Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA 91708

WEDNESDAY, MARCH 9, 2016
9:00 A.M.

CALL TO ORDER

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. **ACTION ITEMS**

   A. **MINUTES**
   The Committee will be asked to approve the Audit Committee meeting minutes from December 9, 2015.

2. **INFORMATION ITEMS**

   A. **INFORMATION TECHNOLOGY FOLLOW UP AUDIT (WRITTEN)**

   B. **INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR MARCH 2016 (WRITTEN)**

3. **COMMITTEE MEMBER COMMENTS**

4. **COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS**

5. **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: _____

DECLARATION OF POSTING

I, Stephanie Riley, Executive Assistant 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. in the foyer at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, March 3, 2016.

Stephanie Riley

ACTION
ITEM

1A

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

MINUTES
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
WEDNESDAY, DECEMBER 9, 2015
9:00 A.M.

COMMITTEE MEMBERS PRESENT
Terry Catlin, Chair
Steven J. Elie (Alternate)

COMMITTEE MEMBERS ABSENT
Jasmin A. Hall

STAFF PRESENT
P. Joseph Grindstaff, General Manager
Chris Berch, Executive Manager of Engineering/AGM
Martha Davis, Executive Manager of Policy Development/AGM
Christina Valencia, Chief Financial Officer/AGM
Kathy Besser, Manager of External Affairs
Andy Campbell, Deputy Manager of Planning and Environmental Resources
Javier Chagoyen-Lazaro, Manager of Finance and Accounting
Warren Green, Manager of Contracts and Facility Services
Jason Gu, Grants Officer
Sylvie Lee, Manager of Planning and Environmental Resources
Suresh Malkani, Principal Accountant
Lisa Morgan- Perales, Senior Water Resources Analyst
Sapna Nangia, Senior Internal Auditor
Jason Pivovaroff, Senior Engineer
Craig Proctor, Pretreatment and Source Control Supervisor
Peter Soelter, Senior Internal Auditor
Teresa Velarde, Manager of Internal Audit
April Woodruff, Board Secretary/Office Manager

OTHERS PRESENT
Travis Hickey, Audit Committee Advisor
Nitin Patel, White Nelson Diehl Evans

The meeting was called to order at 9:12 a.m. There were no public comments received or additions to the agenda.

ACTION ITEMS
The Committee:

- Approved the Audit Committee meeting minutes of September 9, 2015.

◆ Recommended that the Board:

1. Approve the CAFR for FY ended June 30, 2015; and

2. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties;

as an Action Item on the December 16, 2015 Board meeting agenda.

◆ Mr. Nitin Patel from White Nelson Diehl Evans (WNDE) provided a brief overview of the Single Audit and the various reports that were issued in connection with the financial audit. Mr. Patel mentioned that the audit report noted that, in accordance with the Government of Audit Standards, a few items were incorrectly included as "capital projects" in the construction in progress project listing as of June 30, 2015. He noted that management has responded to this issue and have taken corrective action. Mr. Grindstaff noted that it does not change the Agency's basic financial situation. Mr. Patel also mentioned that WNDE issued an unmodified opinion and that means that the financial statements are free of misstatements.

Recommended that the Board:

1. Approve the Single Audit Report for FY 2014/15; and

2. Direct staff to distribute the report, as appropriate, to the State Controller's Office, the Federal Clearing House, and other interested parties;

as a Consent Calendar Item on the December 16, 2015 Board meeting agenda.

INFORMATION ITEMS
The following information items were presented, received, or filed by the Committee:

◆ Updates for the Audit Committee and the Internal Audit Department Charters
◆ Regional Contract Review Final Report
◆ Internal Audit Department Quarterly Status Report for December 2015

GENERAL MANAGER'S COMMENTS
General Manager Joseph Grindstaff stated that as a direct result of the Regional Contract Review Internal Audit identified potential revenue from the agencies, and help force the issues in a positive way for the agencies and this helps with contract negotiations. Mr. Grindstaff went on to thank Principal Accountant Suresh Malkani and the Finance Department for doing a really good job in working on the account and finance processes over the past year.

COMMITTEE MEMBER COMMENTS
President Catlin thanked Manager of Internal Audit Teresa Velarde and her staff for all the hard work that went into the Regional Contract Review Final Report.

COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS
None.

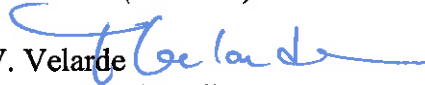With no further business, the meeting adjourned at 9:55 a.m.

Respectfully submitted,

April Woodruff
Board Secretary/Office Manager

*A Municipal Water District

APPROVED: March 9, 2016

INFORMATION
ITEM
2A

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date:	March 16, 2016
To:	The Honorable Board of Directors
Through:	Audit Committee *(03/09/16)*
From:	Teresa V. Velarde Manager of Internal Audit
Subject:	Follow-Up Review – Information Technology Equipment – ISS

RECOMMENDATION

This is an informational item for the Board of Directors.

BACKGROUND

Internal Audit (IA) has completed the Follow-Up evaluation of the outstanding recommendations for Information Technology (IT) Equipment according to the Fiscal Year 2014/15 Annual Audit Plan. The IA Department Charter requires that IA perform follow-up evaluations to determine the progress made to implement the recommendations provided in previous audits. The follow-up audit evaluated the outstanding recommendations related to the following reports:

- Information Technology Equipment Audit, dated August 21, 2012; and
- Information Technology Equipment Audit Follow-up Audit, dated November 14, 2012

In August 2012, a total of 22 recommendations were provided to ensure internal controls over IT equipment are in place and ensure physical control and accountability of IT equipment. At the request of the Audit Committee, in November of 2012, IA performed a follow-up review to assess the implementation status of the original 22. The follow-up review found that 6 recommendations were implemented. Additionally, IA identified 2 new recommendations. Bringing the total of open recommendations to 18.

The recommendations provided IT Equipment Audit involved various Agency departments including Integrated Systems Services (ISS), Human Resources (HR), Contracts and Facilities Services (CFS), and Finance and Accounting (FAD).

This follow-up review found that of the 18 outstanding recommendations, 9 recommendations are now implemented and the remaining are in progress of being implemented. The report attached provides the details of the observations and audit procedures employed.

Below is a brief summary of the changes identified:

- ISS documented Standard Operating Procedures (SOP) to document procedures for the purchase, inventory, retirement, reporting, storage and security of IT equipment.

- ISS developed a database/tracking system to account for all the Agency's IT equipment, which has been fully populated and accessible by Agency staff as required.

- ISS developed a tracking mechanism to identify spare IT equipment that is available and in storage, but not currently in use.

- ISS developed an annual self-verification and confirmation/auditing process for employees to verify, confirm, and electronically sign off on all IT equipment assigned to them.

- ISS implemented various security measures at the Agency's Headquarters and plant sites to ensure IT equipment are protected from unauthorized access, loss, damage or theft.

- ISS should continuously evaluate the methods applied for tracking IT equipment to ensure controls are in place and risks are mitigated. As the Agency and technology advances, the processes in place should match the needs of the Agency and ensure these are the most effective methods to compliment the goals of the organization.

- ISS, along with CFS, considered a broader range of disposal options for functional and useful IT equipment that was retired from the Agency, including donations to the San Bernardino Superintendent of Schools.

- CFS developed an Agency-wide Policy (A-89) on the Procurement Card (P-card) Program. The policy is in the process of being revised to include additional language on the purchases of services related to online/cloud-based services using the Agency's P-card.

Of the 18 outstanding recommendations, IA noted that 9 are implemented, 2 are in progress, and 7 are deferred to the FAD. IA will work closely with the FAD to determine the current status of the 7 recommendations deferred to the department and assess the implementation status. IA will report on the recommendations in a separate report.

The Follow-Up review of the outstanding recommendations for IT Equipment is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices.

Refer to the attached report for additional details of the findings and recommendations.

PRIOR BOARD ACTION

On September 16, 2015, the Board of Directors approved the Annual Audit Plan for Fiscal Year 2014/15.

On December 16, 2015, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Charter.

IMPACT ON BUDGET

None.

DATE: February 29, 2016

TO: Joe Grindstaff
           General Manager

Teresa V. Velarde (signature)

FROM: Teresa V. Velarde
           Manager of Internal Audit

SUBJECT: Follow-Up Review – Information Technology Equipment - ISS

Audit Authority

The follow-up audit was performed under the authority provided by the Inland Empire Utilities Agency (IEUA or Agency) Board of Directors. The Internal Audit (IA) Department's Charter and the Annual Audit Plan require that IA follow up on the status of audit recommendations to determine if corrective actions have been taken. IA completed a follow-up review of the Integrated Systems Services (ISS) functions for the outstanding recommendations related to the following audit reports:

- Information Technology Equipment Audit, dated August 21, 2012, and
- Information Technology Equipment Follow-up Audit, dated November 14, 2012.

Audit Objective and Scope

The purpose of this follow-up review was to evaluate the corrective actions implemented for each of the outstanding recommendations remaining from the Information Technology (IT) Equipment Audits. Additionally, the objective was to determine if alternate controls have been implemented to mitigate any risks originally identified and determine if there are any new risk areas that require attention.

Audit Techniques

Audit techniques included:

- Discussions with Agency staff
- Review of ordinances, policies, and procedures
- Review and analysis of ISS records
- Physical observation of IT server rooms and storage areas

Water Smart – Thinking in Terms of Tomorrow

Audit Results – Executive Summary

Of the 11 recommendations, IA found that nine (9) recommendations have been implemented and two (2) are in progress. Seven (7) outstanding recommendations have been deferred to FAD and will be reported on in a separate report. The attached report provides details of the findings and recommendations.

Below is a brief summary of the changes identified:

- ISS documented Standard Operating Procedures (SOP) to document procedures for the purchase, inventory, retirement, reporting, storage and security of IT equipment.

- ISS developed a database/tracking system to account for all the Agency's IT equipment, which has been fully populated and accessible by Agency staff as required.

- ISS developed a tracking mechanism to identify spare IT equipment that is available and in storage, but not currently in use.

- ISS developed an annual self-verification and confirmation/auditing process for employees to verify, confirm, and electronically sign off on all IT equipment assigned to them.

- ISS implemented various security measures at the Agency's Headquarters and plant sites to ensure IT equipment are protected from unauthorized access, loss, damage or theft.

- ISS should continuously evaluate the methods applied for tracking IT equipment to ensure controls are in place and risks are mitigated. As the Agency and technology advances, the processes in place should match the needs of the Agency and ensure these are the most effective methods to compliment the goals of the organization.

- ISS, along with Contracts and Facilities Services (CFS), has considered a broader range of disposal options for functional and useful IT equipment that was retired from the Agency, including donations to the San Bernardino Superintendent of Schools.

- CFS developed an Agency-wide Policy (A-89) on the Procurement Card (P-card) Program which is currently in the approval process. The policy has been revised to include additional language on the purchases of services related to online/cloud-based services using the Agency's P-card.

Discussions with Management

We provided the results of this follow-up review to Mr. Kenneth Tuliau, Manager of Maintenance and Mr. David Malm, Deputy Manager of ISS on February 23, 2016, prior to finalizing this report for their review and comments.

Acknowledgements

We would like to extend our appreciation to ISS, CSF, Human Resources and FAD staff for their cooperation during this follow-up review.

Written Response to Internal Audit

As required by the IA Charter, IA will continue to follow up until full implementation of all outstanding recommendations and/or compensating controls has been implemented.

No new recommendations were provided in this report. No response is required.

TV:sn

Background

The Integrated System Services (ISS) department is responsible for the day-to-day operations and maintenance of the Agency's Information Technology (IT) network infrastructure and operating systems at the Headquarters buildings and the various plant sites.

The original IT Equipment Audit report issued in August 2012 provided a total of 22 recommendations to ensure internal controls over IT equipment are in place and ensure the physical control and accountability of IT equipment.

In November 2012, at the request of the Audit Committee, Internal Audit (IA) performed a follow-up evaluation to assess the implementation status of the original 22 recommendations. In the IT Equipment Follow-up audit report issued November 2012, of the original 22 recommendations, IA found six (6) recommendations were implemented, five (5) were in progress, and eleven (11) required additional time for full implementation. Additionally, IA identified two (2) new recommendations which were provided in the IT Equipment Follow-up Audit Report. After the second follow up review, 18 recommendations remained outstanding.

This second follow-up provides an update on eleven (11) recommendations. The other seven (7) recommendations are primarily the responsibility of the Finance and Accounting Department (FAD) and have been deferred to a separate audit report planned for completion in June 2016. **Attachment 4** provides a to-date status of all the recommendations issued since 2012.

For additional background information, IA refers readers to each of the respective IT Equipment audit reports, which were received and filed by the Board of Directors at the time of issuing the original reports. These reports can be accessed through AIM, or can be requested from the Manager of Internal Audit.

At the time of the original and follow-up audit reports, the department responsible for the accounting records and data in the Agency's financial system (SAP) was called Fiscal Management Department (FMD), while the department responsible for the Agency's acquisition of goods and services was called Contracts and Procurement Department (CAP). The departments have been renamed to Finance and Accounting Department (FAD) and Contract and Facilities Services (CFS). The report makes reference to all of the following: "FMD", FAD", "CAP" and/or "CFS".

Equipment Accountability and Tracking (Recommendation 3-7)

The original August 2012 audit report identified:

- Three different inventory mechanisms were used to track IT equipment
- Purchases could not always be identified in ISS records
- Purchases could not always be identified in SAP asset listings
- ISS Assets Inventory database was incomplete and inconsistent
- Some equipment was not tracked by ISS
- Equipment was not assigned to individuals or departments
- No method was in place to determine whether spare IT equipment items are available
- No periodic inventory was performed of equipment
- Database/Lists were found to be incomplete and missing key identifying information, and some Agency equipment that should be tracked was not accounted for
- Several purchases and existing equipment were not tracked
- Standard Operating Procedures (SOPs) for the management of IT equipment were not documented.

Shortly after the first review, ISS created the Technology Asset List (TAL), a database that is used to manage information on IT equipment. The purpose of the TAL is to track larger value IT equipment. It has the capability to track "workstations" by employee and/or department manager and includes identifying details such as make/model/serial number for equipment assigned.

Based on IA's review, the TAL is an effective tool for tracking IT equipment and addresses the risks identified in the original report. However, IA noted in the follow up report that the effectiveness of the TAL is dependent on the accuracy and completeness of the information contained in the database, along with the effectiveness of the processes established to maintain the TAL.

Recommendation 3:
ISS implement appropriate tracking systems that include relevant information on IT purchases (i.e., serial numbers, etc.), are updated timely and are complete and accurate. ISS should establish procedures to enter, modify, and delete information in the tracking systems that address areas such as timeliness for updates, responsibilities for maintaining the systems, and the types of items included in the tracking system.

Status: In Progress

Since the first follow-up audit, ISS has fully implemented the use of the TAL to track and manage IT equipment. The previous inventory tracking systems are no longer utilized since the TAL has superseded those and ISS staff is responsible for updating the information recorded in the TAL.

IA reviewed the procedures that have been established for the management of IT equipment and discussed the process with ISS. IA noted the following:

- ISS has documented a Standard Operating Procedure (SOP) titled: Managing Technology Assets (Doc Number: OPS-ISS-001). The SOP provides procedures for the purchase, inventory, retirement, reporting, storage and security of IT equipment. Having documented procedures serves as an added control and reference guide to ensure processes are performed consistently and uniformly.

- ISS noted that there is inaccurate information on the TAL and they are in discussions with an outside vendor to determine options to improve accuracy.

IA recommends ISS consider the following additional controls to more accurately track IT equipment (these added controls would satisfy concerns originally identified in Recommendations #3, #4, and #5):

Timely update of the TAL:
- Upon initial assignment of equipment to new employees or new issuances to current employees,

- Upon transfers and employee department/location changes of the equipment,

- Upon employee separation to reflect that
  o The equipment has been either reassigned or assigned to the department manager and/or equipment is no longer assigned to the employee, and
  o verify that equipment was recovered, and

- When ISS staff needs spare equipment and parts from the storage room or places additional items into the storage room.

Additionally, ISS should continuously consider opportunities to improve the current inventory process and the methods relied upon. For example, related to the TAL and useful metrics, as described under Recommendation #4.

IA will continue to follow up on this recommendation until full implementation.

Recommendation 4:
ISS, in conjunction with Human Resources, should establish procedures to assign equipment to individuals or department managers through the use of hand receipts or another documented method that secures employee signatures. The procedures should address matters such as initial assignment to individuals, transfer of equipment or personnel to different departments, and procedures when an employee terminates.

Status: Implemented

Human Resources (HR) relies on ISS for issuance and monitoring of IT assets. HR relies on the department managers to coordinate the collection of IT equipment when employees terminate Agency service. When an employee separates from Agency service, HR provides the department managers with a checklist to verify all Agency issued materials are collected or returned: IEUA Return of Agency-Issued Keys/Tools/Materials and I.D. Badge/FOB. As a result of this IT follow-up review, HR updated the form to include a reminder to Managers/Supervisors to review the TAL for IT items that were assigned to the separating employee.

ISS is the department with primary responsibility for tracking assignment, transfers, recovery and disposals of IT equipment. ISS has taken several steps to address this recommendation and while this recommendation is now considered implemented, tighter controls should be adopted to address initial assignment to individuals, transfer of equipment or personnel to different departments, and procedures when an employee terminates to ensure full accountability and tracking of equipment, as discussed in Recommendation #3 above (considered In Progress).

Annually, ISS requires all employees complete a self-verification process which serves as an annual inventory to verify the IT assets assigned to them. Starting with FY 2014, the ISS department emailed all Agency staff a hyperlink that takes users to a list of their assigned technology assets. Staff are responsible to verify, confirm, and electronically sign off on the list of IT equipment assigned to them. The IT asset self-verification process is conducted annually and has been performed at the end of the fiscal year for the last two years. This process is meant to place the responsibility for the physical inventory on Agency employees.

According to ISS, the self-verification process has been successful and helps ensure the information maintained in the TAL is up-to-date and accurate. Additionally, the process does not take up resources and time from ISS staff. ISS stated that the challenges with this confirmation process are, it occurs only once a year, requires continuous email reminders to staff, and at times there is employee unresponsiveness.

IA identified the following where there are opportunities for improvement to the current process:

- It was not possible to quantify the response rate for the annual verification process because the information is not captured through this process. It would beneficial to measure response rate as an indicator of the proportion of IT assets that are verified and those that are not.

- The information maintained in the TAL is not static and constantly changes as updates are made to the database. ISS can only provide a current snap-shot of assets assigned to employees, but cannot go back in time to obtain past

assignments, transfers and movements. This information would be useful to track equipment, if for example, it is lost or stolen.

- To improve the TAL's usefulness, and measure whether the annual self-evaluation inventory process is achieving its intended purpose, ISS should consider finding a method to gather the following information:

  o Total number of employees assigned IT assets/equipment
  o Number of email notifications sent out to remind employees of the self-verification
  o Number of employees that did not respond at all or the actual response rate
  o IT equipment verified
  o IT equipment not verified

As noted above, this recommendation is now considered implemented, however, tighter controls should be adopted to address initial assignment to individuals, transfer of equipment or personnel to different departments, and procedures when an employee terminates and to ensure full accountability and tracking of equipment, as discussed under Recommendation #3 (considered In Progress).

Recommendation 5:
ISS should develop a method for identifying parts and equipment on hand that are available, such as in storage, but not currently in use.

Status: **Implemented**
No longer applicable

For this recommendation, risks and controls originally identified and recommended during the first audit will be reviewed under Recommendation #3. Recommendation #5 is no longer applicable because it only addresses one element of the tracking system, whereas Recommendation #3 addresses the entire comprehensive tracking system as a whole. IA has considered these recommendations to be similar and therefore, in an effort of simplicity, all concerns will be discussed under only one recommendation (#3).

ISS has taken several steps since the prior audits to address this recommendation including, developing a mechanism to track and account for spare IT equipment. While this recommendation is now considered implemented, tighter controls should be adopted to address timeliness, accuracy, and completeness of the information documented in the TAL to ensure full accountability and tracking of all IT equipment, to maintain the TAL as current as possible and to perform periodic inventories of assets. The controls and risks identified as part of this recommendation will also be addressed and reviewed in greater detail as part of Recommendation # 3, which is considered In Progress.

The discussion below summarizes the observations during this evaluation. These observations are rolled up into Recommendation #3:

For this 2016 follow up review, IA *judgmentally* selected a sample of 20 IT assets from the TAL with a status of *"In Storage"* located at the Headquarters and various plant sites to test the accuracy and existence of the assets as noted in the TAL. In addition, IA also selected 20 assets while at the ISS Storage Rooms at Headquarters and the plant sites to verify completeness and accuracy of the information in the TAL.

Based on the results of IA's test work, it appears the information listed in the TAL is not always up-to-date and the processes described in the written SOP are not consistently applied. ISS noted that in each of the ISS Storage Rooms there is a workstation that is connected to the network and staff is required to update the TAL when equipment is moved in and out of the Storage Room as noted in the department's SOP. The information in the TAL should be kept current, otherwise it can result in loss of staff time looking for assets in the wrong location, already in use, or retired. In the prior follow up review, IA noted that the effectiveness of the TAL is dependent on the accuracy and completeness of the information contained in the database, along with the effectiveness of the processes established to maintain the TAL.

Attachment 1 to this audit report has a table that provides the exceptions of our testing results. The following is a summary of what we noted:

Items selected from the TAL to verify with physical assets:
Of the 20 items selected:
- Seven assets were not physically accounted for in the storage area indicated on the TAL.
- Two assets had already been retired, but the status in the TAL was not updated.

Items selected from the Storage Rooms to verify with the TAL:
Of the 20 items selected:
- One asset in the IS Work Room is a hub (fixed asset), but the information per the TAL indicated it was a workstation (Productivity tool).
- One asset was located in the RP-5/DCS Storage room, but the status information per the TAL noted the asset was in use.
- One asset was located at RP-1 Storage Room (Maintenance Building - Mezzanine area), but the status information per the TAL noted the asset was located at RP-5 Storage room.

Although ISS has taken corrective action to address the original recommendation by developing the TAL to track and account for spare IT equipment that is available and located in storage areas, it is not always up-to-date or accurate and may not be reliable to users. However, this recommendation only addresses one component of the overall IT inventory system, while Recommendation #3 above concerns the entire system. Therefore going forward, the controls concerned with this recommendation will be addressed as part of Recommendation #3, which requires additional time for full implementation.

Recommendation 6:
ISS should establish procedures to perform periodic inventories of equipment under its responsibility, to include, at a minimum, all items with inventory tags in the ISS Assets Inventory database and all PCs/laptops.

Status: Implemented

ISS has developed procedures to regularly inventory IT assets assigned to employees, which is documented in the department SOP: Managing Technology Assets. For the two categories of Technology Assets, the following was noted:

- **Employee Assets (Productivity assets)** – are technology assets routinely used by staff. Examples include: PC's, laptops, monitors, printers, etc.

  ISS has established an annual self-verification and confirmation process for IT Productivity assets (as described earlier in this report under Recommendation # 4). This self-audit process puts responsibility and accountability of the IT assets, along with the accuracy of the information in the TAL upon staff.

- **Fixed Assets** – are technology assets installed at the various Agency locations, including headquarters and plant sites. These assets are not assigned to individual staff members. Examples include: programmable logic controllers (PLCs), in computing or input/output (I/O), uninterruptible power supply (UPS), control processor, network switches, microwave radios, servers, routers, etc.

As of December 2, 2015, the TAL had over 7,000 fixed IT assets, as shown:

Asset Type	Examples of Asset Subtype	Total Number of Fixed Assets	Estimated Asset Value per TAL
Network Infrastructure/Other	Switches, UPS, Servers, Microwave/ Wireless	1,571	$9,278,500
Power related	Power Supply, PLC Chassis, UPS, etc.	894	$4,470,000
Process Control Hardware	I/O, PLC, Communication Card, Ethernet Interface, etc.	4,276	$21,358,000
Process Control Panel/Hub	Local Control Panel, Remote I/O Panel, Remote Terminal Unit Panel, etc.	286	$1,430,000
Total of Fixed Assets as of December 2, 2015		**7,027**	**$36,536,500**

As noted above, ISS developed the TAL on AIM to use as a tracking system for the Agency's IT equipment (Employee and Fixed Assets). Even though this tracking system was implemented and meant to track and monitor both the Productivity and the Fixed Assets, ISS has determined that utilizing the TAL may not be the most effective inventory method and have been evaluating other tracking and inventory systems.

The ISS department has a significant number of IT fixed assets under its responsibilities that support the Agency's day-to-day operations, which are located at the treatment plants. The assets include items such as all equipment related to the Agency's SCADA system, large technology parts and small pieces within the larger parts. Based on our review, there is limited risk to the safeguarding and accountability of such large fixed assets. It would seem highly unlikely for a large system computer part to go missing. If a piece goes missing, the Agency's system will not function appropriately and ISS would be able to identify this immediately. Although the risk of theft or loss is minimal, it is still necessary to track all equipment.

ISS has encountered several challenges in continuously maintaining the information in the TAL, along with attempting to conducted periodic inventory of those IT fixed assets. The challenges with the annual inventory are determining what part is an individual asset versus what combined parts should be classified as one whole asset, while ensuring the process is efficient and effective in addressing controls and risks.

As part of addressing this recommendation, ISS has been researching various options to determine the most efficient and effective method to track and inventory IT fixed assets. As an organization, the Agency has evolved, the business needs have changed, and will continue to change. With the high quantity and dollar amount the Agency has invested in its IT Equipment, the risks and controls should be continuously reassessed, reevaluated and monitored. ISS is challenged with keeping up with the technology needs, while ensuring those assets are controlled and safeguarded. As a result, ISS has noted they have initiated discussions with outside consultants with expertise in this area. Additionally, ISS is also working with a Cybersecurity Consultant on another project related to the business network and safeguarding IT assets will be reviewed at some level.

Overall, ISS has noted that there are areas of their operations that can be improved, for example, continuing with cleaning out and purging the storage rooms of unnecessary or old technology, additions of new assets that come online, timely updates of information in the TAL related to terminations and equipment information. ISS plans to address these areas with external consultants as an effort to tighten controls and mitigate risks.

Based on IA's review, ISS has implemented processes to track and inventory IT equipment assigned to users and the annual verification process is conducted. This process will continue to evolve as the Agency moves forward and technology advances. ISS is challenged with solidifying similar controls for IT fixed assets. Because ISS is working to determine the best options and already discussing with outside consultants to address these areas, IA will reevaluate the risks in the future as part of its annual Risk Assessment and/or address any concerns there may be.

<u>Procurement Card (P-Card) Purchases</u>

<u>Recommendation 8:</u>
CAP review and ensure consistency in the requirements between CAP SOP CPP-07001, the draft Agency policy on the Procurement Card Program, and individual cardholder use agreements.

<u>Status: Implemented</u>

The August 2012 audit report noted the following the observations related to P-cards:

- P-card purchase limits were inconsistent among various Agency documents
- Purchases were made for some items that were unallowable
- P-card purchase logs did not always provide detailed information of the purchase.
- Purchases sometimes exceeded the cardholder's user agreement limits (per transaction limit and monthly limit)

IA reviewed the most current Procurement Ordinance, Agency Policy A-89 <u>Procurement Card Program</u> (Revision No: 1, and Effective: January 26, 2016), CAP SOP (CAP-0012, Version Number: 001, Version date: August 15, 2013), and the individual P-cardholder agreements to verify if the per transaction and monthly limits are consistent.

P-card Limits

Type of Document	Per Transaction:	Monthly Limit:
Procurement Ordinance No. 101 (Section 3.7)	$5,000 (less than or equal to)	None
A-89 Procurement Card Program (Number 5.8)	Established per Cardholder Agreement	
CAP SOP (CAP-0012)	Established per Cardholder Agreement	
Individual Cardholder Agreement	$1,500	$20,000

In the original audit, each of the documents described above, had different dollar amounts, making it confusing and inconsistent for users to understand their limits and authorized amounts. It appears that although the Agency Procurement Ordinance has higher dollar limits available, the individual cardholder agreements document the maximum spending limits that the cardholders must adhere to and this may be different depending on the needs and approvals for each individual cardholder. IA determines that this provides clarity on the P-card limits.

For P-card purchase activity for the ISS Department, refer to **Attachment 2**.

Physical Security

Recommendation 11:
ISS should ensure that all server and storage areas are properly secured at all times, and that only ISS staff with a specific need are provided access to these areas.

Status: Implemented

Recommendation 12:
ISS should ensure storage areas are clean and organized, dispose of trash, identify old equipment that is no longer needed, and properly dispose of unneeded, obsolete equipment.

Status: Implemented

Recommendation 13:
ISS should establish procedures to ensure all equipment over established thresholds have an inventory tag.

Status: Implemented

During the original audit, IA noted the following observations/risks related to physical security:

- Storage and server areas were not properly secured
- Storage area unorganized, with old equipment and trash in storage area
- Items without inventory tags that should be tagged
- Non-IT items in storage area
- Other observations noted that put IT equipment at risk of damage or loss
- Unsecured equipment - risk for loss, theft, or use without proper authorization
- Disorganized/Unorganized storage areas - risk of theft or loss of equipment
- Non-IT items in the ISS storage room - risk that non-authorized personnel will need to access the storage area putting the Agency IT equipment at risk for loss or theft

Since the original audits in 2012, ISS has implemented the following:

- Tagged all IT equipment hardware with a value of at least $1,000 (capitalization threshold) and recorded in the TAL. Other assets such as workstations (PC's), laptops, monitors, tablets, printers, and many more have also been tagged and included on the TAL for tracking purposes.

- Cleaned, organized and secured server rooms and storage areas at IEUA's Headquarters Building A and B, RP-1 (ISS Trailer and Mezzanine), and CCWRF. Signage showing "Authorized Access Only" was posted.

- Documented SOP: <u>Managing Technology Assets (Doc Number: OPS-ISS-001)</u>. The SOP documents the procedures for the purchase, inventory, retirement, reporting, and **storage and security of IT equipment**.

IA reviewed access rights to the ISS server rooms and storage areas as of November 16, 2015. **Attachment 3** shows the number of individuals with access to each of the ISS Server Rooms and Storage areas, which according to ISS is reasonable. In addition, it is possible to obtain an access activity log by location. While additional controls have been implemented to secure storage areas, *IA suggests that ISS continuously monitor access to ensure only those individuals that require access to the ISS Server Rooms and Storage Rooms have access. Any individuals that do not need access should be deactivated immediately.*

Based on this review, it appears ISS has taken the necessary steps to implement additional security measures to ensure IT equipment is protected from unauthorized access, loss, damage or theft.

Disposal of Equipment

Recommendation 14:
ISS work with CAP to establish appropriate procedures that consider a broader range of disposal options for used IT equipment such as offering equipment to a wider range of charity organizations/schools, or consider reselling the equipment to recover some costs. Additionally, disposals should be clearly communicated to FMD promptly.

Status: Implemented

The August 2012 audit report noted the following:

- Disposal procedures did not consider donations and/or resale of functional and usable IT equipment
- CAP department was infrequently involved in the disposal process of IT equipment
- Notification method to FMD for disposed items was not effective

The following table provides a breakdown of the recent disposals:

Retired IT Equipment[1] Between 2012 and January 21, 2016

Status per TAL	Asset Type	Number of Assets
Retired	**Workstation**	22
Retired/CAP	**Monitor (52)**, Printer (8), **Workstation (97)**	157
Retired/E-Waste	Mobile Hot Spot/Jet Pack (1), **Monitor (107)**, Printer (20), Scanner (2), Tablet (2), and **Workstation (113)**	245
Total Amount of Disposed IT equipment		**424**

(1) = Excludes A/V Equipment, Auto Rental Card, and Smartphones

According to ISS SOP (Doc Number OPS-ISS-001), section 5 Retired Equipment, any IT equipment that is deemed to be no longer useful to the Agency due to lack of technical support, old technology, or failed components will be "Retired" and either e-wasted or forwarded to CFS. E-wasted assets are reformatted or destroyed and kept aside for pick up or delivered to RP1 Warehouse Recycling Container, while retired IT equipment that is still functioning is forwarded to CFS for final disposition.

After 2012, both ISS and CFS have considered various options to dispose of functioning IT equipment, including donations or resell. Per CSF, no retired IT assets have been resold since the original audit was completed, only donated. In order to ensure IT assets are donated in an equitable manner within IEUA's service area and surrounding regions, CFS determined that any retired and functioning IT assets are first offered to the San Bernardino County Superintendent of Schools (SBCSS), instead of individual schools, for donation. By providing the donations to the SBCSS, the organization can best determine how to allocate the IT equipment according to their needs. Based on the feedback received from SBCSS, the donated IT equipment is appreciated and went directly to the classrooms for student use. For any IT assets that were offered to SBCSS, but declined, ISS e-wasted those assets.

IA reviewed documentation that supported recent donations by the Agency:

Month	Type of Assets	Public Agency
June 2015	Printer and cables	Local School
May 2014	Personal Computers and Printers	San Bernardino County Superintendent of Schools
February 2014	Monitors, Desktops, Laptop Computers and miscellaneous items	San Bernardino County Superintendent of Schools
December 2013	Monitor and Printer	Habitat for Humanity
October 2013	Computers and various Peripherals	San Bernardino County Superintendent of Schools

As of October 13, 2015, the Agency contracted with PCTronics to erase/reformat and e-waste any IT equipment tagged for retirement. As part of the services provided, the vendor provides supporting documentation to confirm the e-waste. The new Agency process for disposals will be done through PCTronics because both ISS and CFS consider it more efficient. Therefore, because the recommendation was addressed, IA considers this recommendation to be implemented and no further action is required.

Standard Operating Procedures (SOPs)

Recommendation 21:
ISS should document Standard Operating Procedures to address the many functions of the department such as the Assets Inventory database, tagging new purchases, assigning account information to purchases, assigning property to individuals or departments, reconciliation of ISS and SAP records, spare part availability and tracking, and access to ISS storage areas.

Status: Implemented

The original audit report noted that SOPs were lacking for many ISS functions, including:

- Updating ISS Assets Inventory database
- Procedures for tagging new purchases with unique inventory tags
- Identification of a purchase with O&M funds and association with a capital project
- Tracking equipment not in the ISS Assets Inventory database
- Assignment of property to individuals or departments
- Reconciliation of ISS and SAP asset records
- Spare part availability and tracking
- Disposal of equipment other than PCs/laptops
- Access to ISS storage areas

The purpose of SOPs is to ensure there are documented processes during staff absences, staffing changes, and cross-training. Having written procedures serves as an added control and reference guide to ensure functions are performed consistently. Without SOPs, there is the risk that procedures will be incorrectly applied or not reflect current business practices.

For the 2016 follow-up evaluation, IA inquired about the status of SOPs. ISS has a documented SOP titled: <u>Managing Technology Assets</u> (DOC Number OPS-ISS-001). IA reviewed the SOP and it contains the majority of the processes listed in the original recommendation, <u>other than the reconciliation of ISS and SAP records.</u>

According to ISS, there is currently no existing practice to reconcile the ISS information in the TAL to the Agency's financial system (SAP). ISS stated an email notification process has been put into place to notify FAD of IT assets that have been retired. At this time, IA was not able to validate this email notification process on the retirement of IT equipment and if SAP records are updated with this information accordingly.

Without reconciliations of ISS's Technology Asset Records to the SAP records, the accuracy and completeness of both records is at risk. To validate the information recorded, IA suggests ISS work with FAD to adopt a practice of periodic reconciliations of ISS records to the Agency's financial system, or develop a feasible and/or alternative

method to verify the accuracy, existence, and completeness of the financial information for the Agency's IT equipment.

Based on IA's follow-up review, ISS has taken steps to address the original recommendation to document SOPs. The reconciliation of ISS and SAP records is specifically addressed under Recommendation # 7 in this report. IA plans to continue to work with ISS and FAD on full implementation of Recommendation #7. Therefore, IA has determined Recommendation #21 to be fully implemented and no further work is required.

Procurement Card (P-card)

New Recommendation 1 (from November 2012 Follow-Up audit report):
ISS should ensure that any services procured with P-cards are expressly authorized by the Manager of CAP, CFO, AGM or GM prior to committing to services.

Status: In Progress

In the August 2012 original audit report, IA identified observations related to the use of P-cards by ISS and those observations can be found under Recommendation # 8 in this report.

During the November 2012 follow-up and as a result of IA's audit work, ISS obtained authorization via email from the Manager of CAP to purchase Microsoft technical support and iPad data services using the P-card. Thus, IA provided a new recommendation in the follow-up audit report regarding the purchase of services on the P-card.

IA noted that all purchases of "new services" using the P-card should include the required authorization before the purchase is made.

Additional language has been added to A-89 that allows for the purchase of services related to technology based applications, software, licenses, technical support and data services, application/cloud-based services etc.; however, the revised Policy is still in the review process. Once the policy has been finalized and is available to all employees, this recommendation will be considered Implemented.

Attachment 1

Table – Exceptions

IA selected assets from the TAL with a status of "In Storage" to test the accuracy and existence of the assets as listed per the TAL. The exceptions found in our testing were:

Assets selected from the TAL:				
Facility per TAL	Status per TAL	Type of Asset	ISS Tag Number	Located in Storage Room or with ISS
HQ-B	In Storage	Monitor	BIZ02944	No – Asset not found
RP-1	In Storage	Laptop	PAC08390	No – Asset not found
RP-1	In Storage	Router	PAC07590	No – Asset not found
RP-1	In Storage	Controller Processor	PAC09631	No – Asset not found
RP-1	In Storage	Power Supply	PAC07173	No – Asset not found
RP-1	In Storage	PLC	PAC07815	No – Asset not found
CCWRF	In Storage	10 Slot I/O Chassis	PAC00086	No – Asset not found
HQ-A	In Storage	Workstation/Laptop	BIZ00076	No – Asset Retired
HQ-B	In Storage	Workstation/Laptop	BIZ01056	No – Asset Retired

IA selected assets at the Headquarters and various plan sites to verify completeness and accuracy of the information in the TAL:

Assets selected from the ISS Storage Room:					
Facility	Location	Type of Asset	ISS Tag Number	Located on the TAL	Information accurate per TAL
HQ-A	IS Work room	Hub	BIZ00977	Yes	No – Asset Type does not match
HQ-B	RP-5/ DCS Storage Lab	Power Supply	PAC04214	Yes	No – Status Incorrect
RP-1	Maintenance Building – Mezzanine Storage Room	Control Logix 10 Slots Chassis	PAC10726	Yes	No – Location Incorrect

Attachment 2

Below is a table of the ISS department P-card activity for July 1, 2014 to January 31, 2016:

Fiscal Year	Number of P-card Transactions	Total Dollar Amount
2014/15	462	$ 110,470
2015/16[1]	130	$ 26,728
Totals	**592**	**$ 137,199**

(1) = Only covers 7 months.

In the limited review performed of P-card transactions for Fiscal Year 2014/15 to January 2016, IA noted there were no individual transactions that exceeded the $1,500 per transaction limit and there were no cardholders that exceeded the monthly limit of $20,000.

IA conducted a brief review to ensure that purchase activity did not exceed allowable limits and did not find instances where the new policy limits were exceeded.

Attachment 3

Table – Access to ISS Server Rooms and Storage Areas

Facility	Location	Security Measures in Place	Individuals with access	Estimated Number of individuals with access
HQ-A	Server Room	FOB access, Signage	Agency employees (62), Outside Agency employees (38)	100
HQ-A	IS Work Room	FOB access, Signage	Agency employees (62), Outside Agency employees (14)	76
HQ-B/ RP-5	Server Room	FOB access, Signage	Agency employees (62), Outside Agency employees (24)	86
HQ-B/ RP-5	DCS Lab	FOB access and Signage	Agency employees (62), Outside Agency employees (25)	87
HQ-B/ RP-5	DCS Storage Room [1]	Key access only	Agency employees (62), Outside Agency employees (25)	87
CCWRF	Maintenance Building	Cipher Lock, Signage, and Key	ISS staff (12) and Maintenance Staff (approximately 1-2)	14
RP-1	Mezzanine Area	Cipher Lock, Signage, and Key	ISS staff (12) and Maintenance Staff (approximately 1-2)	14
RP-1	ISS Trailer	Cipher Lock, Key	ISS staff (12) and Other Staff (approximately 8 more or less)	20+
RP-1	Administration Lab Building (Gold Room)	Cipher Lock, Key	ISS staff (12) and Maintenance Staff (approximately 1-2)	14
RP-4	Server Room	Cipher Lock, Key	ISS staff (12) and Maintenance Staff (approximately 1-2)	14
RP-4	Trailer	Cipher Lock, Key	ISS staff (7)	7

Note: Agency Employees include Board of Directors, Executives, Managers/Officials, HR, Safety, and ISS/BIS Staff, while Outside Agency employees include Contractors (various).

(1)   = DCS Storage Room is located next to the DCS Lab. Accessible only via key, which is kept in a locked cabinet inside the DCS Lab. Individuals with access to the DCS Lab will be able to access DCS Storage Room.

ISS is currently working with a Cybersecurity Consultant to perform an assessment of the Agency's business network. As part of this process, the Cybersecurity Consultant will evaluate security and accessibility by staff of the Agency's Server rooms located at Headquarters building A and B.

Attachment 4
IT Equipment, dated August 21, 2012
Status of Recommendations

Rec #	Recommendation	Implemented	Deferred	In Progress	Not Implemented
1	ISS, in coordination with other departments, determine suitable methods to track different types of IT equipment, based on risk factors such as the dollar value and risk of loss or theft of the equipment.	Implemented 2012			
2	FAD work with Department Managers and Project Managers to obtain all the necessary information to ensure that all purchases that meet the capitalization threshold are identifiable in SAP asset records with the serial number and other necessary identifying information.	Implemented 2012			
3	ISS implement appropriate tracking systems that include relevant information on IT purchases (i.e., serial numbers, etc.), are updated timely and are complete and accurate. ISS should establish procedures to enter, modify, and delete information in the tracking systems that address areas such as timeliness for updates, responsibilities for maintaining the systems, and the types of items included in the tracking system.			X	
4	ISS, in conjunction with Human Resources, should establish procedures to assign equipment to individuals or department managers through the use of hand receipts or another documented method that secures employee signatures. The procedures should address matters such as initial assignment to individuals, transfer of equipment or personnel to different departments, and procedures when an employee terminates.	X			
5	ISS should develop a method for identifying parts and equipment on hand that are available, such as in storage, but not currently in use.	X			
6	ISS should establish procedures to perform periodic inventories of equipment under its responsibility, to include, at a minimum, all items with inventory tags in the ISS Assets Inventory database and all PCs/laptops.	X			
7	ISS and FAD should work together to establish procedures to perform periodic reconciliations of SAP assets and ISS equipment records.		Deferred to FAD		

#	Recommendation	Status
8	CAP review and ensure consistency in the requirements between CAP SOP CPP-07001, the draft Agency policy on the Procurement Card Program, and individual cardholder use agreements.	X
9	ISS staff making purchases with the P-Card should ensure compliance with individual cardholder use agreements.	Implemented 2012
10	ISS cardholders should ensure logs clearly justify the purchase, by documenting the requestor's name, identifying the assigned user of the purchase, and/or the location where the item will be placed.	Implemented 2012
11	ISS should ensure that all server and storage areas are properly secured at all times, and that only ISS staff with a specific need are provided access to these areas.	X
12	ISS should ensure storage areas are clean and organized, dispose of trash, identify old equipment that is no longer needed, and properly dispose of unneeded, obsolete equipment.	X
13	ISS should establish procedures to ensure all equipment over established thresholds have an inventory tag.	X
14	ISS work with CAP to establish appropriate procedures that consider a broader range of disposal options for used IT equipment such as offering equipment to a wider range of charity organizations/schools, or consider reselling the equipment to recover some costs. Additionally, disposals should be clearly communicated to FMD promptly.	X
15	FAD should implement adequate controls to ensure that the stated capitalization policy for IT equipment is consistently followed to ensure that all items meeting the capitalization threshold are capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.	Deferred to FAD
16	ISS should ensure that purchases meeting the capitalization threshold are identified to capital projects to ensure the costs are capitalized in accordance with the accounting policy and avoid expensing these purchases even if there is no established project.	Implemented 2012

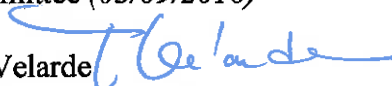|					
17	FAD should implement adequate controls to ensure that asset records established in SAP are accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that only those items allowed by the capitalization policy are capitalized.			**Deferred to FAD**	
18	FAD should implement controls to ensure that asset values include only project costs associated with the asset being established.	**Implemented 2012**			
19	FAD should return incorrect or incomplete Project Closure Authorization Forms to the Project Manager for proper completion. FMD should also provide training to Project Managers on the importance of proper completion and instructions on completing the form.			**Deferred to FAD**	
20	FAD should implement internal controls to ensure timely periodic follow-up with other department managers on projects requiring closure.			**Deferred to FAD**	
21	ISS should document Standard Operating Procedures to address the many functions of the department such as the Assets Inventory database, tagging new purchases, assigning account information to purchases, assigning property to individuals or departments, reconciliation of ISS and SAP records, spare part availability and tracking, and access to ISS storage areas.	X			
22	FAD should document Standard Operating Procedures to address the functions of setting up capital assets such as procedures for completing the SAP asset information, compliance with stated capitalization thresholds, and processing of Project Closure Authorization Forms.			**Deferred to FAD**	
Totals		9		6	1

IT Equipment Follow up Audit, dated November 14, 2012
Status of Recommendations

Rec #	Recommendation	Implemented	Deferred	In Progress	Not Implemented
1	ISS should ensure that any services procured with P-cards are expressly authorized by the Manager of CAP, CFO, AGM or GM prior to committing to services.			X	
2	FAD should seek guidance from the external auditors on the capitalization of computers and peripheral computer equipment costing less than $1,000, and the capitalization of software licensing costs to ensure the proper accounting treatment is employed.		Deferred to FAD		
Totals		0	1	1	0

INFORMATION
ITEM
2B

Date:	March 16, 2016
To:	The Honorable Board of Directors
Through:	Audit Committee *(03/09/2016)*
From:	Teresa V. Velarde
	Manager of Internal Audit
Subject:	Internal Audit Department Status Report for March 2016

RECOMMENDATION

This is an information item for the Board of Directors to receive and file.

BACKGROUND

The Audit Committee Charter requires that a written status report be prepared and submitted each quarter. The Internal Audit Department Status Report includes a summary of significant internal and external audit activities for the reporting period. Attached is the Status Report for March 2016.

The Status Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing IA's progress in providing independent evaluations of Agency financial and operational activities and suggesting recommendations for improvements.

PRIOR BOARD ACTION

On September 16, 2015, the Board of Directors approved the Annual Audit Plan for Fiscal Year 2014/15.

On December 16, 2015, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Charter.

IMPACT ON BUDGET

None.

Internal Audit Department
Status Report for March 2016

Projects Completed This Period

Project: Regional Contract Review – Follow up: Communication, Collections & Centralization

Scope:
To continue to report the results of the Regional Contract review and pursue region-wide agreement and settlement of findings in conjunction with the renegotiation of the Regional Contract

Report to Regional Technical Committee and other efforts   **COMPLETE**
Internal Audit staff provided the Final Report - Regional Contract Review to the Regional Technical Committee as a "Receive and File" item for the January 2016 meeting.

Internal Audit continues to be involved in discussions with outside counsel and representatives from Planning and Environmental Resources and from Finance and Accounting to discuss findings from the Regional Contract Review and potential collection strategies and related issues.

Reports related to the Regional Contract Review include:

Final Report-Regional Contract Review	Complete	December 2015
City of Chino Hills	Complete	June 2015
Cucamonga Valley Water District	Complete	March 2015
City of Chino	Complete	December 2014
City of Fontana	Complete	December 2014
City of Montclair	Complete	September 2014
City of Upland	Complete	September 2014
City of Ontario	Complete	September 2015
Review of the Ten-year Forecast	Complete	June 2014
Comparable Agency Survey Report	Complete	June 2014
Survey of Comparative Information	Complete	September 2014

Project: Request for Proposal for External Financial Audit Services

Scope:
To secure a professional services accounting firm to perform the annual financial audit and single audit of IEUA to ensure compliance with all regulatory requirements and the Agency's Financial Ordinance.

Status: **COMPLETE**
The current contract for External Financial Audit Services expired on December 31, 2015. In accordance with preferred practices and good internal controls it is in the best interests of the Agency to request proposals from capable certified public accounting firms for the external financial audit services contract. The current financial auditors, White Nelson Diehl Evans, have been the Agency's external auditors since 2011. The Internal Audit Department has worked closely with the Contracts and Procurement Department to coordinate and complete the RFP process to qualified firms. IA ensured that a knowledgeable evaluation panel reviewed the 11 written proposals that were received and interviewed the top 6 finalists. The recommendation for approval of the new audit firm, is being provided to the Audit Committee at this meeting and to the Board. The item is under separate cover in this Agenda.

Internal Audit Department
Status Report for March 2016

Project: Filing of the Annual Financial Statements and Single Audit Report

Scope: Submit the required audited financial reports to the requesting reporting authorities

Status: COMPLETE
Completed the required filing with the State Controller's Office, the San Bernardino Auditor-Controller and the State Water Resources Control Board. Upon notified of additional required filing, IA will assist and comply with any filing requirements.

On-going Projects

Audit: Master and Rotating Contracts Audit

Scope: To evaluate the Agency's Master and Rotating Contracts to ensure these follow the required Agency policies and procedures and ensure controls exist that enforce proper contracting and procurement for transactions.

Status: IN PROGRESS

IA has obtained listings of all Master Service contracts managed by the Engineering and Construction Management Department and all Master Contracts administered by the Contracts and Procurement Department. IA has also obtained a listing of all 43 contractors prequalified by the Engineering and Construction Management Department for Capital Projects less than $2,000,000. And, IA has obtained example contracts for each of the trade and service categories.

IA has begun reviewing and selecting information in SAP to examine contract activity and has held kick-off meetings with both the Engineering and Construction Management Department and the Contracts and Procurement Department to undertake a walkthrough of current policies, practices and procedures. IA will perform surveys, prepare flowcharts of processes, and additional interviews and inquiries of Agency personal in relation to the areas of the audit as part of the anticipated fieldwork, as well as testing transactions to verify their compliance with contract terms and Agency policies and procedures. The anticipated date for completion is June 2016.

Audit: Follow up Review - Information Technology Equipment – ISS

Scope:
Follow-up evaluation of 11 of the 18 outstanding recommendations provided in the Information Technology (IT) Equipment audit reports dated August 21, 2012 and November 14, 2012. The 10 recommendations are the primary responsibility of the ISS department.

Status: COMPLETED
IA met with Integrated Systems Services (ISS) and various other Agency departments to discuss the outstanding recommendations with the assigned representatives. Of the 18 outstanding recommendations that require follow-up evaluation, IA has completed the evaluation of 11 of them. Of these, 9 have been implemented and 2 recommendations are still in Progress. The 7 remaining recommendations are the primary responsibility of the Finance and Accounting Department (FAD) and will be evaluated separately and reported on in a separate report. No new additional findings or recommendations were noted.

See the report under the separate item in the Audit Committee Agenda

Internal Audit Department
Status Report for March 2016

__Audit:__   __Follow up Review: Information Technology Equipment – FAD__

__Scope:__
IA is in the progress of performing a follow-up evaluation to determine the status of 7 outstanding recommendations provided in the Information Technology (IT) Equipment audit reports dated August 21, 2012 and November 14, 2012. The 7 recommendations are the primary responsibility of the Finance and Accounting Department (FAD).

__Status:__   __IN PROGRESS__
There are 7 recommendations that require follow-up evaluation. IA is currently in the planning phase of this project. IA plans to meet with FAD to discuss the outstanding recommendations with the assigned representatives. The 7 recommendations require follow-up procedures be performed to verify if corrective actions have been implemented.

IA will report on the status of the remaining outstanding recommendations and the anticipated date for completion is June 2016.

__Project:__   __Management Requests__

__Scope:__
Assist Agency Management with requests for analysis, evaluations and verification of information, assist with the interpretation of policies and procedures, and/or providing review and feedback on new policies or procedures. These services are provided according to the IA Charter, the Annual Audit Plan, and best practices.

The management request projects are short-term projects, typically lasting no more than 60 – 75 hours each where IAD determines it has the necessary staff, skills and resources to provide assistance without having to delay/defer scheduled audits and priority projects. The scope of each review is agreed upon between the department manager requesting the evaluation/review/analysis/assistance and the Manager of IA and when deemed appropriate by Executive Management.

During this quarter, IA was working on the following "Management Requests":
  - Continue to be involved with possible collection of the identified uncollected Connection Fees.
  - Assist and work with the Planning and Environmental Resources Department on the Water Connection process as well as the Waste Water process for centralizing billing at IEUA.
  - Review and comment on draft updates to Fiscal Ordinance and Budget Amendments Policy
  - Discuss Cybersecurity topics
  - Assist departments with interpretation of Agency's Procurement Ordinance, Ethics Policy and other Agency Policies

Internal Audit Department

__Internal Audit Department Staffing:__
The Internal Audit Department is staffed as follows:
  - 1 Manager of Internal Audit
  - 2 Full-time Senior Internal Auditors

Internal Audit Department
Status Report for March 2016

Internal Audit Staff Professional Development Activities:

As required by the *International Standards for the Professional Practice of Internal Auditing*, auditors should continue to enhance their knowledge, skills, and other competencies through continuing professional development.

During the past quarter, IA staff has continued to stay abreast of industry developments through review of industry periodicals. One staff member attended an all-day conference on Trends in Governmental Audit, and the two staff attended a half-day seminar on Fraud and Root Cause Analysis. The Manager of IA attended a 2-day Leadership Academy session titled Leadership with a New Perspective. All three IA members are preparing for the third exam of the 3-part Certified Internal Auditor (CIA) certification examination. The CIA is the only globally-recognized certification for internal audit professionals and is the highest certification that can be attained by an internal auditor. One Senior Auditor is a Certified Public Accountant (CPA). One Senior Auditor is a Certified Government Audit Professional (CGAP).

Future Audit Committee Meetings:
- Wednesday, June 8, 2016 – Regularly Scheduled Audit Committee Meeting
- Wednesday, September 14, 2016 – Regularly Scheduled Audit Committee Meeting
- Wednesday, December 14, 2016 – Regularly Scheduled Audit Committee Meeting