. Calculation worksheets would provide additional support for the connections reported and the connection fees collected. This would provide IEUA staff greater visibility and documented support for the application of the category types and fixture counts utilized. IEUA staff would have the necessary information to contact the Contracting Agency if any questions or discrepancies are noted at the time that connections are reported rather than identifying these later on. | X | X | | X |
| 8. | Exhibit J was recently updated and now provides detailed definitions for many business types, yet there is still room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge. Exhibit J should regularly be updated to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently. IEUA should consider documenting additional definitions and descriptions to the classification of businesses in Exhibit J. This would reduce the risk of misclassification of businesses and the potential under-collection of IEUA fees. Examples include fast-casual restaurants (where orders are placed at a register near the entrance but the restaurant provides table service for the food and beverage service), animal hospitals or shelters, community centers at newer residential communities and facilities that provide rehabilitative services. The review also identified a need for additional detailed definitions, clarification and descriptive information for categorizing public service facilities to expand and address the differences between publicly owned and publicly used. | | | | |
| 9. | IEUA and the Contracting Agencies should develop and provide additional clarification and descriptive information for the various types of appliances, appurtenances or fixtures in the descriptions included in Exhibit J. Examples include defining the nature of an emergency drain, clarifying differences between lavatories, wash fountains, receptors, sinks and mop basins and whether a drinking fountain that includes a separate basin for handicapped access consists of one or two fountains. The review revealed differences in interpretation. | X | | X | X |
| 10. | IEUA should consider a two tier process of determining connection fees as part of Exhibit J that distinguishes between common features that are part of any commercial facility such as restroom toilets and sinks and those features that are unique to a specific site, such as a butcher shop drain or a restaurant dishwasher or washing sink, etc. This would create consistency in the treatment of same-type and same-use fixture units. | X | | | X |
| 13. | Contracting Agencies should consider adopting an internal review process over connection fees calculations as part of preparing the Building Activity Report. | | | X | |

Exhibit A - Internal Audit Recommendations for IEUA Management and the Contracting Agencies

| No. | Recommendations | Upland | Montclair | Fontana | Chino |
|-----|---|------------------------------|--|--|---|
| | PUBLIC SERVICE FACILITIES RECOMMENDATIONS | | | | |
| | Examples of recent Public Service Facilities with NO Connection Fees collected | None noted, per audit sample | Moreno Elem. classroom building (OMSD) Montclair H. S. additions (CJUHS) | None noted, per sample audit (City made conscious choice not to charge Kaiser Fontana) | Howard Cattle Elem. classroom building (CVUSD) Chaffey College-Chino Campus |
| 1. | IEUA and the Contracting Agencies should consider the exclusion of Public Service Facilities from the charge for Connection Fees and Monthly Sewerage Charges. As documented under the audit report "Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs", IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public K – 14 schools and City governments from both Connection Fees and Monthly Sewerage Charges. | | | | X |
| 2. | Consider the City of Upland's cross-departmental approach to the development review process as a regional model for Contracting Agencies to follow. The City of Upland has formed an inclusive group from all city departments that meets regularly to review new development. The group includes representatives from the Planning, Building, Public Works, and Police and Fire departments. Since planning for fire safety is required for new construction to ensure access and egress, Fire department representatives are often the first to know about new PSF construction. This will trigger Public Works and Building department representatives to be involved resulting in the assessment of connection fees, including those for IEUA in accordance with Exhibit J. | n/a | X | n/a | X |
| 3. | IEUA should add language to the Regional Contract regarding IEUA's inspection and verification rights for Public Service Facilities as to connection and monthly sewer fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported such fees. | n/a | X | n/a | X |
| | MONTHLY SEWERAGE BILLING RECOMMENDATIONS and FEES: 2013/2014 | \$4,294,863 | \$1,981,117 | \$8,196,601 | \$4,592,930 |
| 1. | IEUA and the Contracting Agencies should consider establishing the collection of monthly sewerage fees directly for the entire region through the County's property tax roll. Collection of sewerage fees through the property tax roll could result in a more efficient process and reduce the administrative resources used by Contracting Agencies in billing and collecting these fees. Residential properties could be transferred initially until consideration is given to ways in which and whether to transition fees from commercial, industrial and other entities. | | | X | |
| 2. | IEUA should add language to the Regional Contract regarding IEUA's inspection and verification rights as to monthly sewerage fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported such fees. | | X | | X |

Exhibit A - Internal Audit Recommendations for IEUA Management and the Contracting Agencies

| Recommendations | | Upland | Montclair | Fontana | Chino |
|-----------------|--|--------|-----------|---------|-------|
| No. | | | | | |
| 3. | IEUA and the Contracting Agencies should evaluate the methodology used for billing monthly sewerage fees and consider alternatives; either by water consumption or EDUs purchased. Since the adoption of the existing billing methodology in a 1997 memorandum there have been greater efficiencies achieved in water usage, which may have an impact on the type and amount of sewerage discharged and the types of services provided. Another approach to consider as part of the billing should be aligned with the services provided. The billing methodology should be presented to the volumetric rather than an EDU based rate structure. The billing methodology should be presented to the IEUA Board of Directors and formally adopted, since the Regional Contract specifies that the role of the Regional Technical Committee is to make recommendations. As part of this process a Rate and Fee Study would assist in establishing a sustainable and equitable rate structure that recovers the cost of providing services. | | | X | |
| 4. | Evaluate and consider the relationship between monthly Sewer Service Fees and Connection Fees and determine the need to create a correlation between the two. For example, fast-food restaurants and full-service restaurants are both included in Category 8 for monthly sewerage billing purposes and pay at the same rate. However, for purposes of connection fees fast-food restaurants are grouped with office, retail and similar uses (which are Category 1 for monthly sewerage billing). Therefore, fast-food restaurants incur lower Initial Connection Fees, but pay monthly Sewer Service Fees at the higher rates charged to full-service restaurants. | | X | | X |
| 5. | IEUA should evaluate the current process used for invoicing each Contracting Agency for monthly sewer fees. By establishing a contract for monthly payment rather than relying on invoices, each Contracting Agency could provide the EDU information and remit the funds to IEUA directly within a reasonable period of time. This contrasts with the current approach whereby Contracting Agencies provide EDU information and then wait for an invoice from IEUA before payment thereby delaying payment for up to 45 days. By reengineering the process, IEUA would receive monthly sewer fees in a more efficient and timely manner. | X | X | X | X |
| 6. | IEUA and the Contracting Agencies should consider standardizing and providing automated and itemized listings of non-residential monthly sewerage charges. This would provide information that could be reviewed and researched for anomalies and reconciled on a regular basis. | X | X | X | X |
| 7. | IEUA and Contracting Agency staff should work together to resolve the identified differences and over/under collected amounts and unreported service fees. The review identified businesses that are not reported to IEUA in the monthly sewer fee report and fees not paid for the services provided by IEUA as well as classification errors and formula mistakes. | X | X | | X |

Regional Contract Review Interim Audit Reports

Chino
Fontana
Montclair
Upland



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Teresa V. Velarde
Manager of Internal Audit

Chino Basin Regional Sewage Service Contract

- Established: January 2, 1973
- Term: 50 years
- Expiration: January 1, 2023
- Discussion/Renegotiation/Renewal
 - **Section 28:** "In order to provide for a periodic review and update, as necessary, of the provisions of this contract, CBMWD and the Contracting Agencies agree to enter good faith discussions at intervals not exceeding five years or at the request of the majority of the Contracting Agencies."
 - **Section 29:** "No later than **two years** prior to the end of the term of this contract or any earlier termination or extension of this contract, the parties shall negotiate for the extension or renewal of this contract upon comparable terms and conditions."

Regional Wastewater Fund

Comprised of the Regional Wastewater Capital Improvement Fund (RC) and Regional Wastewater Operations and Maintenance Fund (RO)

Revenues by Contracting Agency For the Fiscal Year Ended June 30, 2014

| CONTRACTING AGENCY | CONNECTION FEES (RC Fund) | MONTHLY SEWER SERVICE CHARGES (RO Fund) |
|--------------------|---------------------------|---|
| CUCAMONGA VALLEY | \$ 1,901,701 | \$ 10,288,244 |
| CHINO | 2,620,202 | 4,592,930 |
| CHINO HILLS | 1,985,132 | 3,892,815 |
| FONTANA | 830,226 | 8,196,601 |
| MONTCLAIR | 262,500 | 1,981,117 |
| ONTARIO | 1,674,395 | 9,532,321 |
| UPLAND | 514,478 | 4,294,863 |
| TOTAL | \$ 9,788,634 | \$ 42,778,891 |

Total of Connection Fees and Sewer Service Charges: \$ 52,567,525

Total Revenues, including Grants and Subsidies per CAFR: \$ 124,841,232

Percentage of Above to Total Agency Revenue: 42.1 %

Regional Contract Review Interim Audit Reports

Objective/Purpose:

- **Regional Contract implementation**
- **Regional Contract renegotiation**

Approach:

- **Physical observations**
- **Business license reports**
- **Planning and Environmental Compliance Department**
- **Building Activity Reports (BAR)**

Regional Contract Review Interim Audit Reports

- **Internal Audit (IA) has provided 23 recommendations for IEUA management to consider on a going-forward basis, and in renegotiating and/or reconsidering the Regional Contract.**
- **IA has provided recommendations for IEUA to work with the Cities to improve processes, record-keeping and controls.**

Regional Contract Review Interim Audit Reports

To-date, through the Audit Committee, IA has submitted as an information item the following audit reports:

- Interim Audit Report for the City of Chino (December 2014)
- Interim Audit Report for the City of Fontana (December 2014)
- Interim Audit Report for the City of Montclair (September 2014)
- Interim Audit Report for the City of Upland (September 2014)
- “Survey of Comparative Information of the Seven Contracting Agencies” (September 2014)
- “Regional Contract Review – Review of the Ten Year Forecast” (June 2014)
- “Regional Contract Review – Survey of Comparable Agencies” (June 2014)

Regional Contract Review

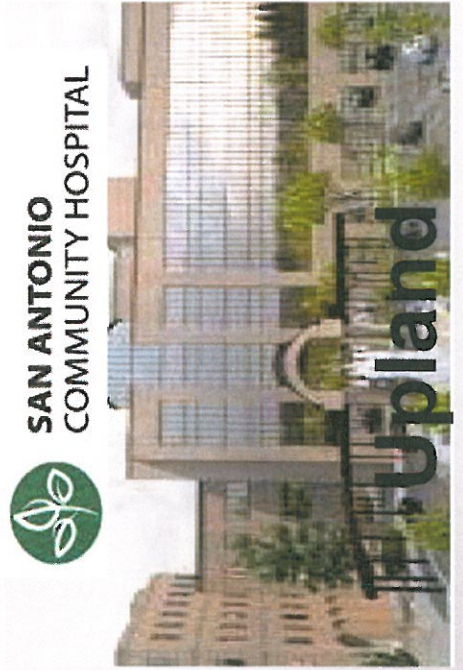
PUBLIC SERVICE FACILITIES

Regional Contract Review

Summary of Public Service Facilities

Hospitals

| Contracting Agency | Hospital | Year Fees Collected | Connection Fees |
|--------------------|--|--|-----------------|
| City of Upland | San Antonio Community Hospital - Addition | 2011 | \$ 1,370,197 |
| City of Ontario | Kaiser Permanente – New Facility | 2012 | \$ 1,409,106 |
| City of Fontana | Kaiser Permanente – Hospital and Inpatient Tower | N/A (Replacement Hospital Opened: 2013) | \$ 0 |

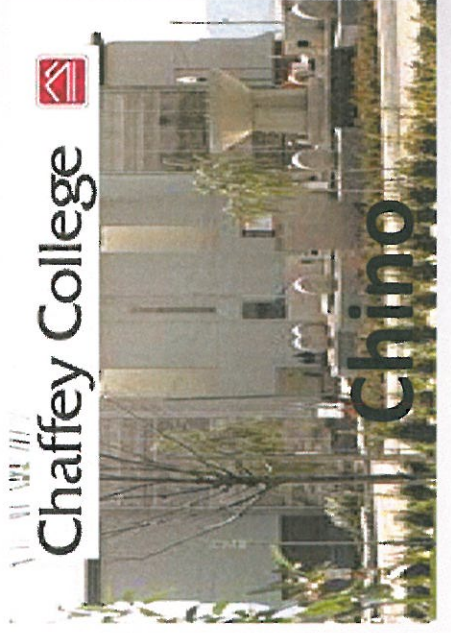
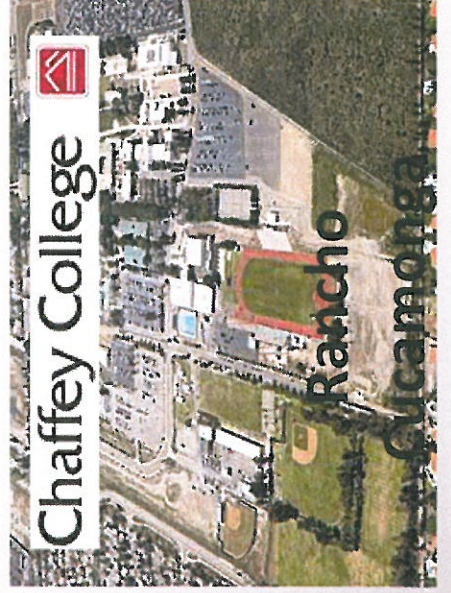


Regional Contract Review

Summary of Public Service Facilities

Colleges

| Contracting Agency | College | Year Opened | Connection Fees |
|---------------------------------|---|---|-----------------|
| City of Chino | Chaffey College Chino Campus | 2008 | \$ 0 |
| Cucamonga Valley Water District | Chaffey College Rancho Cucamonga Campus | Founded 1883 2007 Expansion 6 New Buildings (50 total buildings) | \$ 0 |
| City of Fontana | Chaffey College Fontana Campus | 2011 | \$ 52,845 |



Regional Contract Review

Summary of Public Service Facilities

Public Schools (K-12)

| Contracting Agency | School Name | School District | Type of construction | Year | Connection Fees |
|--------------------|----------------------------------|--|--|--------------------|-----------------|
| City of Chino | Howard Cattle Elementary School | Chino Valley Unified School District | New classroom wing with restrooms | Summer 2012 | \$ 0 |
| City of Fontana | Jurupa Hills High School | Fontana Unified School District | New High School | 2009 | \$272,182 |
| City of Fontana | Citrus High School | Fontana Unified School District | New High School | 2009 | \$149,228 |
| City of Montclair | Howard Elementary School | Ontario Montclair School District | Multipurpose room with kitchen | 2011 | \$102,388 |
| City of Montclair | Moreno Elementary School | Ontario Montclair School District | Multipurpose room with restrooms | 2013 | \$ 0 |
| City of Montclair | Montclair High School | Chaffey Joint Union High School District | New 32 Classroom building | 2012 | \$ 0 |
| City of Ontario | Richard Haynes Elementary School | Ontario Montclair School District | Multipurpose room with restrooms, warming kitchen, etc. | Summer 2012 | \$ 0 |
| City of Ontario | Ray Wiltsey Middle School | Ontario Montclair School District | 13 classroom modular facility with multiple restrooms, outdoor areas, etc. | Summer 2013 | \$ 0 |
| City of Ontario | Ontario High School | Chaffey Joint Union High School District | New classroom building, restrooms, football stadium & pool | Under Construction | \$ 0 |
| City of Upland | Upland High School | Upland Unified School District | New Gymnasium | 2013 | \$22,506 |

Public Service Facilities Recommendations

- Additional language should be added to the Regional Contract regarding IEUA's **inspection** and **verification** rights for Public Service Facilities and the **recourse** IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported Connection Fees and/or Monthly Sewerage Charges.
- All Contracting Agencies should consider implementing a coordinated and **cooperative approach** where several City departments work together to identify Public Service Facilities and ensure Connection Fees are collected at the time of connection.

Regional Contract Review

Commercial Connection Fees (Exhibit J – Table 1)

City of Chino

Connection Fees-Different Interpretations

Residential Community Centers

16250 Homecoming Drive

| | Exhibit J | Exhibit J Description | Sewage Factor | Fees |
|----------------------------|-------------------|--|---------------|--------------|
| City of Chino application | Category Type I | Retail, office, motel/hotel and similar businesses | 0.0444 | \$30,732.30 |
| Other possible application | Category Type III | Health spa with pool | 0.1780 | \$123,206.08 |
| Other possible application | Category Type VI | Public Facility-Community Center | 0.0630 | \$43,606.65 |

6325 Eucalyptus Avenue

| | Exhibit J | Exhibit J Description | Sewage Factor | Fees |
|----------------------------|-------------------|--|---------------|-------------|
| City of Chino application | Category Type I | Retail, office, motel/hotel and similar businesses | 0.0444 | \$16,129.01 |
| Other possible application | Category Type III | Health spa with pool | 0.1780 | \$64,661.35 |
| Other possible application | Category Type VI | Public Facility-Community Center | 0.0630 | \$22,885.76 |

City of Fontana Connection Fees-Different Interpretations

Caltrans Facilities

13970 Victoria (SRL Building)

| Audit Results | Exhibit J | Type of Commercial | Fixture Units | Sewage Factor | CCRA | Fees |
|--|------------------|---------------------------|---------------|---------------|----------|-----------------------|
| City of Fontana Interpretation | Category Type I | Retail/Office/Motel/Other | 219 | 0.0444 | \$ 4,766 | \$ 46,342.68 |
| Internal Audit Interpretation | Category Type VI | Public Facility | 219 | 0.0630 | \$ 4,766 | \$ 65,756.50 |
| Difference in Connection Fees (under collected) | | | | | | (\$ 19,413.82) |

13970 Victoria (Independent Assurance Building)

| Audit Results | Exhibit J | Type of Commercial | Fixture Units | Sewage Factor | CCRA | Fees |
|--|------------------|---------------------------|---------------|---------------|----------|----------------------|
| City of Fontana Interpretation | Category Type I | Retail/Office/Motel/Other | 67 | 0.0444 | \$ 4,766 | \$ 14,177.90 |
| Internal Audit Interpretation | Category Type VI | Public Facility | 67 | 0.0630 | \$ 4,766 | \$ 20,117.29 |
| Difference in Connection Fees (under collected) | | | | | | (\$ 5,939.39) |

City of Fontana Connection Fees-Different Interpretations

City Facilities

Fontana Police Department⁽¹⁾ – 17005 Upland Ave.

| Audit Results | Exhibit J | Type | Fixture Units | Sewage Factor | CCRA | Fees |
|--|-------------|-------------------------------|---------------|---------------|----------|----------------------|
| City of Fontana Interpretation | Category I | Retail/Office/ Motel/Other | 70 | 0.0444 | \$ 4,766 | \$ 14,812.73 |
| Internal Audit Interpretation | Category VI | Public Facility | 70 | 0.0630 | \$ 4,766 | \$ 21,018.06 |
| Difference in Connection Fees (under collected) | | | | | | (\$ 6,205.33) |

(1)= Reported to IEUA on the August 2011 BAR.

Fontana Police Department⁽²⁾ – 17005 Upland Ave.

| Audit Results | Exhibit J | Type | Fixture Units | Sewage Factor | CCRA | Fees |
|--|-------------|-------------------------------|---------------|---------------|----------|--------------------|
| City of Fontana Interpretation | Category I | Retail/Office/ Motel/Other | 3 | 0.0444 | \$ 4,673 | \$ 622.40 |
| Internal Audit Interpretation | Category VI | Public Facility | 3 | 0.0630 | \$ 4,673 | \$ 883.20 |
| Difference in Connection Fees (under collected) | | | | | | (\$ 260.80) |

(2) = Reported to IEUA on the June 2009 BAR.

City of Montclair Connection Fees-Different Interpretations

City Facilities

Community Center Bathrooms

| Audit Results | Category | Type | Fixture Units | Sewage Factor | CCRA | Fees |
|--|----------|---------------------------|---------------|---------------|----------|--------------------|
| Contracting Agency Classification | I | Retail/Office/Motel/Other | 87 | 0.0444 | \$ 4,909 | \$ 18,962.49 |
| Internal Audit Interpretation | VI | Public Facility | 87 | 0.0630 | \$ 4,909 | \$ 26,906.23 |
| Difference in Connection Fees (under collected) | | | | | | \$ 7,943.74 |

Splash Pad

| Audit Results | Category | Type | Fixture Units | Sewage Factor | CCRA | Fees |
|--|----------|---------------------------|---------------|---------------|----------|------------------|
| Contracting Agency Classification | I | Retail/Office/Motel/Other | 6 | 0.0444 | \$ 4,909 | \$ 1,307.76 |
| Internal Audit Interpretation | VI | Public Facility | 6 | 0.0630 | \$ 4,909 | \$ 1,855.60 |
| Difference in Connection Fees (under collected) | | | | | | \$ 547.84 |

City of Upland Connection Fees-Different Interpretations

Commercial Enterprises

Caremore Medical Enterprises

| Exhibit J | Exhibit J Description | Sewage Factor | Fees |
|-------------------|--|---------------|------------|
| Category Type I | Retail, office, motel/hotel and similar businesses | 0.0444 | \$1,743.68 |
| Category Type III | Convalescent home or hospital | 0.1780 | \$6,990.42 |
| Category Type VII | Health spa without pool | 0.1555 | \$6,106.80 |

Regional Contract Review Summary of Categorization Differences

Commercial Enterprises – Audit Sample only

| Contracting Agency | Description | Category Used | Fees Collected | Alternative Category | Possible Fees | Potential Increase in Fees |
|--------------------------------|------------------------------|---|------------------|--|-------------------|----------------------------|
| Chino | Residential Community Center | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 30,732 | III: Hospital, Health Spa with Pool, full service restaurant | \$ 123,206 | \$ 92,474 |
| Chino | Residential Community Center | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 16,129 | III: Hospital, Health Spa with Pool, full service restaurant | \$ 64,661 | \$ 48,532 |
| Montclair | Dragon 99 Restaurant | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 1,308 | III: Hospital, Health Spa with Pool, full service restaurant | \$ 5,243 | \$ 3,935 |
| Upland | Caremore Medical Enterprises | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 1,744 | III: Hospital, Health Spa with Pool, full service restaurant | \$ 6,990 | \$ 5,246 |
| TOTALS FOR ITEMS TESTED | | | \$ 49,913 | | \$ 200,100 | \$ 150,187 |

Regional Contract Review

Summary of Categorization Differences

Public Service Facilities – Audit Sample only

| Contracting Agency | Description | Category Used | Fees Collected | Alternative Category | Possible Fees | Potential Increase in Fees |
|--------------------------------|--|---|-------------------|----------------------|-------------------|----------------------------|
| Fontana | Caltrans Facility (SRL Building) | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 46,343 | VI: Public Facility | \$ 65,756 | \$ 19,413 |
| Fontana | Caltrans Facility (Independent Assurance Building) | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 14,178 | VI: Public Facility | \$ 20,117 | \$ 5,939 |
| Fontana | Police Department | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 14,183 | VI: Public Facility | \$ 21,018 | \$ 6,835 |
| Fontana | Police Department | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 622 | VI: Public Facility | \$ 883 | \$ 261 |
| Montclair | Community Center (Bathrooms) | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 18,962 | VI: Public Facility | \$ 26,906 | \$ 7,944 |
| Montclair | Splash Pad | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 1,308 | VI: Public Facility | \$ 1,856 | \$ 548 |
| Upland | Animal Shelter | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 36,761 | VI: Public Facility | \$ 52,108 | \$ 15,347 |
| Upland | Fire Station | I: Retail, Office, Motel/Hotel, Fast Food, etc. | \$ 18,277 | VI: Public Facility | \$ 25,907 | \$ 7,630 |
| TOTALS FOR ITEMS TESTED | | | \$ 150,634 | | \$ 214,551 | \$ 63,917 |

Connection Fees Recommendations

- IEUA provide final approval of nonresidential plumbing permits to verify connection count, categorization and fees.
- IEUA inspection, verification and recourse rights for under-collected and/or under-reported Connection fees.
- IEUA require all calculation worksheets are submitted as support to the BAR.
- **IEUA leadership to hold regular workshops, meetings, plant tours and similar activities with Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing.**
- **Exhibit J updated regularly to provide additional language, definitions and guidance to ensure commercial businesses are classified consistently, including:**
 - **Publicly-owned vs. publicly-used**
 - **Private community centers, swimming facilities and recreation centers in residential communities**

Regional Contract Review

Monthly Sewer Service Fees

Regional Contract Review

Monthly Sewer Service Fees

Approximately 25% of the commercial items tested were found to have errors in the way they were billed or were completely omitted from billing:

- Administrative errors and lack of oversight such as the following:
 - Misclassified businesses (Chino, Upland)
 - Incorrect sewer factor (Chino, Upland)
 - Incorrect sewer rates applied (Upland)
 - Clerical errors (Chino, Upland)
 - Unaccounted for sewer accounts (Montclair, Upland)
- No Monthly Sewer Billing for City facilities (Montclair)

Regional Contract Review Monthly Sewer Service Fees

The City of Fontana had no errors in Sewer Service Billing because:

- City of Fontana is the only Contracting Agency that charges commercial and industrial customers the monthly Sewer Service Fees based on connection EDUs. All other Contracting Agencies charge non residential customers based on water consumption flows converted into EDUs.
- City of Fontana is the only Contracting Agency that has residential Sewer Service Fees collected through the County property tax roll.

Regional Contract Review

Monthly Sewer Service Fees

- IEUA should standardize the monthly sewer fee report and require more detail and/or itemized information for non-residential charges.
- IEUA and the Contracting Agencies should consider establishing the collection of monthly sewerage fees directly for the entire region through the County's property tax roll.
- IEUA and Contracting Agencies should consider alternative methods to apply when billing for sewer services; either by water consumption or purchased EDUs or measuring flow.
 - Fontana bills based on purchased EDUs since water usage is not available
 - Chino, Montclair, Upland based on 1997 memo to Tech Committee
 - Other Sanitation Districts/Regional Agencies are monitoring residential winter water usage to consider alternatives to a single EDU per household
- IEUA and Contracting Agencies should evaluate and consider the relationship between monthly Sewer Service Fees and Connection Fees and determine the need to create a correlation between the two components.
- **The cities should perform periodic reconciliations to ensure all accounts are reported and accounted for and paid utilizing the correct rates.**



Regional Contract Review

Next Steps

Regional Contract Review

Contract Requirements Consideration:

- Right to Audit
- Enforcement/Recourse
- Dispute Resolution
- Greater Involvement/On-going Workshops
- Equity:
 - Initial Connections
 - Monthly Sewer Fees
- Collection Processes

Regional Contract Review

Audit Risk Matrix

LIKELIHOOD

LOW

MEDIUM

HIGH

| | | |
|--|-------------------------|---|
| Important Area of Focus | Critical Area of Focus | Most Critical Area of Focus Highest Financial Risk Most Likely to Occur |
| Moderate Risk Area | Important Area of Focus | Critical Area of Focus |
| Least Critical Area of Focus Lowest Financial Risk Least Likely to Occur | Moderate Risk Area | Important Area of Focus |

HIGH

MEDIUM

LOW

IMPACT

Regional Contract Review Audit Risk Matrix

LIKELIHOOD

LOW MEDIUM HIGH

LOW

| | | |
|--|--|---|
| <p>Monthly Sewerage Fees</p> <ul style="list-style-type: none"> • Not Collected from Governmental Facilities | <p>Connection Fees</p> <ul style="list-style-type: none"> • Not Collected from Hospitals | <p>Connection Fees</p> <ul style="list-style-type: none"> • Not Collected from Schools • Connection Fees • Commercial Categorization Errors |
| <p>Residential Monthly Billing</p> <ul style="list-style-type: none"> • Not Collected or Recorded | <p>Commercial Monthly Sewerage</p> <ul style="list-style-type: none"> • Missing Accounts <p>Commercial Monthly Sewerage</p> <ul style="list-style-type: none"> • Rate errors | <p>Commercial Monthly Sewerage</p> <ul style="list-style-type: none"> • Categorization Errors |
| <p>Residential Connection Fees</p> <ul style="list-style-type: none"> • Not collected | <p>Connection Fees</p> <ul style="list-style-type: none"> • Fixture Count Errors | |

HIGH

MEDIUM

LOW

IMPACT

Questions?

