



**AGENDA
SPECIAL AUDIT COMMITTEE MEETING
OF THE BOARD OF DIRECTORS
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA 91708**

**TUESDAY, DECEMBER 11, 2018
3:00 P.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 is 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 ITEM

A. MINUTES

The Committee will be asked to approve the Audit Committee meeting minutes of September 11, 2018.

B. FY 2017/18 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Staff recommends that the Committee/Board:

1. Approve the Inland Empire Utilities Agency Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2018; 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.

C. FISCAL YEAR 2017/18 SINGLE AUDIT REPORT FOR FEDERAL GRANT PROGRAMS

Staff recommends that the Committee/Board:

1. Approve the Single Audit Report for FY 2017/18; and
2. Direct staff to distribute the report, as appropriate to the State Controller's Office, the Federal Audit Clearing House, and other interested parties.

D. IAD AND AC CHARTERS REVIEW

Staff recommends that the Committee/Board:

1. Reconfirm the Audit Committee Charter and the Internal Audit Department Charter; and
2. Direct staff to implement the charters.

E. FISCAL YEAR 2018/19 ANNUAL AUDIT PLAN AMENDMENT

Staff recommends that the Committee/Board approve the Fiscal Year 2018/19 Annual Audit Plan Amendment to be consistent with the requirements of the IA Charter.

2. INFORMATION ITEMS

A. AGENCY VEHICLE OPERATION FOLLOW-UP AUDIT: REVIEW OF VEHICLE INVENTORY PROCEDURES (WRITTEN)

B. WATER CONNECTION FEES INTERIM REPORT (WRITTEN)

C. CONTRACT EXTENSION FOR FINANCIAL AND SINGLE AUDITING SERVICES FOR IEUA AND CBRFA (WRITTEN)

D. CONTRACT EXTENSION FOR AUDIT ADVISORY SERVICES FOR THE AUDIT COMMITTEE'S FINANCIAL ADVISOR (WRITTEN)

E. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR DECEMBER 2018

3. GENERAL MANAGER'S COMMENTS

4. AUDIT COMMITTEE ADVISOR COMMENTS

5. COMMITTEE MEMBER COMMENTS

6. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

7. **ADJOURN**

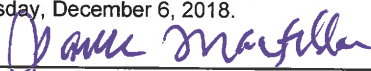
*A Municipal Water District

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: zh

DECLARATION OF POSTING

I, Laura Mantilla, 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, December 6, 2018.


Laura Mantilla

**ACTION
ITEM**

1A



**MINUTES
SPECIAL AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
TUESDAY, SEPTEMBER 11, 2018
9:00 A.M.**

COMMITTEE MEMBERS PRESENT

Kati Parker, Chair
Steven J. Elie

COMMITTEE MEMBERS ABSENT

None

STAFF PRESENT

Christina Valencia, Executive Manager of Finance & Administration/AGM
Randy Lee, Executive Manager of Operations/AGM
Javier Chagoyen-Lazaro, Manager of Finance & Accounting
Warren Green, Manager of Contracts & Procurement
Chander Letulle, Manager of Operations & Maintenance
Sapna Nangia, Senior Internal Auditor
Peter Soelter, Senior Internal Auditor
Teresa Velarde, Manager of Internal Audit
Sally Lee, Executive Assistant

OTHERS PRESENT

Travis Hickey, Audit Committee Advisor

The meeting was called to order at 9:01 a.m. There were no public comments received or additions to the agenda.

ACTION ITEMS

The Committee:

- ◆ Approved the Audit Committee meeting minutes of June 11, 2018.

INFORMATION ITEMS

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

- ◆ Warehouse Annual Physical Inventory – Internal Audit Inventory Observation report
- ◆ Agency Vehicle Operational Follow-Up Audit: Automobile Insurance Requirements and Review of Vehicle Security Procedures
- ◆ Inter-fund Transactions Audit Report
- ◆ Internal Audit Department Quarterly Status Report for September 2018

GENERAL MANAGER'S COMMENTS

There were no General Manager comments.

AUDIT COMMITTEE ADVISOR COMMENTS

Audit Committee Advisor Travis Hickey stated that he would like to inform the Committee of the CalPERS situation, specifically regarding the changes they are making to employee pensions. There have been ongoing issues regarding unfunded liabilities. CalPERS has been increasing their audits of agencies, more closely examining the use of retirees who return to the agency to work and part time employees who should be members of CalPERS. He also stated he would like the Agency to be informed of recent issues with Joint Powers Authorities in CalPERS. He suggested IEUA keep these in mind and perhaps looking into adding language to new or existing agreements to address potential scenarios in relation to CalPERS.

COMMITTEE MEMBER COMMENTS

There were no Committee Member comments.

COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

There were no Committee Member requested future agenda items.

With no further business, the meeting adjourned at 9:40 a.m.

Respectfully submitted,

Sally Lee
Executive Assistant

*A Municipal Water District

APPROVED: DECEMBER 11, 2018

**ACTION
ITEM**

1B

Date: December 19, 2018

To: The Honorable Board of Directors

Committee: Audit

From: Halla Razak, General Manager

HR

12/11/18

Executive Contact: Christina Valencia, Executive Manager of Finance & Administration/AGM

Subject: IEUA Fiscal Year (FY) 2017/18 Audited Comprehensive Annual Financial Report (CAFR)

Executive Summary:

The Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2018 was prepared in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and audited by Lance, Soll & Lunghard, LLP (LSL), the Agency's independent audit firm. Based on their audit and testwork results, LSL found the financial statements present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information as of June 30, 2018, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). LSL issued an unmodified opinion.

The Agency's statement of net position of \$647 million as of June 30, 2018 reflects an increase of \$67 million from the prior fiscal year. The increase is primarily driven by non-operating revenues that include wastewater and water connection fees, property taxes, and contributions from grant proceeds. Attached is the audited CAFR, in substantially final form, with a detailed explanation of significant revenues and expenses, asset and liabilities, and cash flows for Fiscal Year 2017/18.

Staff's Recommendation:

It is recommended that the Board of Directors:

1. Approve the Inland Empire Utilities Agency Comprehensive Annual Financial Report for fiscal year ended June 30, 2018; 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.

Budget Impact *Budgeted* (Y/N): N *Amendment* (Y/N): N *Amount for Requested Approval:*

Account/Project Name:

Not Applicable

Fiscal Impact (explain if not budgeted):

There is no impact on the Agency's FY 2018/19 Budget as a result of this item, since related audit service fees are budgeted in the Administrative Services Fund under Professional Services.

Prior Board Action:

On December 20, 2017, the Board of Directors approved the Agency's Comprehensive Annual Financial Report for FY 2016/17 reviewed by the Audit Committee & Finance and Administration Committee on December 13, 2018.

On March 16, 2016, the Board approved Contract No. 4600002079 with Lance, Soll & Lunghard LLP for financial auditing and single audit services, for three fiscal years beginning in FY 2015/16, with the option to extend two additional fiscal years.

Environmental Determination:

Not Applicable

Business Goal:

The IEUA FY 2017/18 Comprehensive Annual Financial Report is consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the Fiscal Year activity and the net position of the different programs of the Agency.

Attachments:

Attachment 1 - Background

Exhibit A - FY 2017/18 Audited Comprehensive Annual Financial Report

Exhibit B - Power Point Presentation

Background

Subject: IEUA Fiscal Year (FY) 2017/18 Audited Comprehensive Annual Financial Report (CAFR)

The Agency's Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2018 was prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Agency. To the best of staff's knowledge, the data presented is accurate in all material respects, and reported in a manner designed to fairly present the financial position and results of operations for the various Agency funds and account groups. Disclosures are included within the CAFR to enable the reader to gain an understanding of the Agency's financial activities. Exhibit A is a copy of the Agency CAFR in substantially final form.

FY 2017/18 Financial Highlights

The Agency's statement of net position for fiscal year (FY) ended June 30, 2018, reflects \$647 million, an increase of \$67 million compared to the prior fiscal year. The gain is primarily due to an increase in non-operating revenues from a higher number of new connections to the regional wastewater and the regional water systems, as well as higher operating revenues from the multi-year rate adjustments adopted by the Board of Directors through FY 2019/20 necessary to establish rates and charges that fully recover the cost of service.

Increase in the Wastewater and Water Connection Fees

Connection fees to the regional water and wastewater systems were significantly higher than the prior fiscal year. Wastewater connections fees were \$32.8 million, with 5,233 new units compared to 5,189 units and \$30.5 million in the prior fiscal year. Water connection fees which took effect on January 1, 2016 were \$7.8 million in FY 2017/18 compared to \$5.4 million in FY 2016/17.

Imported Water Pass-Through Sales and Purchases

Imported water deliveries for FY 2017/18 were 67,977-acre feet (AF) compared to 47,848 AF reported in FY 2016/17, an increase of 20,129 AF. Following unprecedented water conservation and plentiful winter rain and snow, in May 2016 MWD lifted the Water Supply Allocation restrictions and penalty rates put in place in response to the Governor's Executive Order calling for statewide mandatory water reductions to reduce water usage across the State by 25 percent from 2013 levels. Governor Brown ended the drought state of emergency in April 2017. Higher imported water deliveries were also partly due to some member agencies unable to use local supplies due to contamination.

Funding of Employee Retirement Liabilities

Consistent with the Board policy, funding of the other post-employment benefits (OPEB) and pension unfunded liabilities continued in FY 2017/18 with \$2.0 million and \$7.1 million, respectively. Since the inception of the funding plan, cumulative additional contributions toward the unfunded liabilities of \$13 million for OPEB and \$18 million for pension have been made through fiscal year ended June 30, 2018. As of June 30, 2018, the most recent actuarial valuation date, the OPEB plan is 71 percent funded with an unfunded actuarial accrued liability of \$4.9 million. The net pension liability measured as of June 30, 2017 using an annual actuarial valuation as of June 30, 2015 was 77.6 percent funded at \$43.2 million.

Construction Project Work in Progress (WIP)

The number of open projects under the category of Work in Progress (WIP) increased by 29 percent in FY 2017/18 compared to FY 2016/17. WIP was also higher mainly due to the ongoing construction of the Water Quality Laboratory project slated for completion in September 2018, beginning of the design phase for the RP-5 Solids and Liquids Expansion and RP-1 Capacity Recovery projects.

Interfund transfers

Inter-fund transfers are used to transfer funds between the different Agency Funds with the receiver fund recording an increase and sender fund recording a decrease in net position. The individual transactions offset one another and do not impact the overall net position of the Agency.

In FY 2017/18, inter-fund transfers of \$8.9 million were made to support debt service requirements, the Agency's pro-rata share of groundwater recharge O&M costs, and the allocation of water and wastewater connection fees to support capital project costs based upon information defined in 2015 rate and fee studies. The following tables summarize the Transfers In (Table 1) and Transfer Out (Table 2) by type and between Major and Non-Major funds.

Table 1. FY 2017/18 Transfers In

	Transfers In								TOTAL
	Major Funds				Non Major Funds				
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin. Services	Groundwater Recharge	Non-Reclaimable Wastewater		
Debt Service			\$2.4			\$0.5		\$2.9	
Total Capital Contributions	\$1.8		\$0.0	\$0.3	\$2.7	\$0.0	\$0.1	\$4.9	
Operation Support	\$-	\$-	\$-	\$-	\$0.7	\$0.4	\$-	\$1.1	
TOTAL	\$1.8	\$-	\$2.4	\$0.3	\$3.4	\$0.9	\$0.1	\$8.9	

Table 2. FY 2017/18 Transfers Out

	Transfers Out							TOTAL
	Major Funds				Non Major Funds			
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin. Services	Groundwater Recharge	Non-Reclaimable Wastewater	
Debt Service	\$2.9							\$2.9
Total Capital Contributions	\$2.5	\$1.8	\$0.5				\$0.1	\$4.9
Operation Support	\$-	\$0.6	\$0.5	\$-	\$-	\$-	\$0.0	\$1.1
TOTAL	\$5.4	\$2.4	\$1.0	\$-	\$-	\$-	\$0.1	\$8.9

Debt Service Interfund Transfer \$2.9 million

The Agency issues debt as a single system, pledging consolidated sources of funds to obtain better financing terms. The projects included in the debt financing support different programs and funds. Debt service costs (repayment of principal and interest) are allocated to programs and funds proportionate to the debt proceeds allocated to support respective capital projects. Since the sources of funds may not always match the debt service requirements in an individual fund, debt financing needs are evaluated and an interfund transfer is used to support debt service are recorded in the corresponding funds.

For Fiscal Year 2017/18, Wastewater Capital fund supported bond debt service for the 2008B Variable Rate Bonds recorded in the Groundwater Recharge fund, as well as the 2010A and 2017A Bonds in the Recycled Water fund.

Capital Contributions \$4.9 million

Capital contributions represent the support for capital projects among different funds. This support is determined by the nature of the project, various funding sources and actual expenditures during the fiscal year.

Projects are assigned to the fund that will benefit from the investment. In some cases, a project will benefit multiple funds. In this case, the project is assigned to a single fund to effectively track and monitor project budget and costs throughout its lifecycle. For these projects, actual expenditures are allocated amongst the funds based on their benefit share at the end of the fiscal year. In Fiscal Year 2017/18, interfund transfers from the Wastewater Operations fund to the Wastewater Capital fund recorded its share of cost for projects such as the Carbon Canyon Water Recycling Facility Headworks and Odor Control and the RP-5 Liquid Expansion and Solids Handling facility.

Additionally, capital projects that support common Agency-wide activities are recorded in the Administrative Services fund. For Fiscal year 2017/18 interfund transfers to the Administrative Service fund from the Wastewater Capital, Recycled Water, and Non-Reclaimable Wastewater funds supported projects, including; improvements to the conference rooms audiovisual equipment, headquarters roof replacement, RP-1 training room, replacement of fleet vehicles, records management projects, an enhancement to the Agency's network infrastructure and cybersecurity.

The 2015 connection fee rate studies for both water and wastewater included the allocation of fees amongst the various funds. Interfund transfers are used to allocation connection fees amongst the various funds based on actual expenditures and funding sources associated to the project.

In Fiscal Year 2017/18 water connection fees collected in the Recycled Water fund supported projects like the Water Bank and water planning documents recorded in the Water Resources fund, as well as a small portion of projects in the Update Recharge Master Plan and Administrative Services funds.

Wastewater connection fees supported projects of similar nature in the Administrative Services and the Non-Reclaimable Wastewater fund.

Operation Support \$1.1 million

Operation support transfers are limited to certain non-capital projects in the Administrative Service fund, such as the Agency's pro rata share of the groundwater recharge basin of operating and maintenance costs, per agreement with Chino Basin Watermaster.

In Fiscal Year 2017/18 Wastewater Operations, Recycled Water, and Non-Reclaimable funds supported Administrative services O&M projects like Agency wide coatings, and the Recycled Water fund supported the Agency pro rata share of O&M cost recorded in the Groundwater Recharge fund.

External Auditors' Independent Audit

The Agency's independent audit firm, Lance, Soll & Lunghard, LLP (LSL) performed the annual financial audit. LSL issued an unmodified ("clean") opinion over the financial statements for the Fiscal Year ended June 30, 2018, indicating that the financial statements are presented fairly and in accordance with GAAP and free of material misstatements. LSL found no material deficiency in internal controls over financial reporting.

LSL also completed the Single Audit Report for all billing activity for FY 2017/18 to be processed by the Federal Clearing House by March 2019. Federal Expenditures of \$4.4 million were comprised of United States Bureau of Reclamation programs \$0.6 million, and \$3.8 million from the Water State Revolving Fund, these figures are subject to change. No findings in the Single Audit were noted by LSL.

Fiscal Year 2017/18 is the third audit completed by LSL in accordance to the contract approved by the Board of Directors on March 16, 2016 for three fiscal years beginning in FY 2015/16, including the option to extend the contract two fiscal years. The agreement covers the audit of the Inland Empire Utilities Agency (Agency) financial statements, review of the annual appropriations limit calculation, and audit of the Agency's federal awards in accordance with Office of Management and Budget (Single Audit).

Internal Audit Department Review

Internal Audit staff performed an additional quality control check/review of the draft financial statements with emphasis on; overall mathematical accuracy, validation of the MD&A, notes, and

statistical sections, including continued disclosure compliance as required by bond covenants, to the financial statements or to other supporting information.

Internal Audit staff's review did not include tests of transactions, or tests of the reliability of the totals and amounts included in the various categories, accounts, funds, statements, etc. Staff relies on the work of the external auditors to test the reliability of the financial information reported. Staff's review is only one of an additional quality control to ensure a professional presentation, consistent with prior years.

Government Financial Officers Association (GFOA) CAFR Award

For the past nineteen years, the Agency has applied for and received the GFOA CAFR Award for excellence in financial reporting. The deadline to submit the FY 2017/18 CAFR is December 31, 2018.

The IEUA FY 2017/18 Comprehensive Annual Financial Report is consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the Fiscal Year activity and the net position of the different programs of the Agency.

Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2018

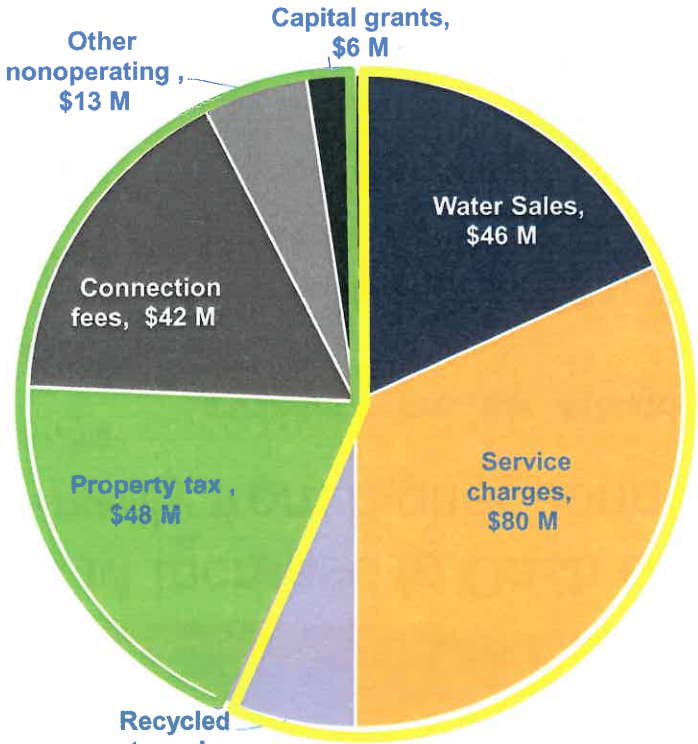


FY 2017/18 Highlights

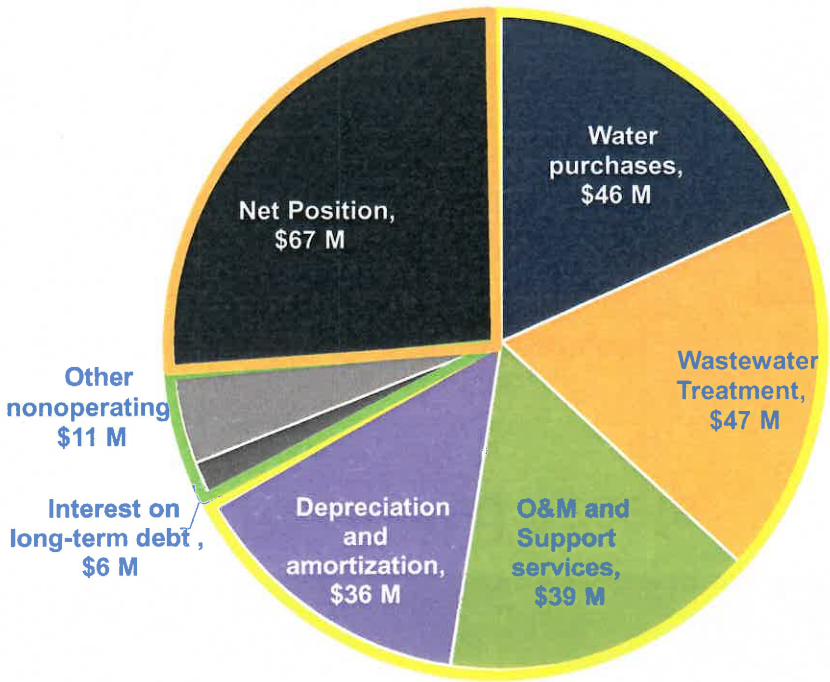
- **Increased total net position by \$67 million:**
 - Operating activities: (\$25) million
 - Non-operating activities: \$92 million
- **Total net position as of 6/30/18 \$647 million:**
 - \$395 million net investment in capital assets
 - \$99 million restricted assets
 - \$153 million designated / unrestricted assets
- **Interfund transfers \$8.9 million (Note 15 to Financial Statements):**
 - \$2.9 million Debt service support
 - \$4.9 million Capital support
 - \$1.1 million Operations and maintenance support

FY 2017/18 Highlights

Total Revenue \$252 Million

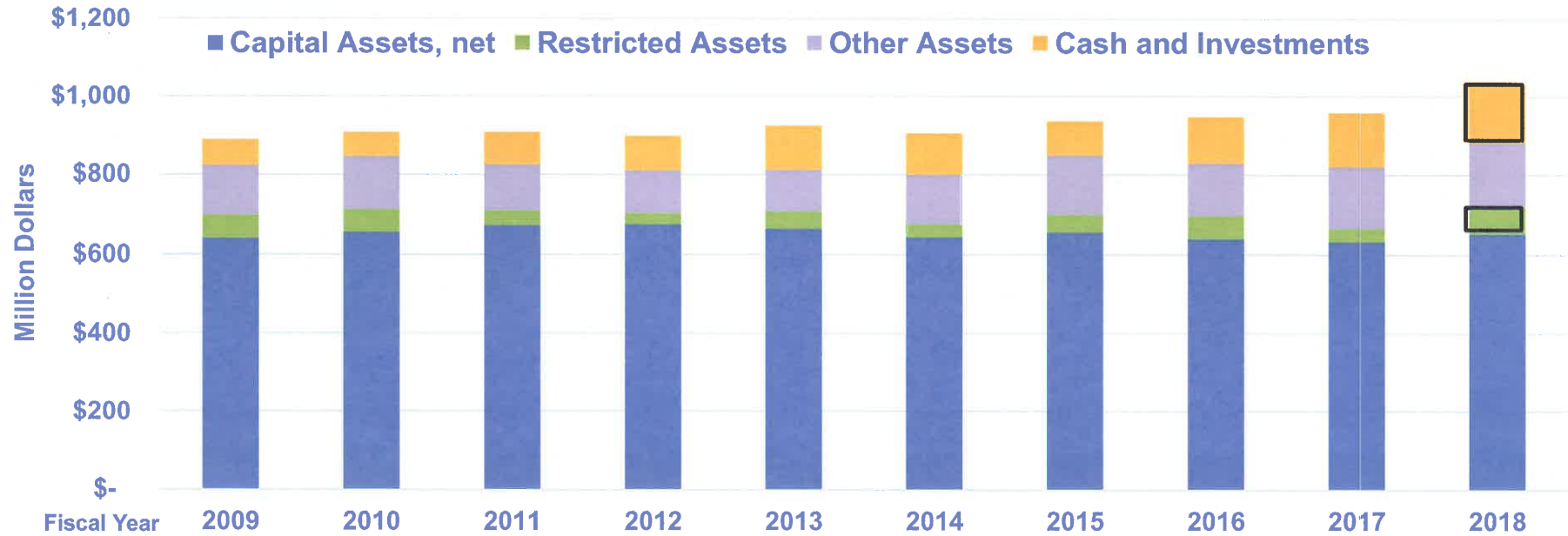


Total Expenses & Net Position change \$252 Million



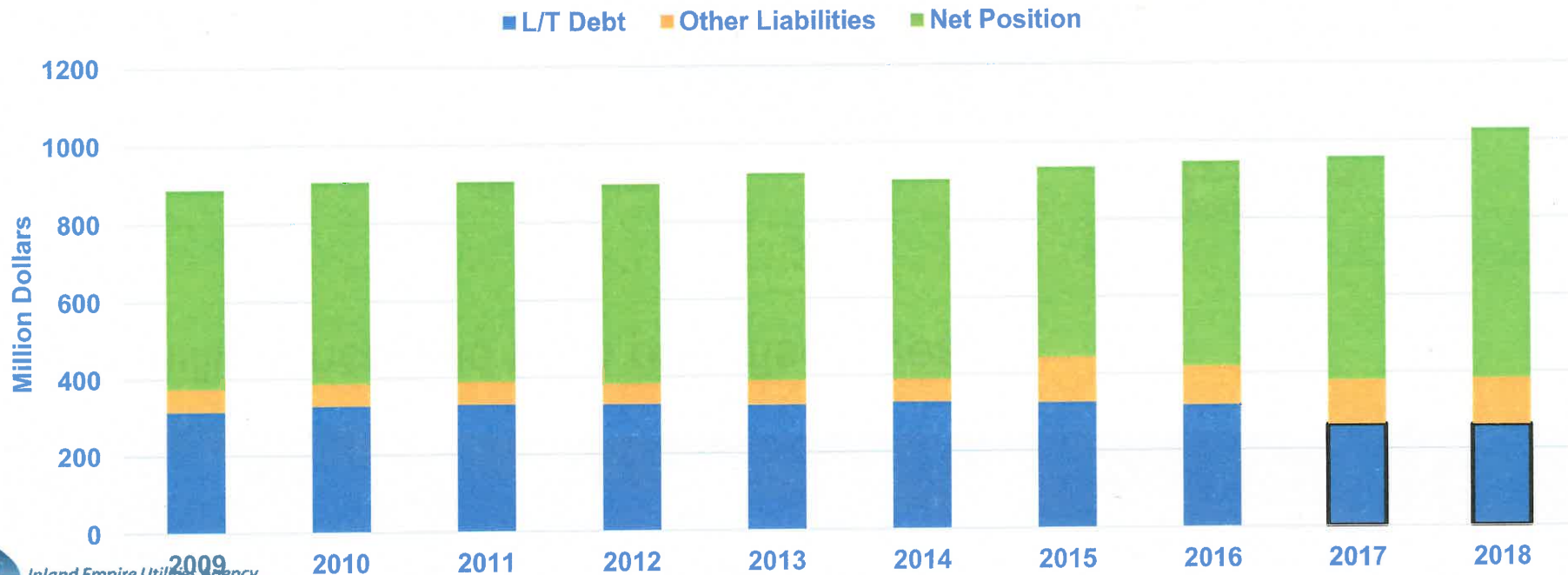
Total Assets

- \$45 M Increase in Cash & Investments and Restricted Assets primarily from higher connection fees



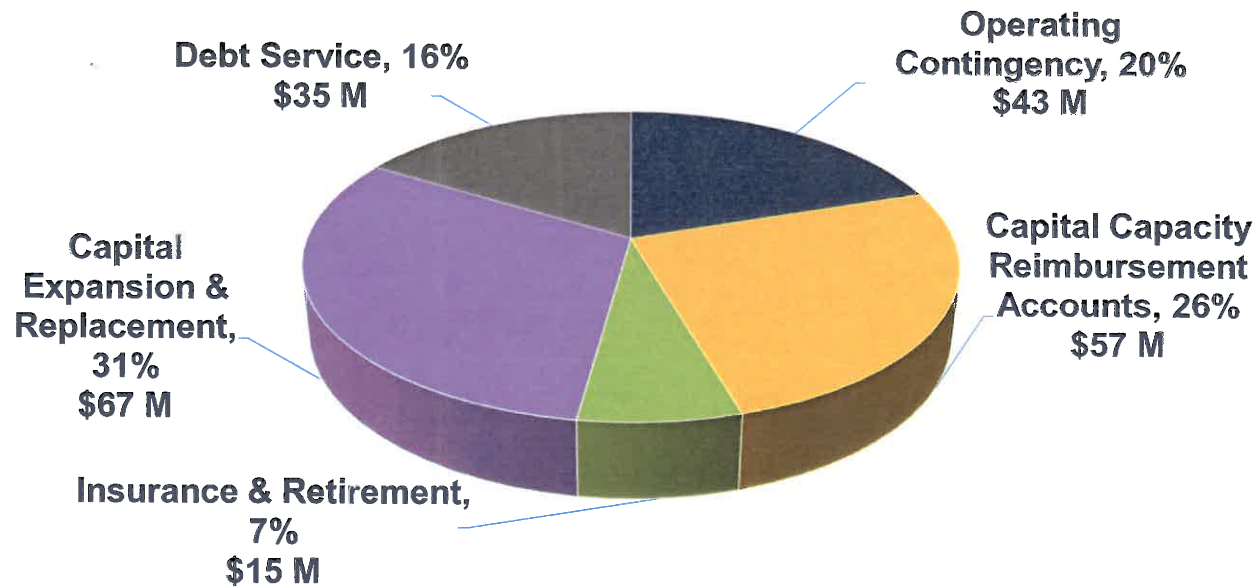
Total Liabilities and Net Position

- \$ 56.3 M decrease in Long Term Debt in last two fiscal years
- \$ 67.0 M increase in Net Position



FY 2017/18 Ending Cash Position \$217 Million

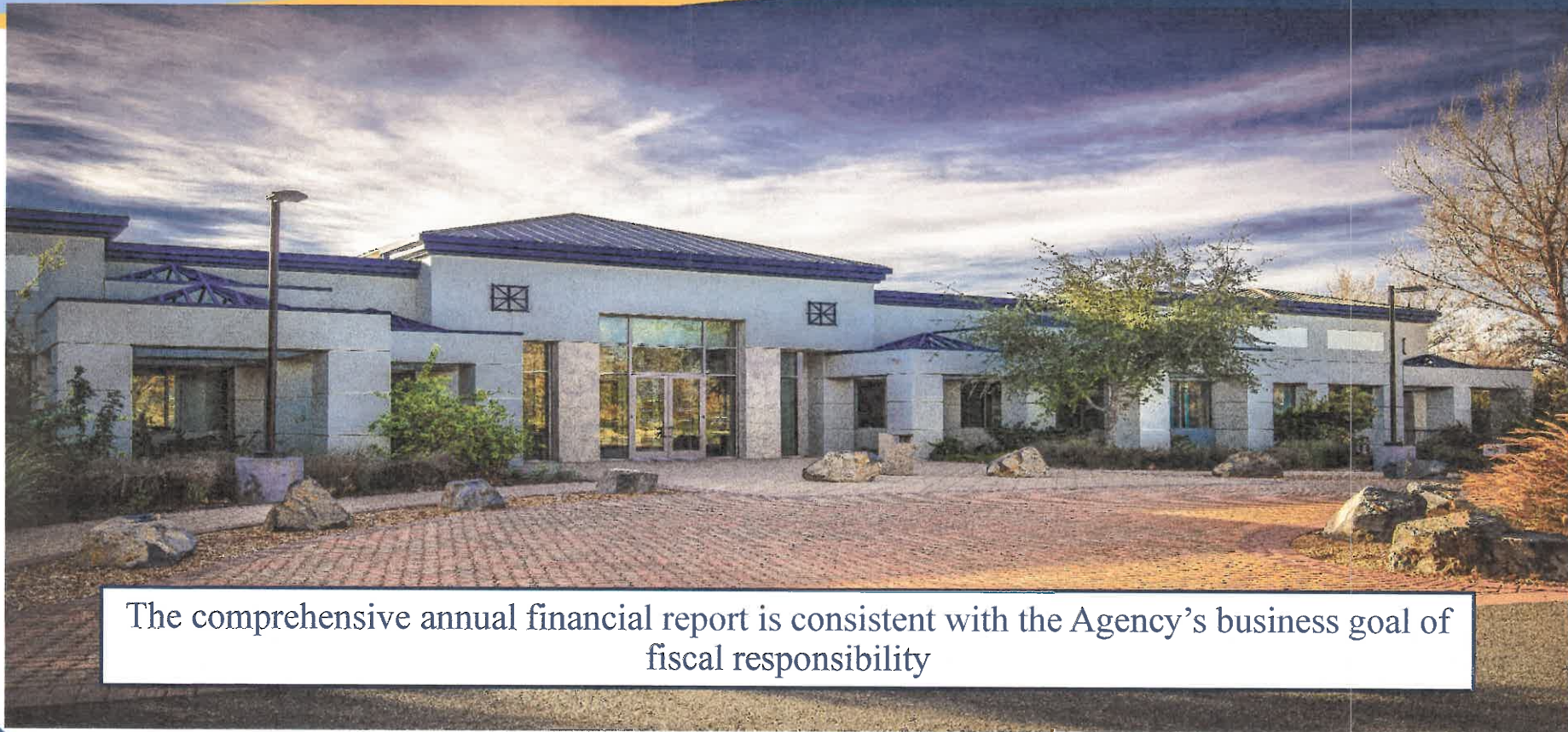
- \$45 million increase from prior fiscal year



Recommendation

1. Approve the Inland Empire Utilities Agency Comprehensive Annual Financial Report for fiscal year ended June 30, 2018; 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.

Questions



The comprehensive annual financial report is consistent with the Agency's business goal of fiscal responsibility

**ACTION
ITEM**

1C

Date: December 19, 2018

HHR

To: The Honorable Board of Directors

From: Halla Razak, General Manager

Committee: Audit Committee

12/11/18

Executive Contact: Kathy Besser, Executive Manager of Ext. Aff. & Policy Dev./AGM

Subject: Fiscal Year (FY) 2017/18 Single Audit Report for Federal Grant Programs

Executive Summary:

The Single Audit Act and the Office of Management and Budget (OMB) Uniform Guidance require each non-federal entity that expends \$750,000 or more of federal grants to undergo an annual independent audit. The objectives of the Single Audit are to determine whether there are issues that could have a direct and material effect on internal control over compliance for each major federal grant award, and eligibility of federal grant award expenditures. In FY 2017/18, IEUA incurred \$4,410,969.94 in total federal costs for two federal programs - USBR \$602,539.18 and EPA \$3,808,430.76. The Agency's independent external audit firm, Lance Soll & Lunghard LLP, performed the annual single audit for the fiscal year ended June 30, 2018. The Single Audit Report for the FY 2017/18 expressed the following opinion over the Agency's expense of Federal funds:

1. IEUA is in compliance with each major federal grant award program.
2. No significant deficiencies in internal control over major federal award programs.
3. No findings or questioned costs to major federal award programs.
4. IEUA qualifies as a "Low-Risk Auditee."

Staff's Recommendation:

1. Approve the Single Audit Report for FY 2017/18; and
2. Direct staff to distribute the report, as appropriate, to the State Controller's Office, the Federal Audit Clearing House, and other interested parties.

Budget Impact *Budgeted (Y/N):* N *Amendment (Y/N):* N *Amount for Requested Approval:*

Account/Project Name:

Fiscal Impact *(explain if not budgeted):*

The audit fee for the Single Audit Report is within the Agency's FY 2018/19 budget in the Administrative Services (GG) fund (100000/111100/520110) under the professional fees and services category.

Full account coding (internal AP purposes only): - - - Project No.:

Prior Board Action:

On December 20, 2017 the Board reviewed the FY 2016/17 Single Audit Report presented to the Audit Committee on December 11, 2017.

On March 15, 2017, the Board reviewed the FY 2015/16 Single Audit Report presented to the Audit Committee on March 6, 2017.

Environmental Determination:

Not Applicable

Business Goal:

The IEUA FY 2017/18 Single Audit Report is consistent with the Agency's Business Goal of fiscal responsibility in providing transparent communication regarding federal grant award programs.

Attachments:

IEUA Single Audit Report ending June 30, 2018

INLAND EMPIRE UTILITIES AGENCY

SINGLE AUDIT REPORT

JUNE 30, 2018

DRAFT

INLAND EMPIRE UTILITIES AGENCY

SINGLE AUDIT REPORT

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Inland Empire Utilities Agency
Chino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund, and the aggregate remaining fund information of the Inland Empire Utilities Agency (the Agency), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated **December 19, 2018**.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.





CPAs AND ADVISORS

To the Board of Directors
Inland Empire Utilities Agency
Chino, California

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
December 19, 2018

DRAFT



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Inland Empire Utilities Agency
Chino, California

Report on Compliance for Each Major Federal Program

We have audited the Inland Empire Utilities Agency (the Agency)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2018. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Inland Empire Utilities Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.



CPAs AND ADVISORS

To the Board of Directors
Inland Empire Utilities Agency
Chino, California

Report on Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Agency, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Agency's basic financial statements. We issued our report thereon dated December 19, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CPAs AND ADVISORS

To the Board of Directors
Inland Empire Utilities Agency
Chino, California

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Lance, Soll & Lughard, LLP

Brea, California
December 19, 2018

DRAFT

INLAND EMPIRE UTILITIES AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of the Interior</u>				
Direct programs:				
Title XVI Water Reclamation and Reuse	15.504	N/A	\$ 36,945	\$ 252,431
Reclamation States Emergency Drought Relief	15.514	N/A	-	12,235
Water Conservation Field Services *	15.530	N/A	-	337,873
Total U.S. Department of the Interior			36,945	602,539
<u>Environmental Protection Agency</u>				
Passed through the State of California Water Resources Control Board:				
Capitalization Grants for Clean Water State Revolving Funds *	66.458	C-06-8105-120	-	3,308,431
	66.458	C-06-8173-110	-	500,000
Total Environmental Protection Agency			-	3,808,431
Total Expenditures of Federal Awards			\$ 36,945	\$ 4,410,970

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

DRAFT

INLAND EMPIRE UTILITIES AGENCY

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Inland Empire Utilities Agency (the Agency), that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the Agency from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the Agency becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program. The Agency has elected not to use the 10-percent *de minimis* indirect cost rate allowed under the Uniform Guidance.

Note 2: Reconciliation of State Water Resource Control Board and GAAP Expenditure Reporting

For the year ended June 30, 2018, the following adjustments were necessary to reconcile the federal awards provided to the Agency for the Capitalization Grants for Clean Water State Revolving Funds federal awards program per the State Water Resource Control Board's records to the federal expenditures reported by the Agency under accounting principles generally accepted in the United States of America (GAAP).

Federal awards per the State Water Resource Control Board:

C-06-8105-120	\$ 3,308,431
C-06-8173-110	<u>500,000</u>

Total Federal Expenditures of the Capitalization Grants for Clean Water State Revolving Funds Program (GAAP)	<u><u>\$ 3,808,431</u></u>
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INLAND EMPIRE UTILITIES AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ___yes Xno
- Material weaknesses identified? ___yes Xnone reported

Noncompliance material to financial statements noted?

___yes Xno

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ___yes Xno
- Material weaknesses identified? ___yes Xnone reported

Type of auditors' report issued on compliance for major programs:

Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?

___yes Xno

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

15.530
66.458

Water Conservation Field Services
Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B program

\$750,000

Auditee qualified as low-risk auditee?

Xyes ___no

INLAND EMPIRE UTILITIES AGENCY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

DRAFT

INLAND EMPIRE UTILITIES AGENCY

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION IV – STATUS OF PRIOR YEAR FINDINGS

There were no findings reported for the fiscal year ended June 30, 2017.

DRAFT

Audit Committee

**ACTION
ITEM**

1D

Date: December 19, 2018

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit



Subject: Internal Audit Department Charter and Audit Committee Charter

Executive Summary:

The Board approved charters require that the Internal Audit Department (IA) perform periodic reviews of both the Audit Committee Charter and the IA Charter, and make recommendations for any necessary updates and revisions. Attached are the charters presented for your review, discussion, further direction and final approval. No changes are proposed at this time.

The Audit Committee Charter documents the Audit Committee's purpose, composition, authority, and responsibilities. The IA Charter documents IAs mission, purpose, authority, and responsibilities. The purpose is to assist the Board and Audit Committee in fulfilling their oversight responsibilities for financial reporting, internal controls, and compliance with legal and regulatory requirements and to assist management by providing objective evaluations and recommendations to improve operations and achieve organizational goals.

Both charters follow the guidance set forth by the Institute of Internal Auditing (IIA) International Standards for the Professional Practice of Internal Auditing (Standards).

Staff's Recommendation:

1. Reconfirm the Audit Committee Charter and the Internal Audit Department Charter; and
2. Direct staff to implement the charters.

Budget Impact *Budgeted* (Y/N): N *Amendment* (Y/N): N *Amount for Requested Approval:*

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On December 20, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

The Charters are consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by documenting the Audit Committee's and the IAs purpose, authority and responsibilities.

Attachments:

Attachment 1 - Audit Committee Charter

Attachment 2 - Internal Audit Department Charter



INLAND EMPIRE UTILITIES AGENCY

Audit Committee Charter

Reconfirmed on December 19, 2018

PURPOSE

The Audit Committee (Committee) is established under the authority of the Inland Empire Utilities Agency (IEUA or Agency) Board of Directors (Board) and reports directly to the Board. The primary purpose of the Committee is to assist the Board in fulfilling their oversight responsibilities for financial reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations.

While assisting the Board with these fiduciary duties, the Committee also provides an open avenue of communication between the Board, IEUA Management, the Internal Audit Department, and the external auditors. This advisory and oversight link provides the following benefits to the organization and stakeholders:

- Increased objectivity and credibility of financial reports.
- Increased management accountability.
- Support for measures to improve management performance and internal controls.
- Increased employee awareness of unethical, questionable, or illegal activities.
- Enhanced independence and effectiveness of the Internal Audit Department.
- Assurance that appropriate management action plans are implemented for audit findings and recommendations.

COMPOSITION, COMPENSATION & TERM OF SERVICE

The Committee shall consist of two members from the Board of Directors, each with equal voting rights, with one selected as the Committee Chairperson. The members will be appointed by the Board President.

The Audit Committee shall have access to at least one financial expert, an outside party with no voting rights, who will provide advisory and consulting duties and shall be compensated as agreed upon, in writing with the audit committee, the Board, Agency management and its designees.

All members of the Audit Committee shall possess or obtain a basic understanding of governmental financial reporting, accounting and auditing and shall have a requisite interest in financial reporting issues of the Agency. The financial expert shall be an individual with sufficient financial experience and interest to provide guidance and assistance to the Audit Committee. The financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess: 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of Audit Committee functions.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Reconfirmed on December 19, 2018

The members of the Board serving on the Audit Committee shall be compensated in accordance with the guidelines established for the IEUA Board of Directors in Ordinance No. 98 adopted May 21, 2014, and as amended from time to time, entitled:

"Ordinance of the Inland Empire Utilities Agency, a Municipal Water District, San Bernardino County, California, establishing compensation/benefits and authorizing reimbursement of expenses for the Board of Directors and their appointed representatives to the Metropolitan Water District of Southern California Board of Directors and outside Committee Members."

The service term for each Committee member will be two years. Prior to term expiration, the Board President or their designee will conduct a review of Board Committee members' eligibility and the Board of Directors will conduct a review of the external/outside Committee member's eligibility. The Board President will then reconfirm the Committee members or select and confirm new members as needed. All activities and actions pertaining to selection or reconfirmation of Committee members will be documented by the Board, or their designee, and recorded in the next regularly scheduled IEUA Board of Directors' meeting minutes.

AUTHORITY

The Audit Committee has unrestricted access to all information and records, including IEUA personnel and documents. The Committee will have adequate resources to fulfill its oversight responsibilities, including the right to seek independent professional advice and counsel. The Committee is empowered to:

- Meet, as deemed appropriate and necessary, with IEUA Management and employees, the Manager of Internal Audit and audit staff, external auditors and legal counsel.
- Recommend to the Board the approval of the Internal Audit Department's Annual Audit Plan and any changes to the Plan or the Manager of Internal Audit duties.
- Authorize special audits and investigations into any matters within its scope of responsibility.
- Authorize an internal audit or review of any department or function under the control of the Board of Directors, or within the scope of influence of the IEUA.
- Recommend to the Board the appointment, compensation and scope of work of any public accounting firm employed by the IEUA.
- Recommend to the Board the approval of any auditing and consulting services.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Reconfirmed on December 19, 2018

- Review and recommend to the Board the external auditor's audit scope and approach, ensuring that the scope:
 1. Is in compliance with Generally Accepted Auditing Standards (issued by the American Institute of Certified Public Accountants).
 2. Is in compliance with Government Auditing Standards (issued by the Government Accountability Office).
 3. Will include a Single Audit that will be performed, if required, subject to the Office of Management and Budget (OMB) Circular A-133.
 4. Will include an opinion on each major fund presented in the Agency's financial statements.
- Review and recommend to the Board the approval of external auditors' reports, along with Management's written responses, when appropriate.
- Resolve any disagreements between Management, the Internal Audit Department, and the external auditors regarding financial or operational controls and reporting.
- Ensure corrective action is taken on internal accounting control weaknesses identified by the internal and external auditors.

RESPONSIBILITIES

The Audit Committee is chartered with performing oversight for the Board of Directors. In addition to reviewing this Charter annually and updating it as needed, the Committee has responsibilities in the areas of Financial Reporting, Internal Controls, the Internal Audit Department, the External Audit and external auditors, Compliance requirements, and Other Matters as provided in the following sections. The Committee has the overall responsibility to ensure the general requirements underlying these items are carried out. However, the Audit Committee has the flexibility and authority to determine and choose the best course of action and the best method for carrying out its responsibilities. The following items are best practice guidelines that may be employed:

Financial Reporting:

- Review annual financial statements and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Advise the Board and management of any situations that would cause the Committee to believe the audited financial statements may contain material misstatements or omissions.
- Inquire of the General Manager and Chief Financial Officer (CFO) regarding the fiscal health of the Agency as well as the financial status of the Agency in relation to its adopted budget.
- Inquire of management, the Manager of Internal Audit, and the external auditors about whether significant financial, managerial, and operational information is accurate, reliable, complete, and timely.
- Inquire of Agency management, the Manager of Internal Audit, and the external auditors about significant risks or exposures facing the Agency; assess the steps management has

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Reconfirmed on December 19, 2018

taken or proposes to take to minimize such risks to the Agency; and periodically review compliance with such steps.

Internal Controls:

- Discuss with Agency management, the Manager of Internal Audit, and the external auditors the reliability and effectiveness of the Agency's internal control environment to mitigate risk, including information technology security and control.
- Discuss with Agency management, the effectiveness of the Agency's process for identifying and assessing significant risks and exposures, and the steps Agency management has taken to communicate, monitor and mitigate these risks.
- Understand the scope of the internal and external auditors' reviews of internal controls, and obtain and review reports of significant findings, recommendations, and Agency management's action plans to mitigate risks.
- Review all significant accounting policy changes submitted by Agency management with the Internal Audit Department, and/or the external auditors, and provide recommendations to the Board and Agency management.
- Periodically review Agency policies and procedures governing Board of Director and employee conduct, including conflict of interest, misconduct, fraud and other sensitive issues or non-compliance and recommend changes to the Board and Agency management as appropriate.
- Discuss with Agency management, the Manager of Internal Audit, and the external auditors whether adequate policies have been established and the Agency complies with policies, standards and applicable laws and regulations.
- Discuss with Agency management, the Manager of Internal Audit, and the external auditors whether significant legislative or regulatory issues impacting Agency operations are identified, recognized, communicated and appropriately addressed.
- Review with Agency management, the Manager of Internal Audit, and the external auditors the audit scope and plan of the Internal Audit Department and the external auditors. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- Review with Agency management and the Manager of Internal Audit:
 - Significant findings, recommendations, and management's responses thereto.
 - Any difficulties the Internal Audit Department encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.
 - Any changes required in the scope of their internal audits.
 - The Internal Audit Department budget and staffing.
 - The Internal Audit Department Charter.
 - The Internal Audit Department's compliance with applicable standards (for example, Governmental Auditing Standards, or the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing).

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Reconfirmed on December 19, 2018

- Periodically review the Agency's Code of Conduct/Ethics Policy to ensure that it is adequate and up to date.
- Review with the Manager of Internal Audit and the Agency's general counsel the results of their reviews of compliance monitoring with the Code of Conduct/Ethics Policy.
- Review the procedures for the receipt, retention, and treatment of complaints received by the Agency regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by any party internal or external to the organization. Review any complaints that might have been received, the current status, and resolution if one has been reached.
- Review procedures for the confidential, anonymous submission by Agency employees of concerns regarding questionable accounting or auditing matters, or suspected fraud. Review any submissions that have been received, the current status, and the resolution if one has been reached.
- Inquire of Agency management, the Manager of Internal Audit, and the external auditors about significant risks or exposures facing the Agency. Assess the steps management has taken or proposes to take to communicate, manage, and minimize such risks to the Agency; and periodically review compliance with such steps.
- Review with the Manager of Internal Audit, and the external auditors:
 - The adequacy of the Agency's internal controls including computerized information system controls and security.
 - Any significant findings and recommendations of the Manager of Internal Audit, and the external auditors together with management's responses thereto.

Internal Audit Department:

- Request that the Agency's Manager of Internal Audit prepare the Audit Committee's meeting agendas designed to ensure that all of the responsibilities of the Audit Committee as described herein are addressed at least once a year.
- Ensure there are no unjustified restrictions or limitations placed on the Internal Audit Department.
- Review with the Board, General Manager, and the Manager of Internal Audit the Internal Audit Department Charter, Annual Audit Plan, staffing, budget, and organizational reporting structure to ensure they meet the Committee's goals, objectives, and responsibilities to the Board and Agency management.
- Review and recommend to the Board the approval of the Internal Audit Department's Annual Audit Plan and any significant changes that may occur during the year.
- Review, as needed, all internal audit reports, findings, and recommendations.
- Review and recommend to the Board the appointment, replacement, dismissal, or change in duties of the Manager of Internal Audit.
- Review the effectiveness of the Internal Audit Department's function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Reconfirmed on December 19, 2018

- Conduct the Manager of Internal Audit performance appraisals and recommend Manager of Internal Audit merit increases and incentive compensation to the Board.
- Hold management accountable for the appropriate resolution of Internal Audit Department's recommendations and ensure that disposition has been determined for Audit Department recommendations from the prior year. If management has determined that Internal Audit Department recommendations need not be implemented because of adequate compensating controls, based upon a cost/benefit analysis or because the risks are at an acceptable level in accordance with the Agency's goals and objectives, evaluate the reasonableness of such determinations and advise the Board of Directors accordingly.

External Audit:

- Review the external accounting firm's proposals and fee structure, and provide recommendations and external audit plan approval to the Board.
- Review the external auditors' proposed audit scope and approach to ensure emphasis is placed on areas the Committee, Board, Management and external auditors believe special attention is warranted and that efforts are coordinated with the Internal Audit Department.
- Evaluate the external auditor's independence, and if needed, recommend the Board take the appropriate action to satisfy the Agency with the external auditor's independence.
- Review the effectiveness of the external auditor's work and provide the Board with the final approval to continue or discharge the current firm.
- Communicate to the external auditors areas of internal control with a heightened risk of fraud or error, any known or suspected employee fraud, management fraud, pressures or incentives for management to distort reported financial results, or any known or suspected accounting errors or misstatements.
- Communicate to the external auditors any areas of concern applicable to the external auditors' scope of responsibility (fraud, errors, or misstatements involving amounts significant to the financial statements taken as a whole).
- Review all significant written communications between the external auditors and management, such as any management letter comments or schedule of unadjusted differences (i.e. management letter, schedule of audit, or significant unusual or non-routine items, etc.)
- Hold management accountable for the appropriate resolution of external auditor recommendations, ensure that disposition has been determined for auditor recommendations from the prior year, and where management has determined that auditor recommendations need not be implemented because of adequate compensating controls or based upon a cost/benefit analysis, evaluate the reasonableness of such determinations and advise the Board of Directors accordingly.
- Review with the external auditor that performs the financial statement audit:
 - All critical accounting policies and practices used by the Agency.
 - All alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Agency's management, the ramifications of each alternative, and the treatment preferred by the Agency.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Reconfirmed on December 19, 2018

- Review with management and the external auditors:
 - The Agency's annual financial statements, related notes, and management's discussion and analysis.
 - The external auditors' audit of the financial statements and their report thereon.
 - The external auditors' judgments about the quality, not just the acceptability, of the Agency's accounting principles as applied in its financial reporting.
 - The external auditors' single audit of the federal awards administered by the Agency and their reports thereon.
 - Any significant changes required in the external auditors' audit plan.
 - Any serious difficulties or disputes with management encountered during the audit.
 - Matters required by Statement on Auditing Standards (SAS) No. 114, The Auditor's Communication With Those Charged With Governance; U.S. Government Accountability Office's (GAO) Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits.

- Evaluate whether or not the performance of any extra work or special projects requested of the Agency's external audit firm violates the independence standards of the GAO.

- Recommend that the Board of Directors approve the Agency's annual financial report, if the Committee believes that they are fairly presented, to the extent such a determination can be made on the basis of reading the financial statements and discussions with Agency management and the external auditors.

Compliance:

- Review with management and the external auditors the Agency's internal controls for identifying laws and regulations affecting operations, risks for non-compliance including litigation and fines, and implementing controls to prevent recurrence.
- Review the reports, findings and recommendations of any audits or examinations performed by external agencies.
- Review with Agency counsel any legal, tax, or regulatory matters that may have a material impact on the Agency's operations and its financial statements.

Other Matters:

- The Audit Committee shall engage consultants, specialists, or other audit firms as necessary to assist the committee in the discharging of its responsibilities.
- The Audit Committee shall direct the Manager of Internal Audit to review the Agency's Audit Committee Charter annually in order to advise the Audit Committee as to needed or recommended changes.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Reconfirmed on December 19, 2018

- The Audit Committee shall report to the Board of Directors issues discussed in the Audit Committee meeting that, in the judgment of the committee, warrant communication to the Board to help the Board fulfill its oversight responsibility.

ETHICAL CONDUCT

Audit Committee members are prohibited from participating in any event or matter that would create, or appear to create, a conflict of interest. These activities may include having a significant financial interest or operational influence in vendors, contractors, customers or competitors of IEUA. Any activity creating an actual or apparent conflict should be immediately reported to the Audit Committee Chair and the Board of Directors for resolution.

MEETINGS

The Audit Committee shall meet no less than quarterly.

The Manager of Internal Audit will schedule and coordinate all quarterly Committee meetings, and will call additional meetings if requested to do so by any Committee member, the Board, the General Manager or the external auditors. The Manager of Internal Audit will provide all Committee members with written notification and an agenda at least 72 hours before the scheduled quarterly meetings or as soon as reasonably possible for any special meetings, all in accordance with the requirements of the Brown Act.

The General Manager and Manager of Internal Audit will be provided written notification and an agenda at least 72 hours before quarterly and special Committee meetings. These parties will be provided an opportunity to attend and speak at all Committee meetings but are not considered members of the Committee and have no voting rights.

The Board or the General Manager will provide administrative support to the Audit Committee and its meetings, including agenda preparation, participant notification, and documentation of meeting minutes.



INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Reconfirmed on December 19, 2018

PURPOSE

This Charter establishes the authority and responsibilities of the Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department.

The purpose of the Internal Audit Department (Internal Audit or IA) is to assist the Board of Directors (Board) and the Audit Committee (Committee) in fulfilling their oversight responsibilities for financial reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations and to provide objective assurance about the Agency's operations. The purpose of the Internal Audit Department is also to provide as a service to management and as a way of adding value to improve the operations of the Agency, consulting services, analyses, recommendations, and information concerning operations.

The Internal Audit Department reports to the Board through the Committee and is an independent function from management. The responsibilities of the Internal Audit Department are defined in this Charter.

MISSION

The Internal Audit Department seeks to improve the operations of the Agency by providing unbiased and objective assessments and recommendations to ensure Agency resources are efficiently and effectively managed in order to achieve Agency goals and objectives. The Internal Audit Department will help the Agency achieve its goals and objectives, improve operations, and instill confidence among its employees and the citizens it serves by providing independent, objective assurance and consulting services and provide management and the Board of Directors with recommendations to:

- Promote and strengthen a sound control environment.
- Improve Agency risk management, control and governance.
- Promote the Agency's vision and mission through a high degree of professionalism.
- Establish adequate policies and procedures and to comply with them.
- Encourage efficient use of Agency resources.
- Protect and safeguard Agency assets.
- Mitigate risks related to fraud, waste and abuse.
- Hold staff accountable for the resolution of audit recommendations.

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Reconfirmed on December 19, 2018

VALUES

The Internal Audit Department has adopted the following value statements that form the foundation for the Internal Audit Department.

Independence

As documented in this Charter, the Internal Audit Department is an independent function of the Agency for the purpose of providing independent, objective, unbiased opinions.

Integrity

The Internal Audit Department staff is required to maintain the highest degree of integrity in conducting its audit work.

Professionalism

The Internal Audit Department will perform its work with due professional care at all times.

Collaboration

The Internal Audit Department will foster collaboration with all Agency personnel to promote teamwork within the various business units.

ACCOUNTABILITY

The Internal Auditor is the Manager of the Internal Audit Department. The Internal Auditor is accountable and reports to the Board of Directors, through the Audit Committee appointed by the Board. The intent of this reporting relationship is to establish the Internal Audit Department's independence to function effectively and in accordance with best practices.

Annually, the Internal Auditor will submit an Audit Plan for the following fiscal year to the Committee for review and approval by the Board. Quarterly status reports of significant Internal Audit activities shall be presented at Committee meetings and shall include a status of major activities and any changes or deviations from the approved audit plan. The Internal Auditor has the authority to deviate from the approved annual Audit Plan, when necessary and if warranted by unforeseen issues that require immediate attention. Significant changes to the annual Audit Plan shall be reported to the Committee and to the Board.

Annually, a listing of audit recommendations provided by the Internal Audit Department and the corresponding corrective actions taken by Agency management will be presented to the Committee.

The Internal Auditor shall inform the Committee on the sufficiency of department staffing and resources.

Annually, the Internal Audit Department must also ensure the Committee fulfills their responsibilities as required under the Audit Committee Charter. Additionally, IA must ensure the

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Internal Audit Department Charter and the Audit Committee Charter are reviewed annually and updated as necessary.

INDEPENDENCE

Independence is essential to the effectiveness of internal auditing and is strongly emphasized by the Institute of Internal Auditors (IIA), the American Institute of Certified Public Accountants (AICPA), and the U. S. General Accountability Office (GAO). The Internal Audit Department should be free, both in fact and appearance, from impairments to independence.

The Internal Auditor and the Internal Audit Department shall have no direct responsibility or authority over the day-to-day operations of the Agency or any activities they would audit. The Internal Audit Department shall not engage in any activities that would compromise their independence or would appear to be a conflict of interest.

To ensure independence is maintained, the Internal Audit Department shall report administratively to the Agency's General Manager or his designee and functionally to the Board through the Audit Committee, as stated under "Accountability".

AUTHORITY

The Internal Audit Department's authority is derived from the direction of management and the Agency's Board through the Committee as set forth in this Charter. Specifically, the Internal Audit Department is authorized to:

- Audit all areas of the Agency's operations. Perform audits of the Regional Sewage Service Contract agreement between the Agency and the Regional Contracting Agencies (RCA), including performing necessary audit field work and review of required supporting information and documents of the RCA's.
- Have unrestricted access to all Agency functions, records, information, property, and personnel.
- Have full and free access to Agency management, the Board of Directors and the Audit Committee.
- Allocate resources, set frequencies, select subjects and set objectives, determine the scope of work, and apply the techniques required to accomplish audit objectives, without interference from management.
- Obtain the necessary assistance of Agency staff where Internal Audit performs audits, as well as other specialized services from within or outside the organization.
- Obtain regular updates from management and Agency legal counsel regarding compliance matters affecting operations.

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- Establish procedures for the receipt, retention, and treatment of comments or complaints received regarding Agency accounting, operations, or internal controls, including those matters received through Ethics Point or other channels.
- Investigate and make recommendations to the Board, Audit Committee, Executive Management and/or Human Resources, as appropriate about reported instances of inappropriate activities, misappropriation of funds or fraud, including those matters received through Ethics Point or other channels.
- Obtain additional internal or external resources when the Internal Audit Department does not possess all the necessary skills or experience to complete an audit or review, subject to the approval of the Audit Committee and when necessary from the Board.

The Internal Auditor and the Internal Audit Department staff are **not** authorized to:

- Have any responsibilities or authority for any of the activities they audit or perform any operational duties for the Agency or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any organization employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Auditor in audit activities.
- Participate in any activities that would compromise their objectivity and independence or any activities that would appear to be a conflict of interest.
- Draft or write any Agency Policies and Procedures, or Standard Operating Procedures outside the Internal Audit Department.

RESPONSIBILITIES

The responsibilities of the Internal Audit Department consist of the examination, review and evaluation of the reliability and effectiveness of the Agency's governance, risk management, internal controls, and the quality of operations and systems utilized in carrying out the Agency's goals and objectives. The Internal Audit Department has the responsibility to perform its work with due professional care.

The Internal Auditor and audit staff shall be responsible for, but not limited to, incorporating periodically, as deemed necessary and/or in agreement with the annual audit plan, activities in the following key areas:

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Internal Controls

- Assess the adequacy of internal controls in place and determine if they are operating effectively.
- Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Review compliance with Agency policies and procedures, and with applicable laws and regulations which could have a significant impact on the operations of the Agency.
- Evaluate the means implemented and the extent Agency assets are identified, tracked, and safeguarded against misuse, unauthorized use, theft and loss.
- Review operations, programs or projects to determine if results are consistent with established objectives and goals.
- Assess the efficient and effective use of Agency resources and the controls over those resources.
- Provide consulting services on current and proposed policies, procedures, and systems to ensure adequate internal controls are considered and maintained.
- Provide consulting services to evaluate contractual agreements and determine if compliance exists.
- Use documents and information obtained from Departments in the same prudent manner as by those employees who are normally accountable for them.
- Perform “Follow-up Procedures” on all management responses to audit findings and recommendations to determine if internal control improvements and/or corrective actions have been implemented.
- Perform “Follow-up Procedures” on known external auditor’s or regulatory agency’s reported findings and recommendations to determine if internal control improvements and/or corrective actions have been implemented.
- Conduct special projects, studies, or audits as requested by management, the Audit Committee and the Board of Directors.
- Ensure known or suspected acts of fraud or improprieties involving Agency funds, property and employees are investigated in coordination with the Agency’s legal counsel, Human Resources and senior management.

Audit

- Conduct work in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and Code of Ethics as required by the Institute of Internal Auditors (IIA).
- Develop a comprehensive and flexible annual audit plan using an appropriate risk-based methodology, including consideration of any risks or control concerns identified by management, the Audit Committee, the Board or the external auditor and submit that plan, as well as any periodic updates, to the Audit Committee and the Board for review and approval.
- Implement the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by management, the Audit Committee, or the Board.

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- Provide Agency management with reasonable notice of intent to audit and with information about the audit process, except in those situations that warrant an unannounced audit.
- Consider the scope of work of the external auditors for the purpose of providing optimal audit coverage, at a reasonable cost, without redundancy or omission.
- Perform advisory services to assist the Agency in achieving its objectives; for example, reviewing controls, systems or process designs prior to implementation and providing recommendations to improve and enhance the effectiveness of controls and operations.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Maintain technical competence through continuing education supported by Department goals and budgets.
- Maintain a quality assurance program whereby the Internal Auditor assures the operations of the Internal Audit Department.
- Perform a periodic review of the Internal Audit Department Charter and the Audit Committee Charter. Additions, deletions, or other changes to the Charters are subject to the approval of the Board of Directors.

Reporting

- Issue quarterly reports to and meet with the Audit Committee and management to summarize results of audit activities and status of findings and recommendations.
- Provide written status reports of Audit Department activity to the Audit Committee quarterly. The Quarterly Audit Committee Status Report will include a summary of significant internal and external audit activities for the reporting period. The Status Report will be submitted for approval by the Committee and the approved Status Report will be presented at the next regularly scheduled IEUA Board of Directors meeting.
- Provide a written report listing all outstanding recommendations with expected resolution dates annually. The report of all outstanding recommendations will be submitted for approval by the Audit Committee and provided at the next regularly scheduled IEUA Board of Directors meeting.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing, as well as new audit requirements, when applicable.
- Immediately report any reservations concerning control risks, accounting or disclosure practices to the Audit Committee.
- If during the scope and progress of its reviews and audits, the Internal Audit Department identifies opportunities for improving the Agency's control environment, processes and procedures to ensure an environment where assets are safeguarded, internal controls are in place and risk is mitigated, these recommendations will be communicated to the appropriate level of management and the Audit Committee as timely as necessary and in the written report.
- When deemed appropriate and necessary, provide responsible unit management with a preliminary written report of the results and recommendations of each audit, analysis, review, or investigation performed and sufficient time to respond in writing with a plan of

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corrective actions. Sufficient time to reply would be 30 to 60 days from the date of the final report.

- Provide final reports of results and recommendations for each review and audit performed, including the responsible management's responses to the Audit Committee, Executive management and responsible management. All final reports with any responses will be submitted to the Committee for discussion and to the Board for approval. However, in cases where the auditee does not provide a response that is timely or deemed responsive, the final report will not be held up pending a response and will be submitted for discussion during the next scheduled Audit Committee meeting.

STANDARDS OF ETHICAL CONDUCT

The Internal Audit Department staff have a responsibility to govern themselves so that their independence is not open to question. To this end, adherence to the Institute of Internal Auditor's "Code of Ethics" will ensure integrity, objectivity, confidentiality and competency in Internal Audit work performed on behalf of the Agency's Board and Audit Committee. These principles include:

- Performing internal auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Exercising honesty, diligence, and responsibility in performing duties.
- Observing the law and making disclosures expected by the law and the profession.
- Not knowingly being a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the Agency.
- Respect and contribute to the legitimate and ethical objectives of the Agency.
- Not participating in any activity or relationship that may impair, or be presumed to impair, unbiased assessments, including activities or relationships that may be in conflict with the interests of the Agency.
- Not accepting anything that may impair or be presumed to impair professional judgment.
- Disclosing all material facts known that, if not disclosed, may distort the reporting of activities under review.
- Being prudent in the use and protection of information acquired in the course of duties.
- Not using information for personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Agency.
- Engaging in only those services or audit activities for which Internal Audit staff have the necessary knowledge, skills, and experience.
- Continually improving staff proficiency, and the effectiveness and quality of services.

MANAGEMENT RESPONSIBILITIES

It is the responsibility of the Board of Directors and senior management to foster a control environment that supports the Internal Audit Department's objectives and independence within the

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Inland Empire Utilities Agency. The existence of the Internal Audit Department does not diminish Agency management's financial and operational responsibilities for prudent execution and control of activities, including their responsibilities for the periodic evaluation of risk, control, and governance systems.

Management's responsibilities include:

- Providing Internal Audit with its full support and cooperation at all operating levels, including full and complete access to all records, property, and staff relative to their assigned areas of responsibility, and active participation in the audit process.
- Immediately notifying the Manager of Internal Audit and the Audit Committee of any known or suspected cases of illegal, criminal or unethical activity involving Agency funds, property, employees, or any activity which appears to present a conflict of interest.
- Timely notification to Internal Audit of any new or proposed modifications to Agency systems, procedures, operations or services, ensuring controls are built into the new or modified processes.
- Providing the Internal Audit Department with written responses to all audit findings and recommendations, including action plans, responsible employees, and targeted resolution dates or the acceptance of the risks identified.
- Providing the Internal Audit Department with adequate budget, staffing, assistance from staff of audited Departments, and the tools needed for the Internal Audit Department to execute its duties as defined in this Charter.

**ACTION
ITEM**

1E

Date: December 19, 2018

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit



Subject: Fiscal Year 2018/19 Amended Annual Audit Plan

Executive Summary:

The Internal Audit Department Charter and auditing standards state that the Internal Audit Department (IA) is to annually submit for Audit Committee and Board of Directors (Board) approval a comprehensive and flexible Annual Audit Plan of proposed audits and projects. Further, IA must implement the Annual Audit Plan, as approved, including as appropriate any special tasks or projects requested by management, the Audit Committee or the Board. The Charter also requires that progress of audit projects be communicated through the Quarterly Status Reports. When deviations from the approved plan are necessary, a formal amendment must be submitted for Audit Committee and Board approval.

The Fiscal Year 2018/19 Annual Audit Plan was submitted for Board approval in June of 2018. Attached is the proposed amendment to the FY 2018/19 Annual Audit Plan. Proposed changes are due to re-prioritizing audit projects at the request of the Board and senior management. The Water Connections Audit was accelerated to evaluate the effectiveness of internal controls over the collection and reporting of revenues. Additionally, IA was asked to assist with the audit and review of the Agency's Sewer System Management Plan to ensure it meets state requirements and can be referenced as a manual for employees in case of a sewer overflow.

Staff's Recommendation:

Approve the Fiscal Year 2018/19 Annual Audit Plan Amendment to be consistent with the requirements of the IA Charter.

Budget Impact *Budgeted* (Y/N): N *Amendment* (Y/N): N *Amount for Requested Approval:*

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On June 20, 2018, the Board of Directors approved the Fiscal Year 2018/19 Annual Audit Plan. The plan was in accordance with auditing standards and the Charter requirements.

On December 20, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Charters. The Internal Audit Department Charter describes the requirement to submit a flexible annual plan of proposed audit projects for Board approval.

Environmental Determination:

Not Applicable

Business Goal:

The Fiscal Year 2018/19 Annual Audit Plan Amendment is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by ensuring that Internal Audit submits for review, discussion and approval a plan of proposed projects that provide opportunities to evaluate and give recommendations that assist management and the Board in achieving organizational goals.

Attachments:

Attachment 1 - FY 2018/19 Amended Annual Audit Plan

**Internal Audit Department
Fiscal Year 2018/19
Amended Annual Audit Plan**



New/Proposed Audit Projects:

Audit/Project: Water Connection Fee Audit

Objective/Scope:

To evaluate the controls over the collection and recognition of revenue for the Water Connection Fee implemented in 2016, including ensuring adequate segregation of duties and procedures are in place to reconcile new water connections to ensure all water connection fees are being collected. Audit procedures will include: a review of internal controls; compliance with Agency policies and procedures; and the effectiveness and efficiency of operations. The departments with the primary responsibility are the Planning and Finance and Accounting Departments.

Proposed Timeframe: Began in September 2019. Completed in December of 2019.

At the request of Audit Committee Members, the timeline of the Water Connection Fee Audit was accelerated to this fiscal year to ensure all internal controls are working as intended since implementation because this is a new function for the Agency. The full audit report with recommendations for consideration are included as a separate item for the December 2018 Audit Committee meeting.

Audit/Project: Sewer System Management Plan

Objective/Scope:

To assist the Operations Division in completing the State-required 2-year audit and submit for Board-approval the revised 5-year Sewer System Management Plan (SSMP). The SSMP is a state-required plan for any wastewater agency with at least 100 miles of wastewater infrastructure. The plan contains 13 required elements that must follow State-mandated requirements to serve as a manual to the Agency's employees in the event of a Sewer overflow.

The project began in September 2018 and will be finalized by April 2019.

IA was asked to assist in the project to review, revise and update the Agency's 5-year SSMP that must be Board approved and submitted to the State. The review includes performing an audit to determine if the goals and elements within each of the 13 areas were satisfied and met. Additionally, needed revisions to bring the SSMP current and ensure it is a "living document" will be made. IA has assisted with evaluating the document, conducted interviews, researched information from other SSMPs and guides and provided recommendations, changes and edits to the current version. The next steps are finalizing the document and providing a workshop to the Board before requesting full approval.

Audit Proposed and Currently in Process to be Completed

Voyager Fuel Card Program Audit

The scope of the audit is to evaluate internal controls over the use of the Agency's Fuel Card to ensure it meets the requirements of the Agency's policies. Additionally, to ensure there are sufficient controls in place to ensure these are safeguarded from loss, theft, misuse or abuse and are used as intended and in the most effective manner.

Internal Audit has gathered preliminary information and is already working with staff responsible for overseeing the program. Planned for completion - March 2019.

Audit Projects Originally Proposed and Completed

Inter-Fund Transfers

To evaluate whether the Agency complies with all Agency policies, legal and regulatory requirements over inter-fund transfers and whether transfers are documented appropriately and recorded accurately in the Agency's financial statements.

This audit was completed in September 2018 and was presented and discussed during the regularly scheduled Audit Committee Meeting and subsequently received and filed by the Board.

Fleet Management Audit – Vehicle Operational Audit & Follow-up Review

Evaluate controls over the procurement, accountability, issuance and maintenance over Agency fleet vehicles.

Internal Audit segregated the completion of this review into three separate reviews:

- The follow up review of 5 audit recommendations from the 2014s audit that were under the oversight of Contracts and Procurement. That final audit report was presented to the Audit Committee in September 2018 and subsequently received and filed by the Board.
- The follow up review of the 13 recommendations from a 2014 audit that fall under the oversight of the Operations Division, Facilities Management. The review was completed in November 2018 and is being presented under separate cover for the Audit Committee review and discussion.
- Voyager Fuel Card Audit – this will be an expanded review to evaluate the controls over the fuel cards. Preliminary work is in progress, audit is planned for completion in March of 2019.

Audit Projects Originally Proposed and Deferred/Postponed

Reserve Obligations

To evaluate whether the Agency complies with all Agency policies, legal and regulatory requirements for maintaining the required and/or necessary reserve balances and if balances are invested or available as mandated by those reserve obligation requirements/policies.

The Reserves Obligations Audit was planned for completion in the Annual Audit Plan. However, due to the request to complete the Connection Fees Audit, and the low risk identified in this area during the Inter-Fund Transfers Audit, this review was postponed. This audit will be placed on the list of Additional/Possible Audit Areas under the Long-Range Audit Planning section of the Annual Audit Plan in the next Audit Plan for future evaluation.

**Internal Audit Department
Fiscal Year 2018/19
Amended Annual Audit Plan**



On-Going Projects for FY 2018/19

- ❖ Assist with annual CAFR Review and Filing
- ❖ Update IA Annual Audit Plan and corresponding Risk Assessment
- ❖ Provide recommendations to strengthen/streamline policies and procedures
- ❖ Review IA Department and Committee Charters
- ❖ Follow-up evaluations
- ❖ Provide needed support re: audit topics, internal controls and compliance
- ❖ Further utilize capabilities of SAP to enhance IA functions
- ❖ On-going required administrative reporting, such as, budget, goals/objectives, staff appraisals, and other administrative related items.
- ❖ Continue to review, update and document IA Policies and Procedures
- ❖ Continuous Professional Development of Internal Audit Staff
- ❖ Plan prepare and coordinate Audit Committee Meetings
- ❖ Utilize the IA site on AIM as an Agency-wide communication tool
- ❖ Provide "audit approach" presentations to requesting departments
- ❖ IAD Quality Assurance and Improvement Program
- ❖ Conduct special requests and/or unforeseen projects
- ❖ Additional Agency-wide and other types of training and meeting requirements

Audit Committee

INFORMATION
ITEM
2A

Date: December 19, 2018

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit



Subject: Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures

Executive Summary:

The Internal Audit Department Charter, requires Internal Audit (IA) follow-up on outstanding recommendations to determine if corrective actions have been taken. IA performed a follow-up review of 13 outstanding recommendations related to the Agency Vehicle Operational audits completed in 2014. Recommendations are the responsibility of Facilities Management within the Operations and Maintenance Department (South). As detailed in the attached audit report, this follow-up review found that of the original recommendations, four have been implemented, six were restated into three new recommendations, two are no longer applicable, and one has been deferred to the Voyager Card Audit already in progress. This review noted the following:

- Agency policies related to vehicles are under review to update, clarify & streamline processes,
- Internal controls and procedures for vehicle reservations and assignment of Agency-related travel requirements are monitored and continuously under review,
- Facilities Management now has a plan to periodically conduct vehicle inspections to evaluate the condition of vehicles as well as safety items, required documents and the overall condition,
- Periodic reconciliations of department vehicle records will be performed to compare the vehicle information on the Agency's accounting records, to ensure the accuracy and reliability of vehicle records, this will also serve as an inventory and verification control.

Staff's Recommendation:

This is an information item with 3 recommendations that staff agreed to implement.

Budget Impact Budgeted (Y/N): N Amendment (Y/N): N Amount for Requested Approval:

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On June 20, 2018, the Board of Directors approved the Fiscal Year 2018/19 Annual Audit Plan. In the Annual Audit Plan, the Vehicle Follow-Up Audit was proposed for completion.

On December 20, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Charters. Both charters require that IA implement the Annual Audit Plan of proposed audit projects and follow-up evaluation be completed on original recommendations.

Environmental Determination:

Not Applicable

Business Goal:

The Agency Vehicle Operational Follow-Up audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that the recommendations provided foster a strong control environment, safeguard assets, provide a safe work environment and assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures

Attachment 2 - PowerPoint



DATE: November 29, 2018

TO: Halla Razak
General Manager

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures

Audit Authority

The follow-up audit was performed under the authority given by the Inland Empire Utilities Agency (IEUA or Agency) Board of Directors. The Internal Audit Department (IA) Charter and the Fiscal Year 2018/19 Annual Audit Plan require that IA follow-up on the status of audit recommendations to determine whether corrective actions have been taken. IA completed a follow-up review of 13 outstanding recommendations from the Review of Vehicle Inventory Procedures, dated March 12, 2014.

Audit Objective and Scope

The purpose of this follow-up review was to evaluate whether corrective actions were taken for the 13 outstanding recommendations from the 2014 audit, or if alternate controls have been implemented to mitigate the risks originally identified.

Audit Techniques:

Audit techniques included:

- Interviews of Agency staff
- Review of Agency policies, procedures, and practices
- Review of supporting documents
- Analysis of transactions
- Observations and inspections of Agency vehicles

Audit Results – Executive Summary

Of the 13 outstanding recommendations, IA found that four recommendations have been implemented, six recommendations were restated into three new recommendations, two recommendations are no longer applicable, and one recommendation has been deferred to the Voyager Card Audit to begin in 2019. The attached report provides details of the follow-up audit. The bullet points below provide a summary of the audit observations:

- **Agency Policies:** The original audit found the Agency had multiple policies related to Agency vehicles, including refueling and washing procedures, the issuance, use, and payment processing of the fuel credit card. Additionally, information in the policies was either inconsistent and/or outdated. IA recommended the policies be reviewed, updated and/or consolidated to streamline processes and clarify guidelines. Facilities Management is in the process of reviewing, updating and consolidating six policies that relate to Agency vehicles.
- **Vehicle Reservation/Approval Process:** The prior audit noted instances where the vehicle reservation was not properly documented, and the appropriate approval was not obtained as required by policy, additionally some forms were missing for overnight travel with an Agency vehicle. IA recommended an online/electronic reservation system to account for all reservations and ensure proper approval is obtained. This review noted that the use of Microsoft Outlook Calendar has been effective in ensuring the proper documentation of vehicle reservations and is considered an effective tool and control for documenting vehicle reservations.
- **Mileage Limitations/Geographic Boundaries:** In the original audit, IA identified that Agency policies do not state any mileage limitations and/or geographic boundaries. IA recommended this information be included in the policies to strengthen internal controls over the use of vehicles. IA noted that the approval for training, whether it is within and/or out-of-the area, approves the use of an Agency vehicle through the Attendance and Advance Request Form, which is signed by a manager. All other out of the area business-related travel is approved through managers and supervisors who assign the work, meetings, training etc.; therefore, no additional controls are deemed necessary at this time.
- **Vehicle Information Form (VIF):** The previous audit found instances where the VIF was either not returned by the driver or was incomplete. IA provided three recommendations: to determine the overall purpose of the VIF, to determine if the VIF needed an area for supervisor approval, and to ensure the VIF is completed upon return of an Agency pool vehicle. Facilities Management evaluated the VIF form and determined necessary updates, it was also determined that supervisor approval is not required on the VIF because work is assigned through managers and supervisors. Lastly, the information recorded on the VIF's has been complete and Facilities Management considers it to be adequate and sufficient for the intended use of the VIF.

- Vehicle Inspections/Safety-related items: In the original audit, IA identified that vehicle and safety inspections were not regularly performed to ensure vehicles are operational and safety items are maintained as required. For the 2018 follow-up audit, IA along with Safety staff performed inspections on a sample of vehicles to evaluate the condition of the vehicle and safety-related items, including seatbelts, tires, first aid kit, fire extinguisher, contents of the glove compartment, etc. At the time of IA's inspections, the follow-up review found that vehicles and safety inspections were not being performed and several items required immediate attention. The audit also noted that recently Facilities Management implemented a process to perform routine vehicle and safety inspections. Facilities Management staff plans to team up with Safety staff and inspect all fleet vehicles during a 12-month period each year and address items requiring attention.
- Agency Logo/Bumper sticker: The prior audit noted there were some Agency vehicles with the logo that was either faded or peeling off. The updated Agency logo has now been added to all Agency vehicles.
- Reconciliation of Mileage Report to Agency's Financial System: The original audit found there was limited or no reconciliation performed to compare vehicle information and data between the "Mileage Report" (used by the Operations and Maintenance Department as their internal database for the inventory and tracking and recording of vehicles under their responsibility) and the Agency's accounting records in SAP, the Agency's financial system. IA recommended that periodic reconciliations be performed to ensure the accuracy and reliability of vehicle information and ensure asset information is reported on the accounting records correctly (for example, vehicle numbers, year and model, etc.) This helps serve as an inventory control and ensure all asset information is recorded accurately for accounting records. For the 2018 follow-up review, IA noted that reconciliations between the department's database and accounting records are not performed and found a few instances where vehicle information was missing or inaccurate on either record. Going-forward, staff plans to complete periodic reconciliations.

The Agency Vehicle Operational Follow-Up audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that the recommendations provided foster a strong control environment, safeguard assets, provide a safe work environment and assist management in achieving organizational goals and objectives.

Acknowledgements

IA would like to extend our appreciation to the Facilities Management staff for their cooperation and assistance during this review.

Discussions with Management

This audit report was provided to the Facilities Program Supervisor, Deputy Manager of Maintenance, Manager of Operations and Maintenance, and Executive Manager of Operations/Assistant General Manager on November 20th and 27th, 2018 for their review and input; their comments have been incorporated prior to finalizing this report.

Background

In 2014, Internal Audit (IA) completed three separate audit reports and provided 18 recommendations about Agency vehicle operations. The purpose of the original audits was to evaluate the processes and controls for the Agency's fleet/utility vehicles, determine whether operations are in accordance with established policies and procedures and identify opportunities to improve the efficiency and effectiveness of the program.

Two audit reports with 5 recommendations were under the responsibility of the Contracts and Procurement (CAP) Department and have already been evaluated in a separate report.

The third original audit report and the remaining 13 recommendations are the responsibility of Facilities Management within the Operations and Maintenance Department (South). Facilities Management formally took over the responsibilities to oversee and implement an effective "fleet program" as of January 2018. Prior to Facilities Management taking over the responsibility, there was no formal program with dedicated staff and resources to oversee all aspects of a fleet program. With the new Fleet Program in effect, Facilities Management had already been working on evaluating and formalizing various processes and procedures that had been previously identified through this audit. All original recommendations had been evaluated and corrective actions were addressed and/or are in progress of being fully implemented.

This follow-up audit report provides the status of the 13 recommendations that are the responsibility of Facilities Management.

IA refers readers to each of the respective Agency Vehicle Operational audit reports, which were received and filed by the Board of Directors at the time of issuing the audit reports, these reports can also be accessed through the Agency's Intranet or requested from the Manager of Internal Audit:

- Automobile Insurance Requirements dated March 3, 2014,
- Review of Vehicle Security Procedures dated March 3, 2014,
- Review of Vehicle Inventory Procedures dated March 12, 2014, and
- Agency Vehicle Operational Follow-Up Audit: Automobile Insurance Requirements and Review of Vehicle Security Procedures, dated August 30, 2018.

Facilities Management

Facilities Management is responsible for all operations related to the Agency's fleet, including inventory, maintenance, usage, replacement, and assist with the coordination of salvage and disposal of Agency vehicles. The focus of this follow-up audit was on the passenger/ commercial vehicles, which include automobiles, trucks and vans.

As of July 17, 2018, the Agency has a fleet of 111 vehicles with a majority assigned to Agency departments and staff. Seven of the fleet vehicles are designated as pool vehicles, which employees can check in/out to drive them to conduct Agency-related business. Facilities Management oversees the Agency's fleet management program.

Review of Vehicle Inventory Procedures Follow-up review to the Audit Report dated March 12, 2014

Agency Policy: Refueling Agency Vehicles

Original Recommendation #1:

Maintenance Department and the HR Department should work together to develop and/or consolidate into one updated policy, proper procedures for refueling Agency vehicles to streamline processes and clearly define the procedures for refueling Agency vehicles. Specifically, the policy should include: payment method, when to fuel, and specify if the requirement applies to assigned, pool or all vehicles.

Original Recommendation #2:

Update Agency Policy A-86, "Refueling Agency Vehicles" to include a clear definition of a "pool" versus an "assigned" vehicle and these definitions should be carried across all Agency policies that relate to Agency vehicle procedures.

Original Recommendation #3:

Revise Agency Policy A-86 to specifically address how Voyager fuel cards for Agency "pool" vehicles will be issued and used by employees in order to establish separate guidelines for Agency "pool" vehicles.

Status of #1, 2 and 3: Restated – See 2018 Recommendation #1

Recommendation #1

In the original audit, IA identified three Agency policies and one department-specific Standard Operating Procedure (SOP) that provided different or no guidelines on how an employee should refuel an Agency vehicle. The areas noted were as follows:

Agency Policy or SOP number	Name/Title of Policy	Date of last revision	Recommendation & Needed revision
A-14	Vehicle Use Policies and Procedures	September 11, 2008	Policy does not provide: <ul style="list-style-type: none"> • procedure for refueling vehicles • payment method to be used to pay for fuel, and • the frequency for mileage claim reimbursements
A-34	Maintenance, Washing and Fueling of Agency Vehicles	July 15, 2005	Describes an outdated process for fueling Agency vehicles and the current practice does not match the current policy.
CAP Department SOP, GSP 99007	Vehicle Refueling and Washing	June 15, 2010 (Version number: 003) As of October 2018, CAP will eliminate this procedure.	
A-86	Refueling Agency Vehicles	February 4, 2013	Provides procedures/guidelines for fueling assigned vehicles, but not for pool vehicles.

Policies and procedures that have different or outdated information create confusion and inconsistency because they provide different, unclear or outdated guidelines to employees.

Facilities Management has already identified all Agency policies related to Agency vehicle procedures and the review process has been initiated. Six policies have been identified. Agency Policy A-14 is currently under review, and, at their request, IA provided comments on the “draft” version for staff consideration. The six policies that Facilities Management is evaluating are the following:

Agency Policy #	Name/Title of Policy	Date of last revision
A-14	Vehicle Use Policies and Procedures	9/11/2008
A-17	Use and Insurance requirements for Vehicles and Equipment rented by the Agency	07/15/2005
A-25	Disposal of Surplus Agency Personal Property, Materials, and Equipment	9/1/2006
A-27	Department of Motor Vehicle Records Verification and Confidentiality	7/15/2005
A-34	Maintenance, Washing and Fueling of Agency Vehicles	7/15/2005
A-86	Refueling Agency Vehicles	2/4/2013

Facilities Management stated that Agency Policy A-14 will serve as the primary, all-inclusive Agency policy for all fleet operations. Consolidation of these policies will streamline and clarify all vehicle related operations and functions to provide clear guidelines for employees. Additionally, Facilities Management also plans to develop Standard Operating Procedures (SOP's) to address more specific procedures for their internal use. The revisions are planned for finalization in July 2019.

Recommendation #2 & #3

During the prior audit, IA noted that Agency Policy A-86 (Refueling Agency Vehicles, effective date February 4, 2013) does not make a distinction between a pool vehicle and an assigned vehicle, and the refueling procedures are different for each type of vehicle. No specific definition is provided for the terms. A clear definition would provide more specific guidelines and is important if there are different procedures for fueling and maintaining each type of vehicle. Additionally, the policy does not provide procedures on the issuance, use, and payment processing of Voyager fuel credit cards for pool vehicles, and the guidelines only apply to assigned vehicles.

In the 2018 follow-up review, IA noted that refueling procedures for assigned and pool vehicles are different, but the current policy A-86 does not address pool vehicles, only assigned vehicles. When a pool vehicle is checked out, a Voyager fuel credit card is provided with the Vehicle Information Form (VIF), which documents the condition and mileage of the vehicle. IA noted that no procedures are provided for how to use the Voyager card and/or how to refuel the vehicle. The information should be available in the vehicle's glove compartment, but IA noted that the one vehicle tested, did not have documented refueling procedures or they were missing from the glove compartment. Without guidance, an employee has no information about how to refuel an Agency pool vehicle.

As stated above, Facilities Management has begun a review process to consolidate the six Agency policies related to vehicles, which includes a review of fueling and washing procedures. Once the new policy has been approved and signed by Executive Management, and made available to all Agency employees, IA will review the updated policy to determine if the original recommendations have been addressed.

According to Facilities Management, the policy updates have been submitted to Operations Management for review and approval, and for adoption by July 2019. Therefore, the original Recommendations #1, 2 and 3 have been restated as 2018 Recommendation #1.

2018 Recommendation #1:

Facilities Management should continue to work with the appropriate departments to make necessary updates, and/or consolidate Agency policies and procedures for Agency vehicles and ensure the revised policy(ies) address refueling and washing procedures, security, safety items, insurance, license requirements, etc. The new and final policy should be approved by Executive Management and made available to all Agency employees for their reference.

Vehicle Reservation & Approval Process

Original Recommendation #4:

Maintenance Department should work with Business Information Systems (BIS) to develop an online/electronic "vehicle reservation and approval process". Approval should be obtained through the online/electronic process by either the employee's supervisor or manager. If the travel in an Agency "pool" vehicle will be for the calendar day only, online/electronic approval obtained from the employee's direct supervisor is sufficient. If travel utilizing an Agency "pool" vehicle will be overnight or several nights, or outside the service area, the employee should obtain online approval from the responsible manager and/or a member of Executive Management.

Status: No Longer Applicable

In the 2014 audit, IA noted two instances of a pool vehicle being checked-out for overnight use without documented approval from the General Manager (GM) as required by Agency Policy A-14 and/or required forms were missing. Without documented approval for overnight use of Agency vehicles it is difficult to determine whether the appropriate approval was obtained. Additionally, it was unclear whether there was enough accountability for the vehicle during the overnight travel.

Electronic reservation system

IA provided the original recommendation as an additional control to ensure all vehicle usage is properly recorded and approved, and to be consistent with the existing Agency Policy requirement. At the time, Outlook calendar was not used for vehicle reservations, making it difficult to track vehicle reservations, usage, timeframes and assignments. With the current process, the receptionist reserves the vehicle using an Outlook calendar and the system will block the availability of the vehicle for the time-period requested.

Facilities Management's position is that the current use of Outlook calendars to document vehicle reservations is a control that is working; therefore, no additional online/electronic vehicle reservation and approval process is deemed necessary. Through IA's review and discussions, it appears Outlook calendars have been working effectively, therefore, the original recommendation is considered No Longer Applicable.

Online/electronic approval by a supervisor

Currently, there is no requirement that an employee's supervisor provide an online/electronic approval for a pool vehicle reservation. Facilities Management noted that it is the responsibility of a supervisor to know where their employees are at all times; therefore, this recommendation is considered No Longer Applicable.

Travel: overnight or several nights, or outside Agency's service area

The original recommendation suggests an additional approval requirement when travel is for overnight or multiple nights/days, or longer distances.

For the 15-month period (July 2017-September 2017), there were approximately 1,200 vehicle reservations and IA noted the following instances of this type of travel:

- Overnight travel/multiple nights: 6 vehicle reservations where a vehicle was taken for overnight travel and/or multiple nights to Fullerton, Las Vegas, Long Beach, and Modesto.
- Outside Agency's service area and/or distance greater than 40 miles: 4 vehicle reservations where multiple vehicles were reserved for the same date, time and location and driven between 40 and 50 miles each way to locations outside the Agency's service area, such as Long Beach, Paramount and Temecula.

IA noted other types of vehicle reservations:

- Multiple vehicles: 3 vehicle reservations where multiple vehicles were reserved for the same date, time, and location by the same employee, and driven within the Agency's vicinity.
- Multiple vehicles/outside Agency's service area: 1 instance where multiple vehicles were reserved for the same date, time, and location, and driven outside the Agency's service area (Riverside).
- Multiple vehicles & days: 1 instance where multiple vehicles were reserved for multiple days by the same employee for local/on-site Agency events.

Additionally, IA observed there were many other single-day reservations where Agency vehicles were driven to locations outside the Agency's service area, but less than 40 miles each way from the Agency's Headquarters (such as Orange, Irvine, Redlands, Costa Mesa, Baldwin Park, West Covina, Monrovia, Buena Park, Los Angeles and so on.). Due to the distances and locations traveled, the recommendation was made to consider an additional approval level when driving outside the service area.

At times employees must travel outside the service area, for business-related purpose, such as meetings and/or training. Training is approved through the Attendance and Advance Request form, which requires compliance with Agency Policy A-37. Facilities Management stated that the approval obtained on A-37 is the approval that provides the control whether it is for overnight travel, multiple nights or locations outside the Agency's service area; therefore, no additional approval is required separately for the vehicle use since the first choice of travel for training, should always default to using an Agency vehicle. Facilities Management stated that travel to attend business meetings and/or other work-related activities, the respective manager/supervisor approves the travel through the assignment of work and therefore, the supervisor is aware of their employees' work location at all times. Adding a requirement for an additional documented approval on the VIF would not provide efficiency. Therefore, Recommendation #4 is considered No Longer Applicable.

Mileage Limitations/Geographic Boundaries

Original Recommendation #5:

Maintenance Department should work with the HR Department to incorporate mileage limitations and/or geographic boundaries (i.e. out-of-state) for Agency vehicles in updated Agency policies.

Status: No Longer Applicable

In the original audit, IA found that mileage restrictions and/or geographic boundaries are not identified or restricted in any of the existing/current Agency policies. Thus, there is no clear outline of how far an employee may or may not drive an Agency vehicle. IA recommended staff consider the need to strengthen controls and provide clear/defined mileage restrictions and/or geographic boundaries for the use of Agency vehicles to ensure consistency in use and require additional approvals when those would be exceeded.

For the 2018 follow-up review, IA identified reservations where a vehicle was driven 40 miles or more each way as discussed above. Of approximately 1,200 reservations during the 15-month period from July 2017 to September 2018, a total of 16 were for a vehicle driven between 40 and 350 miles each way, including driving to Orange County, San Diego and Modesto.

As discussed above, Facilities Management stated that supervisors assign work locations, meetings and training. Therefore, it is the responsibility of the manager/supervisor to know and understand where their employees are working at all times. For this reason, no additional controls will be incorporated into the policy at this time. IA considers this recommendation to be No Longer Applicable.

Vehicle Information Form (VIF)

Original Recommendation #6:

Evaluate the overall purpose of the VIF, to determine what elements are necessary to be reported by employees after use of an Agency vehicle, as well as determine what elements to hold the employee accountable for. Additionally, fewer incomplete forms may be returned if wording is revised to require only exceptions (an example might be: "Indicate damage to vehicle, if any").

Status: Implemented

During the 2014 audit, IA noted:

- VIF's were found to be incomplete, had missing information and were not approved, but the forms were accepted by the receptionist upon vehicle check in.
- Two vehicles were checked out by the same employee for the same time-frame, but the VIF's were missing and not provided for review.

Properly completing a VIF documents who last drove a vehicle and what condition it was taken and returned in. The VIF is used to document information related to anything unique/extraordinary that would require immediate attention (maintenance, service, cleaning, etc.). After the 2014 audit, minor updates were made to the VIF. Facilities Management continues to evaluate and update the form as necessary to ensure it captures needed information for their scheduling of preventive maintenance. For example, Facilities Management plans to update the VIF to remind staff to check if the vehicle is plugged into the electric vehicle charging station (applicable to five Hybrid pool vehicles). Therefore, this recommendation is considered Implemented.

Original Recommendation #7:

Determine the need to require that the VIF include an area for the employee's direct supervisor/manager to approve and sign, specifically acknowledging where the vehicle will be used and permitting the use of the Agency vehicle, prior to checking out the vehicle as an added control and accountability measure for the vehicle and the employee.

Status: Implemented

As noted, Facilities Management determined that this added control would not provide added benefit because it is ultimately up to the supervisor to know and understand where their employees are; therefore, no additional approval will be required on the VIF before a pool vehicle is checked out to an employee. IA determined that if a supervisor becomes aware of a problem, the respective manager/supervisor would take the appropriate action. The recommendation is considered No Longer Applicable.

Original Recommendation #8:

Ensure the recipients of the VIF (currently, the receptionists) no longer accept incomplete VIF forms from an employee upon the return of the vehicle to Headquarters. The receptionist should return the form to the employee and request they fill out the VIF completely before checking-in the vehicle.

Status: Implemented

The 2014 audit found VIF sheets that were incomplete, had missing information and were not approved, but the forms had been accepted by the receptionist at vehicle check-in.

During the 2018 follow-up review, IA noted the information collected on the VIF includes: employee name and number, date, department name, beginning and ending odometer reading, total miles driven, destination(s), vehicle inspection (damage noted), club attached, windows closed, doors locked, transponder returned, fuel (no fuel needed or refueled, and related fields), receptionist comments and initials.

IA examined 58 VIF's, from October 1st to 18th, 2018, and noted inconsistencies in the way the forms had been completed especially in instances where the item appeared to be not applicable. Responses varied from the item being initialed, to being left blank or to being marked "n/a". Based on IA's review, it was unclear whether the completed

responses on the VIF provide useful information to Facilities Management; however, Facilities Management stated that the VIF form serves only as a secondary control and all the information submitted is adequate for their use. Additionally, Facilities Management stated that they hope to transition to modern technology using an On-board diagnostics system where they can review vehicle diagnostics, mileage, usage, and other useful information remotely and real-time.

As noted above in the report, the VIF was revised and will continue to be in use; therefore, IA provides the following “soft recommendation” for consideration as Facilities Management transitions and migrates to other systems and/or platforms and implements additional controls. Recommendation is considered Implemented.

Facilities Management should continuously evaluate and consider the purpose of the VIF and determine what information should be recorded and whether a specific response is necessary. To ensure the appropriate information is obtained on the VIF, options to consider are specific instructions for completion, examples where responses are necessary, and/or boxes to check such as: “Yes”, “No” and “N/A” (with space for additional information, if necessary). Consider anything that will provide the needed information for the intended purpose of the VIF.

Voyager Fuel Card

Original Recommendation #9:

Maintenance Department should continue to work with “Voyager Fleet Systems” and U.S. Bank to review the card issuer’s reporting capabilities, in order to develop the reports needed with the appropriate inputs (e.g. odometer readings, date of purchase, amount, credit card number, cardholder name, number of gallons purchased at point-of-sale) so that the Agency can perform a thorough analysis of fuel consumption monthly.

Status: Deferred to Voyager Fuel Card Audit

According to the Fiscal Year 2018/19 Board-approved Annual Audit Plan, IA plans to complete an assessment of the Agency’s Fuel Card Program. IA will report on this recommendation under a separate cover and report.

Policies – Washing Agency Vehicles

Original Recommendation #10:

Maintenance Department should develop one policy or update the existing policy (ies) to outline the proper procedures for washing Agency vehicles.

Status: Restated – See 2018 Recommendation #1

In the 2014 audit, IA identified two policies (A-14 and A-34) and one department-specific SOP (CAP – GSP 99007) regarding vehicle washing procedures. The policies and SOP provide different and/or vague instructions for washing an Agency vehicle. Having

outdated or conflicting procedures does not provide clear direction to employees. As noted earlier in this report, Facilities Management is already reviewing all Agency policies related to the fleet vehicles; therefore the 2014 recommendation has been restated as 2018 Recommendation #1.

Vehicles Inspections & Safety-related Items

Original Recommendation #11:

Maintenance Department should perform a routine inventory as well as regular safety/maintenance inspections for all Agency vehicles at least annually. Physical inventories will verify the existence and operational condition of the vehicles, while routine inspections will evaluate necessary safety and emergency equipment is available. Issues identified should be addressed and corrected timely. Specifically, items required for safety reasons such as fire extinguishers, insurance information and accident instructions, etc. should be current and readily available in the vehicle. Documented maintenance and safety inspection results should be retained and placed in the vehicle's file as evidence of examination.

Status: Restated – See 2018 Recommendation #2

The 2014 audit found that vehicle and safety inspections were not performed consistently. This could result in non-compliance with Agency policies and requirements or other safety risks and concerns.

For the 2018 follow-up audit, IA and Safety personnel performed a physical observation of 16 vehicles. The inspections included an evaluation of compliance with existing Agency policies, the exterior and interior of the vehicles and review of safety-related items, such as, vehicle security, working seatbelts, tires, windshields, scratches, condition of the first-aid kit, status of the fire extinguisher (if applicable), and review of the documentation maintained in the glove compartment, etc. See table on the next page for the results of the inspections.

The results of the Vehicle Inspections are as follows:

Observations	Number of Vehicles	Issues
Vehicles left unattended and unlocked	5	<ul style="list-style-type: none"> 4 left unattended and unlocked 1 left unattended, unlocked, and keys left in the ignition
Vehicle not safe to operate or neglected	1	Passenger rear tire needed air. Dashboard noted low tire pressure and oil change required.
Agency Logo and/or Vehicle Number is not recognizable because it is peeling off	4	<ul style="list-style-type: none"> 2 Logos were peeling off 1 Vehicle number was peeling off 1 Logo was damaged
No Vehicle Number on the exterior of the vehicle	1	Did not have an assigned Agency vehicle number, identified for inspection using the license plate number
Use of the CLUB	8	CLUB was not securely in place at the time of inspection and/or vehicle does not have a CLUB
Interior of Vehicle – Unacceptable	1	Ripped seat, potential safety hazard (See Attachment 2)
Vehicles did not have necessary and/or up-to-date information	1	Did not have an owner's manual
	1	Did not have the DMV Registration
	16	15 had expired insurance cards, while 1 had no insurance information
	10	5 Vehicles had outdated Emergency Road Services information and 5 vehicles had no information at all.
Safety Equipment	6	3 had an expired Fire Extinguisher and 3 did not have a Fire Extinguisher
	15	First Aid Kit: <ul style="list-style-type: none"> 12 had a first aid kit, but had all expired items 2 had a first aid kit, but could not verify contents 1 unable to verify
Additional findings: Safety Equipment	Multiple	<p><u>Squeegee</u>: 11 missing, 2 unable to verify, and 3 have one, but 1 squeegee still required assembled.</p> <p><u>Gas Can</u>: 8 missing, 2 unable to verify</p> <p><u>Gloves (Work and/or Disposable)</u>: 3 do not have any, 1 unable to verify, and 12 have them, but 3 were in poor condition.</p> <p><u>CPR 2000</u>: 6 missing, 3 unable to verify, and 7 had expired.</p> <p><u>Flash Light</u>: 4 missing, 3 unable to verify, and 4 were not in working condition.</p> <p><u>Triangle Flare Kit</u>: 6 missing, 2 unable to verify, 1 noted not needed because it is unaccompanied by the Safety van, 3 only had either the flares or triangle but not both.</p>

Facilities Management stated that the department is in the process of scheduling routine vehicle inspections, beginning in Fiscal Year 2018/19. The department plans to inspect 25% of the vehicles each quarter, 100% each year. Facilities Management also noted that they will coordinate with Safety for an annual mutual inspection of the Agency's vehicles. As of the date of this report, Facilities Management had recently completed their first inspections. The 2014 recommendation has been restated as 2018 Recommendation #2.

2018 Recommendation #2:

Facilities Management should perform regular vehicle inspections on all Agency vehicles. Vehicle inspections should evaluate the overall operational condition of the vehicle and determine whether all safety-related items are current and operational, such as the first aid kit, fire extinguisher, glove compartment contents, flashlight, etc. Inspections should be documented. Additionally, employees should be reminded of their responsibilities for vehicle maintenance through training and/or policy updates.

Vehicle – Agency Logo/Bumper Sticker

Original Recommendation #12:

Maintenance Department should consider including a vehicle bumper sticker on all Agency vehicles that display the Agency's logo and a hotline or contact phone number where issues may be reported by any member of the public.

Status: Implemented

The original audit noted that the Agency name/logo sticker on several vehicles was unreadable and peeling off, along with not having a visible contact number to call and report problems/concerns. Pool and assigned vehicles now have the new Agency's logo located on the driver and/or passenger door of the vehicle. There are a few vehicles that are in the process of being updated/replaced, Facilities Management staff indicated that the new logo will be added. Since the Agency's logo has been placed on vehicles, and any individual from the public can research and locate the contact information having the Agency's full name from the logo, this recommendation is considered Implemented.

Reconciliations of Mileage Report to Agency's Financial System

Original Recommendation #13:

Periodic reconciliations for fleet (vehicles and equipment) should be performed by the Maintenance Department between any report(s) or system databases that are utilized by management to ensure accuracy when reporting fleet information and making decisions regarding fleet.

Status: Restated – See 2018 Recommendation #3

The original audit identified:

- Vehicles and equipment listed in the Agency's financial system (SAP) that did not reconcile with the Mileage report (used by the Maintenance Department for inventory purposes).
- Vehicle data in the Mileage report was not always complete with VIN # and license plate # information, making it difficult to identify an Agency vehicle.

Regular reconciliations and complete information in reporting ensure vehicles are accounted for and complete.

Vehicle information is currently maintained in an excel spreadsheet and the Geographic Information Systems (GIS) software (called the Fleet Inventory Database). IA found that reconciliations are not being performed between Facilities Management's records and the Agency's accounting records, SAP for the Agency's vehicles. Facilities Management ensures appropriate forms are completed and coordinated through Agency departments for new vehicle purchases and disposals.

IA compared the list of vehicles provided by Facilities Management to the asset listing retained in the Agency's financial system (SAP), and vice versa for the 2018 follow-up audit. IA noted:

Vehicles listed in Facilities Management's records that could not be identified in SAP:

Number	Vehicle Number	Description	License Plate	VIN or Serial #
1	9901	SD Chevy Lumina	1031003	2G1WL52M2X9175549
2	0001	SD Ford Taurus	1023418	1FAFP5220YA238878
3	0409	PU Ford F250 Shell Lightbar	1175270	3FTNF20L63MB40100
4	0420	PU F150X Cab 4x4	1192074	1FTRX14W44NC44931
5	0612	PU Ford F150 X-Cab	1202996	1FTRX12WX6KD28761
6	0613	PU Ford F150 X-Cab	1202997	1FTRX12W16KD28762
7	0702	SD Chevy Malibu LS	1256940	1G1ZS58N07F175234
8	0703	SD Chevy Malibu LS	1256939	1G1ZS58NX7F174298
9	0205	PU Chev 2500 Reg Cab Toolbox	1124371	1GCHC24U82E110819
10	0501	PU F150XCab 4X2	1183225	1FTRX12W15NA89050

Source: Facilities Management records traced to SAP.

Vehicles listed in SAP that could not be identified in Facilities Management's records:

Number	Asset	Make/Model	Vendor Part #	Serial Number	Invent. no	Asset Description
1	700002	GEM Electric	Chrysler Gem Electric	None	04CP04006	GEM Electric Vehicle
2	700025	None	None	5ASAG47411F0154	04OA03007	2001 ELECTRIC VEHICLE
3	700035	RAM 1500 4X4	RAM 1500 4X4	1B7HF16Y71S2322	02PA01006/02	RP1-2001 DODGE RAM 1500 4X4 P
4	700064	None	Ford	None	04PA04004/07	FORD TRUCK
5	700095	None	None	None	PA07015	PURCHASE VEHICLES
6	700098	None	None	None	EC08003.00	Collections Group Water Truck

Source: SAP (Vehicle Fixed Asset List) traced to Facilities Management's records.

Same vehicle in both records, but the VIN or Serial# in SAP was different:

Source:	Number	Description	License Plate	VIN or Serial#
Facilities Management	Vehicle # 1402	2014 Camera Van	1156352	1FDXE4FS9EDA91703 ⁽¹⁾
SAP	Asset # 700122	RP4 Ford E-450 CCTV Camera Video Inspection Van	None	1FDXE4F89EDA91703

(1) As a result of IA's review, the typo in the VIN or Serial # for this Vehicle #1402 has been corrected in the Agency's financial system, SAP.

Based on IA's review, regular reconciliations are not performed on Agency vehicles. Good business practices dictate that periodic reconciliations should be performed to ensure the accuracy, reliability, and completeness of information. Facilities Management should consider adding procedures to ascertain the list of vehicles and any other necessary information in the Agency's financial system. Since vehicle data is still inconsistent between different Agency records, the 2014 recommendation has been restated as 2018 Recommendation #3.

2018 Recommendation #3:

Facilities Management should work with Finance and Accounting to ensure periodic reconciliations of vehicle records are performed between Agency recordkeeping systems, reports and/or databases, such as SAP (financial system), GIS, etc.

Facilities Management indicated that with all the new current vehicle purchases, all the related and required vehicle documents and forms were submitted showing VIN's, license plate numbers, models, year of vehicle and other identifying information. It is with older vehicles that information either did not migrate completely from the old accounting system to the new accounting system or there was a miscommunication and miscoordination of the needed documents.

Facilities Management also indicated that they agree it would be good business practice to periodically reconcile both vehicle records to ensure accuracy and accountability. To assist with the reconciliations and tracking of the Agency vehicles, Facilities Management is currently looking into acquiring the On-Board Diagnostic systems to be in line with the Fleet Industry standards.

Facilities Management plans to work with Finance and Accounting to trace all the vehicles identified and to ensure they are on both systems.

Attachment 1

Status of Outstanding Recommendations: Review of Vehicle Inventory Procedures, dated March 12, 2014

Rec #	Recommendations	Implemented	Restated	No Longer Applicable	Deferred to the Voyager Fuel Card audit
1	Maintenance Department and the HR Department should work together to develop and/or consolidate into one updated policy, proper procedures for refueling Agency vehicles in order to streamline processes and clearly define the procedures for refueling Agency vehicles. Specifically, the policy should include: payment method, when to fuel, and specify if the requirement applies to assigned, pool or all vehicles.		X		
2	Update Agency Policy A-86, "Refueling Agency Vehicles" to include a clear definition of a "pool" versus an "assigned" vehicle and these definitions should be carried across all Agency policies that relate to Agency vehicle procedures.		X		
3	Revise Agency Policy A-86 to specifically address how Voyager fuel cards for Agency "pool" vehicles will be issued and used by employees in order to establish separate guidelines for Agency "pool" vehicles.		X		
4	Maintenance Department should work with Business Information Systems (BIS) to develop an online/electronic "vehicle reservation and approval process". Approval should be obtained through the online/electronic process by either the employee's supervisor or manager. If the travel in an Agency "pool" vehicle will be for the calendar day only, online/electronic approval obtained from the employee's direct supervisor is sufficient. If travel utilizing an Agency "pool" vehicle will be overnight or several nights, or outside the service area, the employee should obtain online approval from the responsible manager and/or a member of Executive Management.			X	
5	Maintenance Department should work with the HR Department to incorporate mileage limitations and/or geographic boundaries (i.e. out-of-state) for Agency vehicles in updated Agency policies.			X	
6	Evaluate the overall purpose of the VIF, to determine what elements are necessary to be reported by employees after use of an Agency vehicle, as well as determine what elements to hold the employee accountable for. Additionally, fewer incomplete forms may be returned if wording is revised to require only exceptions (an example might be: "Indicate damage to vehicle, if any").	X			
7	Determine the need to require that the VIF include an area for the employee's direct supervisor/manager to approve and sign, specifically acknowledging where the vehicle will be used and permitting the use of the Agency vehicle, prior to checking out the vehicle as an added control and accountability measure for the vehicle and the employee.	X			
8	Ensure the recipients of the VIF (currently, the receptionists) no longer accept incomplete VIF forms from an employee upon the return of the vehicle to Headquarters. The receptionist should return the form to the employee and request they fill out the VIF completely before checking-in the vehicle.	X			
9	Maintenance Department should continue to work with "Voyager Fleet Systems" and U.S. Bank to review the card issuer's reporting capabilities, in order to develop the reports needed with the appropriate inputs (e.g. odometer readings, date of purchase, amount, credit card number, cardholder name, number of gallons purchased at point-of-sale) so that the Agency can perform a thorough analysis of fuel consumption monthly.				X
10	Maintenance Department should develop one policy or update the existing policy (ies) to outline the proper procedures for washing Agency vehicles.		X		
11	Maintenance Department should perform a routine inventory as well as regular safety/maintenance inspections for all Agency vehicles at least annually. Physical inventories will verify the existence and operational condition of the vehicles, while routine inspections will evaluate necessary safety and emergency equipment is available. Issues identified should be addressed and corrected timely. Specifically, items required for safety reasons such as fire extinguishers, insurance information and accident instructions, etc. should be current and readily available in the vehicle. Documented maintenance and safety inspection results should be retained and placed in the vehicle's file as evidence of examination.		X		
12	Maintenance Department should consider including a vehicle bumper sticker on all Agency vehicles that display the Agency's logo and a hotline or contact phone number where issues may be reported by any member of the public.	X			
13	Periodic reconciliations for fleet (vehicles and equipment) should be performed by the Maintenance Department between any report(s) or system databases that are utilized by management to ensure accuracy when reporting fleet information and making decisions regarding fleet.		X		
Totals		4	6	2	1

Attachment 2

**Agency Vehicle Operational Follow-Up Audit
2018 Recommendations**

Rec #	Recommendations
1	Facilities Management should continue to work with the appropriate departments to make necessary updates, and/or consolidate Agency policies and procedures for Agency vehicles and ensure the revised policy(ies) address refueling and washing procedures, security, safety items, insurance, license requirements, etc. The new and final policy should be approved by Executive Management and made available to all Agency employees for their reference.
2	Facilities Management should perform regular vehicle inspections on all Agency vehicles. Vehicle inspections should evaluate the overall operational condition of the vehicle and determine whether all safety-related items are current and operational, such as the first aid kit, fire extinguisher, glove compartment contents, flashlight, etc. Inspections should be documented. Additionally, employees should be reminded of their responsibilities for vehicle maintenance through training and/or policy updates.
3	Facilities Management should work with Finance and Accounting to ensure periodic reconciliations of vehicle records are performed between Agency recordkeeping systems, reports and/or databases, such as SAP (financial system), GIS, etc.

Agency Vehicle Operational Follow-Up Audits



Teresa Velarde, Manager of Internal Audit
December 2018

Review of Vehicle Inventory Procedures

- Audit Scope
- Original Audit Results
- Agency Fleet
- Fleet Management

Original Recommendations & Follow-Up Observations

- Policies & Procedures
- Fueling procedures, washing, security, safety items, insurance documents, incident information and procedures
- Fleet Reservation System & check out procedures
- Out of area travel with Agency vehicle
- Vehicle inspections & maintenance checks

Audit Recommendations

2018 Recommendations:

- 1. Facilities Management should continue to work the appropriate departments to make necessary updates, and/or consolidate Agency policies and procedures for Agency vehicles and ensure the revised policy(ies) address refueling and washing procedures, security, safety items, insurance, license requirements, etc. The new and final policy should be approved by Executive Management and made available to all Agency employees for their reference.*
- 2. Facilities Management should perform regular vehicle inspections on all Agency vehicles. Vehicle inspections should evaluate the overall operational condition of the vehicle and determine whether all safety-related items are current and operational, such as the first aid kit, fire extinguisher, glove compartment contents, flashlight, etc. Inspections should be documented. Additionally, employees should be reminded of their responsibilities for vehicle maintenance through training and/or policy updates.*
- 3. Facilities Management should work with Finance and Accounting to ensure periodic reconciliations of vehicle records are performed between Agency recordkeeping systems, reports, and/or databases, such as SAP (financial system), GIS, etc.*



Questions & Discussion

The Agency Vehicle Operational Follow-Up audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that the recommendations provided foster a strong control environment, safeguard assets, provide a safe work environment and assist management in achieving organizational goals and objectives.

Audit Committee

INFORMATION
ITEM
2B

Date: December 19, 2018

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit



Subject: Water Connection Fees Audit - Interim Audit Report

Executive Summary:

Internal Audit (IA) is in the process of completing an audit of water connection fees for the period from January 1, 2016 (inception) to June 30, 2018. The objective of the audit is to:

- Ensure adequate internal controls are in place
- Determine compliance with the Agency's Ordinance and Resolution, and Agency policies
- Evaluate the collection and recognition of revenue
- Identify opportunities for improvements for the effectiveness of fee collections

During this preliminary review, IA has observed the following:

- Revenues reported, since January 1, 2016 total \$14,304,223
- Various reports that record connection fees should be reconciled periodically
- Planning should finalize Standard Operating Procedures to provide guidance of processes
- The Agency should evaluate pursuing collection of delinquent fees through property taxes
- Planning should continue to work closely with all member agencies and the water district to ensure all information about water connections is communicated timely
- Staff should continue to work to determine a methodology to compare and reconcile wastewater connections to water connections.

This is an Interim Audit Report. A final report will be presented in March 2019.

Staff's Recommendation:

This is an information item.

Budget Impact *Budgeted (Y/N):* N *Amendment (Y/N):* N *Amount for Requested Approval:*

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On June 20, 2018, the Board approved the Fiscal Year 2018/19 Annual Audit Plan. The Water Connection Fees Audit was scheduled in the Annual Audit Plan. The timetable was advanced due to Audit Committee request.

Environmental Determination:

Not Applicable

Business Goal:

The Water Connection Fees Audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by ensuring that IA's evaluations provide recommendations for improving and safeguarding the Agency's fiscal health, promoting a strong control environment and assisting management in achieving organizational goals.

Attachments:

Attachment 1 - Water Connection Fees Interim Audit Report
Attachment 2 - PowerPoint



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

6075 Kimball Ave. • Chino, CA 91708
P.O. Box 9020 • Chino, Hills, CA 91709
TEL (909) 993-1600 • FAX (909) 597-8875
www.ieua.org

DATE: November 29, 2018

TO: Halla Razak
General Manager

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Water Connection Fees Audit – Interim Audit Report

This is an Interim Audit Report of the Water Connection Fees Audit for review and discussion. Internal Audit (IA) continues to work with staff to complete the audit procedures and finalize audit observations and recommendations. IA intends to present a final report at the March 2019 Audit Committee meeting.

Audit Objective:

Under the authority given by the IEUA Board of Directors and the Fiscal Year 2018/19 Annual Audit Plan and as requested by the Audit Committee, IA is finalizing the audit of water connection fees. The purpose of the audit is to:

- Ensure adequate internal controls are in place
- Determine compliance with the Agency’s Ordinance and Resolution
- Evaluate the collection and recognition of revenue
- Determine whether there are procedures to reconcile fees collected
- Determine compliance with Agency policies and procedures
- Identify opportunities for improvements for the effectiveness of fee collections

Background:

Beginning on January 1, 2016, the Agency began collecting fees for water connections as documented in the Board approved Ordinance. According to the Agency’s Ordinance, *“The water connection fees shall be established and collected by IEUA in order to proportionally recover the costs to create regional supplies that are available to meet the water demands of future development.”* Water connection fee transactions are collected and processed by the Planning and Environmental Resources Department (Planning) and recorded in the Agency’s records by the Finance and Accounting Department (FAD).

Water Connection Fees as Reported on the CAFR				
Fiscal Year	2015/16	2016/17	2017/18*^{draft}	TOTAL
Amount	\$997,010	\$5,414,935	\$7,889,278	\$14,301,223

Water Smart – Thinking in Terms of Tomorrow

Audit Steps Completed and Preliminary Observations:

- IA observed several transactions with Planning staff, to evaluate the fee collection process, internal controls and recording of the transactions.
- IA obtained “crystal” reports from the Building Activity Tracking database, developed by the Business Information Systems Department (BIS) created for Planning staff to record water connection fee receipts. IA also obtained reports generated from the Agency’s financial system, SAP, to evaluate financial transactions recorded in the Agency’s accounting records. IA compared the transactions in both reports, additionally compared to the information recorded in the manual cash receipts journal maintained at the front desk by the receptionist who log all checks received. IA noted differences that should be resolved with periodic reconciliations and communication among the three areas.

The comparisons noted that IEUA has collected over \$14 million in water connection fees during the first 2 ½ years of implementation. During that period, the “crystal” reports show a difference of \$60,689 more than the SAP reports. The difference totals less than one-half of one percent of the funds collected. Differences are related to various reasons that are being evaluated, also due to collections on July 3, 2018 that were not included in the 2017-18 fiscal year for financial reporting.

Additional Audit Procedures to be Performed:

- IA is working with Planning and FAD to identify the reasons for the differences noted between the various reports for water connection fees. Staff is working on preparing reconciliations. IA will continue to work with Planning and FAD and review documentation of all reconciliations to determine their completeness, accuracy, the reasons for the reconciling items and how they have been mitigated and resolved going forward. A reconciliation will be completed by the final audit report date.
- IA will examine a sample of individual water connection fee transactions to determine whether the transactions are adequately supported with all required documentation and accurately recorded. Audit testing and verification will include observing the original source documentation from the developer and the member agency, the copy of the check, the deposit information and tracing the cash receipt to the relevant bank statement and the financial statements.

Potential Audit Recommendations Proposed and Discussed with staff

IA is working with staff to finalize the audit observations and recommendations:

- **Establish controls to ensure reconciliations are completed on a regular and timely basis:** Information about water connection fees is maintained in different sources and reports. Currently, reconciliations are not performed consistently and timely. Best practices require periodic reconciliations be completed so that any items that require attention are researched and resolved timely. The different recommended reconciliations include:

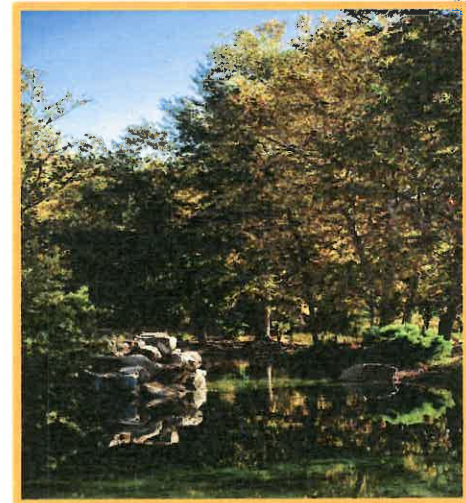
- Information in the Agency's building activity tracking database to information in SAP, the Agency's financial system (as described above), and
 - Water connection fees information in the Agency's building activity tracking database to the building permits and/or water meters that have been issued by member agencies and water districts, and
 - A potential automated tool comparing wastewater connections to water connections.
- **Updates to Agency Ordinance and Resolution:** Planning staff should propose updates to the water connection fee Ordinance and Resolution for Executive Management and the Board of Directors to consider and adopt. Planning staff already has suggestions to ensure the objective of the fees are met.
 - **Standard Operating Procedures (SOPs):** Planning should finalize SOPs related to connection fees and determine staffs responsibility for the various tasks and ensure that all tasks are performed on a timely basis. Planning indicated they are doing the best they can, given this is a new program among the many other responsibilities of staff. Collecting water connection fees and completing reconciliations has been a challenge with the resources of the department and hope additional resources are shifted for this program.
 - **Collection of delinquent fees through property tax rolls:** FAD and Planning should work to determine if the use of collection of delinquent fees through property tax should be pursued to collect delinquent fees, if deemed appropriate. Planning and FAD have written off fees because customers do not pay the related fees. Both departments have discussed the possibility of pursuing delinquent fees through property tax bills.
 - **Completeness of fees:** The Agency should pursue all possible approaches, including establishing contracts so as to ensure fees are complete and collected, including working with the related contracting agencies ultimately responsible for issuing building permits.

The Water Connection Fees Audit Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Acknowledgements

Internal Audit would like to extend our appreciation to the Planning and Environmental Resources and Finance and Accounting departments' staff for their cooperation and assistance during this review.

Water Connection Fees Audit Interim Report



Water Connection Fees Revenues to the Agency

Fiscal Year	2015/16	2016/17	2017/18	TOTAL
Amount	\$997,010	\$5,414,935	\$7,889,278	\$14,301,223

Water Connection Fee Rates

Meter Size of Connection	Fiscal Year & Effective Date					
	2015/16	2016/17		2017/18	2018/19	2019/20
	1/1/2016	7/1/2016	1/1/2017	7/1/2017	7/1/2018	7/1/2019
5/8"	\$693	\$693	\$1,455	\$1,527	\$1,604	\$1,684
3/4"	\$693	\$693	\$1,455	\$1,527	\$1,604	\$1,684
1"	\$1,733	\$1,733	\$3,638	\$3,818	\$4,011	\$4,211
1.5"	\$3,465	\$3,465	\$7,275	\$7,635	\$8,020	\$8,420
2"	\$5,544	\$5,544	\$11,640	\$12,216	\$12,832	\$13,472
3"	\$12,128	\$12,128	\$25,463	\$26,723	\$28,071	\$29,471
4"	\$21,830	\$21,830	\$45,833	\$48,101	\$50,527	\$53,047
6"	\$48,510	\$48,510	\$101,850	\$106,890	\$112,280	\$117,880
8"	\$83,160	\$83,160	\$174,600	\$183,240	\$192,480	\$202,080
10"	\$103,950	\$103,950	\$218,250	\$229,050	\$240,600	\$252,600
12"	\$121,275	\$121,275	\$254,625	\$267,225	\$280,700	\$294,700

RATES

The Agency's Board of Directors also approved Resolution No. 2015-5-6. The resolution provided a five-year rate schedule for fees based on the meter size of the water connection:

Water Connection Fee Audit

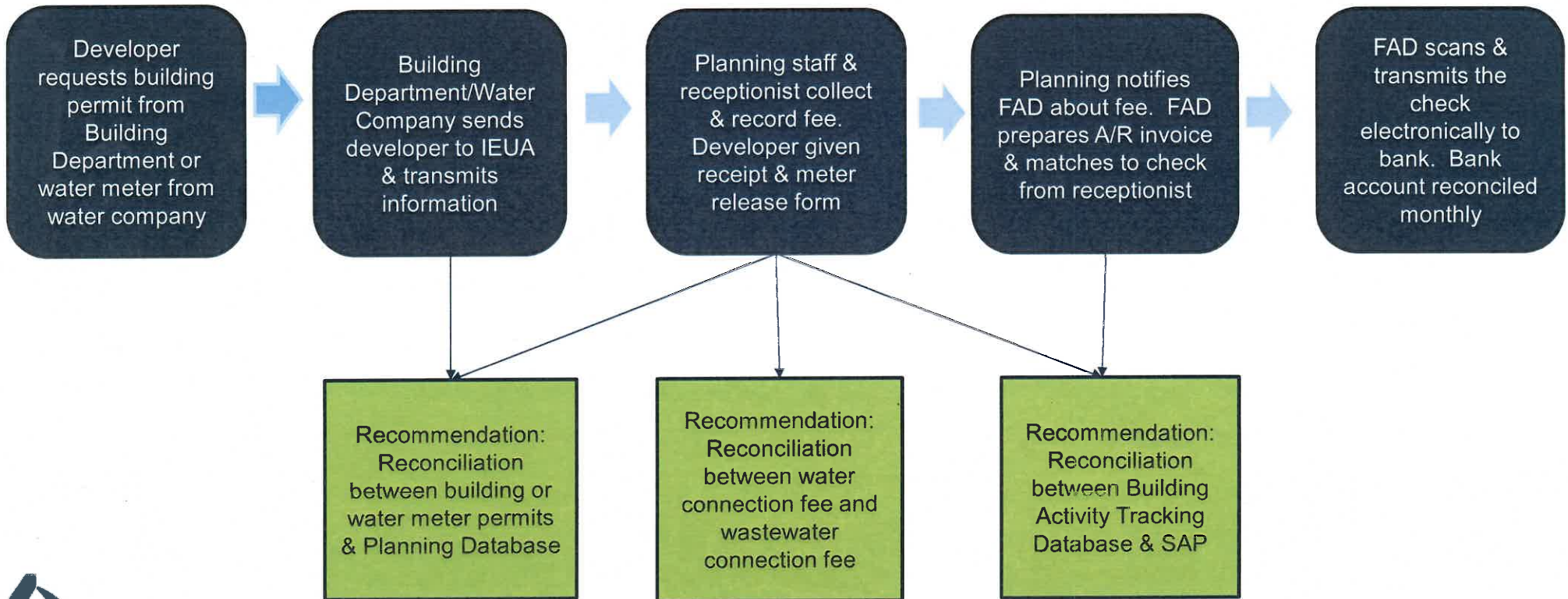
MEMBER AGENCIES

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

LOCAL WATER DISTRICTS

Fontana Water Company
Monte Vista Water District

INLAND EMPIRE UTILITIES AGENCY WATER CONNECTION FEE PROCESS FLOWCHART





Questions & Discussion



The Water Connection Fees audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that the recommendations provided foster a strong control environment, safeguard assets, provide a safe work environment and assist management in achieving organizational goals and objectives.

Audit Committee

INFORMATION
ITEM
2C

Date: December 19, 2018

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit



Subject: Contract Extension for Financial and Single Auditing services for IEUA and CBRFA

Executive Summary:

The Agency will exercise option one of two to extend the contract for Financial and Single Auditing services in the combined amount of \$39,680 for one year through Fiscal Year 2018/19 (to December 31, 2019) with the external audit firm, Lance, Soll, and Lunghard, LLP (LSL), for Inland Empire Utilities Agency (IEUA) and Chino Basin Regional Financing Authority (CBRFA). LSL's fees: \$30,660 Financial audit and \$4,710 Single audit for IEUA and \$4,310 for CBRFA.

As required by IEUA's Fiscal Ordinance Number 102, a financial and single audit must be completed annually by an independent Certified Public Accountant. LSL has been the Agency's external audit firm since FY 2015/2016. The firm is located in Brea, CA and has two other offices located in California. LSL has been providing auditing services to governmental agencies for the last 85 years and employs approximately 115 employees, including 18 partners. The firm's representatives are involved in the public sector industry through professional memberships, associations, and committees. LSL is committed to providing excellent government audit services and meeting all the time lines. The professional services provided thus far by LSL have met the Agency's requirements.

Staff's Recommendation:

This is an information item for the Board of Directors.

Budget Impact *Budgeted* (Y/N): N *Amendment* (Y/N): N *Amount for Requested Approval:*

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On December 20, 2017, the Board reconfirmed the Audit Committee Charter that states it has the authority to recommend the auditing and consulting services for Board approval.

On March 16, 2016, the Board of Directors approved contract number 4600002079 for financial and single auditing services (IEUA) and 4600002081 for financial auditing services (CBRFA), each for three years with the option to extend two additional years (in single-year increments) with LSL.

Environmental Determination:

Not Applicable

Business Goal:

The Financial and Single Auditing services contract with LSL is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by following recommended practices for the procurement of such services to provide independent evaluations and oversight of the Agency financial statements.

Attachments:

Attachment 1 - Contract Amendment Number: 4600002079-001 for External Financial and Single Auditing Services

Attachment 2 - Contract Amendment Number: 4600002081-001 for Chino Basin Regional Financing Authority Financial Auditing Services



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

**CONTRACT AMENDMENT NUMBER: 4600002079-001
FOR
EXTERNAL FINANCIAL AND SINGLE AUDITING SERVICES**

AMENDMENT NUMBER ONE is made and entered into this ___ day of _____, 2018, by and between the Inland Empire Utilities Agency, a Municipal Water District, organized and existing in the County of San Bernardino under and by virtue of the laws of the State of California (hereinafter referred to as "IEUA" and "Agency") and Lance, Soll & Lunghard, LLP, of Brea, California (hereinafter referred to as "Consultant"), shall revise the Contract as follows:

REVISE SECTION 3. TERM, ADDING A PARAGRAPH, TO READ: With the execution of Contract Amendment Number 4600002079-001, the termination date of this Contract shall be extended to December 31, 2019; unless agreed to by both parties, reduced to writing, and amended in this Contract.

ALL OTHER PROVISIONS OF THIS CONTRACT REMAIN UNCHANGED

The parties hereto have mutually covenanted and agreed as per the above amendment item, and in doing so have caused this document to become incorporated into the Contract Documents.

INLAND EMPIRE UTILITIES AGENCY:
*A MUNICIPAL WATER DISTRICT


LANCE, SOLL & LUNGHARD, LLP:



Warren T. Green
Manager of Contracts and
Procurement

11-5-2018

(Date)



Deborah A. Harper
Partner

11/5/18

(Date)



Inland Empire Utilities Agency
 A MUNICIPAL WATER DISTRICT

CONTRACT AMENDMENT NUMBER: 4600002081-001
FOR
CHINO BASIN REGIONAL FINANCING AUTHORITY
FINANCIAL AUDITING SERVICES

AMENDMENT NUMBER ONE is made and entered into this ___ day of _____, 2018, by and between the Inland Empire Utilities Agency, a Municipal Water District, organized and existing in the County of San Bernardino under and by virtue of the laws of the State of California (hereinafter referred to as "IEUA" and "Agency") and Lance, Soll & Lunghard, LLP, of Brea, California (hereinafter referred to as "Consultant"), shall revise the Contract as follows:

REVISE SECTION 3, TERM, ADDING A PARAGRAPH, TO READ: With the execution of Contract Amendment Number 4600002081-001, the termination date of this Contract shall be extended to December 31, 2019; unless agreed to by both parties, reduced to writing, and amended in this Contract.

ALL OTHER PROVISIONS OF THIS CONTRACT REMAIN UNCHANGED

The parties hereto have mutually covenanted and agreed as per the above amendment item, and in doing so have caused this document to become incorporated into the Contract Documents.

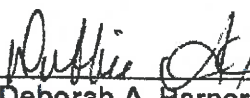
INLAND EMPIRE UTILITIES AGENCY:
 *A MUNICIPAL WATER DISTRICT

LANCE, SOLL & LUNGHARD, LLP:



 Warren T. Green
 Manager of Contracts and
 Procurement

11/5/2018
 (Date)



 Deborah A. Harper
 Partner

11/5/18
 (Date)

Audit Committee

INFORMATION
ITEM
2D

Date: December 19, 2018

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit



Subject: Contract Extension for Audit Advisory Services for the Audit Committee's Financial Advisor

Executive Summary:

The Audit Committee Charter states "The Audit Committee shall have access to at least one financial expert, an outside party with no voting rights, who will provide advisory and consulting duties and shall be compensated as agreed upon, in writing with the audit committee, the Board, Agency management and its designees." In 2018, Audit Committee members agreed that the services of the External Financial Advisor are consistent with best practices and considered a value to the Agency. The Audit Committee members provided direction to extend the consulting agreement for an additional calendar year. The contract falls within the approval authority of the General Manager for \$6,190 and extends the contract services through December 2019.

Since 2008, Mr. Travis C. Hickey, CPA has been the Audit Committee Financial Advisor. Mr. Hickey has provided accounting and auditing services to governmental agencies since 1997, including experience with water and wastewater activities. Mr. Hickey attends the Agency's Audit Committee Meetings and provides advisory services to both the Audit Committee and the Internal Audit Department to ensure their responsibilities, as outlined in the Board-approved Charters, are fulfilled. Mr. Hickey has gained extensive knowledge of the Agency's operations, and is a valuable asset to the organization.

Staff's Recommendation:

This is an information item for the Board of Directors.

Budget Impact Budgeted (Y/N): N Amendment (Y/N): N Amount for Requested Approval:

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On December 20, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Charters. The Audit Committee Charter describes the composition of the Audit Committee and includes the requirement to have an External Financial Audit Committee Advisor.

Environmental Determination:

Not Applicable

Business Goal:

The Contract for Audit Committee Financial Advisor services is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by ensuring that best practices as recommended by audit and accounting guidance are followed and the Board has a team of professionals to assist with fulfilling their oversight and governance responsibilities.

Attachments:

Attachment 1 - Contract Amendment Number 4600000886-007 for Audit Advisory Services



CONTRACT AMENDMENT NUMBER: 4600000886-007
FOR
AUDIT ADVISORY SERVICES

THIS AMENDMENT SIX is made and entered into this 19th day of November, 2018, by and between the Inland Empire Utilities Agency, a Municipal Water District, organized and existing in the County of San Bernardino under and by virtue of the laws of the State of California (hereinafter referred to interchangeably as "Agency" and "IEUA") and Rogers, Anderson, Malody & Scott LLP with offices located in San Bernardino, California (hereinafter referred to as "Consultant"), to provide audit advisory services and shall revise the Contract as amended:

REVISE SECTION 5, TERM TO READ AS FOLLOWS:

The term of this Contract shall extend from the date of Notice to Proceed and terminate on December 31, 2019, unless agreed to by both parties, reduced to writing, and amended to this Contract.


REVISE SECTION 6, PAYMENT, INVOICING AND COMPENSATION, TO ADD:

This amendment represents a net increase of \$6,190.00 for a maximum contract total of \$58,560.00 for all services provided throughout the Contract duration.

ALL OTHER PROVISIONS OF THIS CONTRACT REMAIN UNCHANGED.

WITNESSETH, that the parties hereto have mutually covenanted and agreed as per the above amendment item(s), and in doing so have caused this document to become incorporated into the Contract Documents.


INLAND EMPIRE UTILITIES AGENCY:



Warren T. Green
Manager of Contracts

11/19/18
(Date)

ROGERS, ANDERSON, MALODY & SCOTT LLP:



Terry Shea
Partner

10-30-18
(Date)

Audit Committee

INFORMATION

ITEM

2E

Date: December 19, 2018

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit



Subject: Internal Audit Department Quarterly Status Report for December 2018

Executive Summary:

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.

During this quarter, Internal Audit staff worked primarily on the Water Connection Fee audit, performed the last follow-up review of the 13 outstanding recommendations for the Agency Vehicle Operational audits, completed the quality control review of the Agency's Comprehensive Annual Financial Report, and had a primary participation role in evaluating the Agency's Sewer System Management Plan among other audit projects.

IA continues to assist with any requests for audit work, review of Agency policies and procedures and recommendations for internal controls as well as work on routine audit projects as specified in the Annual Audit Plan. The attached report provides highlights of the audit projects.

Staff's Recommendation:

This is an information item.

Budget Impact Budgeted (Y/N): N Amendment (Y/N): N Amount for Requested Approval:

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Full account coding (internal AP purposes only):

- - -
- - -

Project No.:

Prior Board Action:

On June 20, 2018, the Board of Directors approved the Fiscal Year 2018/19 Annual Audit Plan. The plan was in accordance with auditing standards and the Charter requirements.

On December 20, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

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 and audit services of Agency financial and operational activities and making recommendations for improvement, to promote a strong control environment, safeguarding assets and fiscal health and to assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Internal Audit Department Status Report for December 2018
Attachment 2 - Results of Internal Audit's Quality Control Review: Fiscal Year 2018
Comprehensive Annual Financial Report

Internal Audit Department Status Report for December 2018

Projects Completed This Period

Project: **Quality Control Review of the Comprehensive Annual Financial Report (CAFR) & coordination of the External Financial Audit**

Scope:

As required by the Agency's Fiscal Ordinance and State requirements, an Independent Certified Public Accountant should express an opinion on the fair presentation of the financial statements. Internal Audit performs a quality control review of the CAFR and provides comments for consideration.

Status: **Complete**

Lance, Soll & Lunghard, LLP (LSL), the Agency's external audit firm, completed final audit field work in September and has reviewed the financial statements and CAFR documents. Internal Audit (IA) coordinates with both Finance and Accounting and the External Auditors to review the financial statements and the CAFR. The role of IA is as an added level of quality control to double check totals, transfers of information and presentation. IA also reviews the requirements of the GFOA for the annual award and the disclosures required by the Agency's outstanding bonds.

IA's review includes a review of the trial balances for each fund, the individual fund statements, the combining/combined financial statements for fund groups (wastewater and nonmajor), Management's Discussion and Analysis (MD&A), the Introductory Section, the Basic Financial Statements and Notes, and the Statistical & Supplementary sections of the CAFR. IA applied the following procedures to conduct the quality control review of the CAFR:

- Reviewed the referencing of dollar amounts and totals among the narratives, notes and statements for math accuracy and consistency, and for overall professional presentation.
- Verified that the FY 2018 amounts and totals on the financial statements were transferred accurately from the FY 2018 Trial Balance.
- Verified that the FY 2017 amounts/totals for all financial statements were transferred accurately from the FY 2017 published CAFR to the FY 2018 CAFR.
- Recalculated the FY 2018 totals on all financial statements for mathematical accuracy.
- Checked titles and years to ensure updates were made for the years they correspond to.
- Reviewed narratives for completeness, spelling and grammatical accuracy.

IA compared the Continuing Disclosures required by the Agency's bond documents to the prior year (2017) CAFR for consistency and completeness and noted no exceptions.

IA also compared the 2018 CAFR information to the recommendations from GFOA from their review of the 2017 CAFR. IA noted that the GFOA had graded all 14 sections of the CAFR with a "proficient" rating. Their only comments were about the "covered payroll" amounts described in the "required supplementary information" about the Agency's pension liability. IA commented to FAD about ensuring that the "covered payroll" information be revised for all relevant prior years.

IA provided comments and recommendations to the Finance and Accounting department when items were identified for their review. The compilation of the CAFR is an Agency-wide team effort. Internal Audit's full report, with details of the CAFR review is included as an attachment.

Internal Audit Department Status Report for December 2018

Project: **Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures**

Scope:

IA completed a follow-up review to determine the status of 13 outstanding recommendations provided in the Vehicle Operational Audit Report - Review of Vehicle Inventory Procedures, completed in March 2014. The 13 recommendations reviewed are the responsibility of Facilities Management in the Operations and Maintenance Department.

Status: **Complete**

IA found that 4 recommendations have been implemented, 6 recommendations were restated into 3 new recommendations, 2 recommendations are no longer applicable, and 1 recommendation has been deferred to the Fuel Card (Voyager Card) audit to start in 2019.

IA noted that Facilities Management is in the process of:

- Reviewing and consolidating Agency's policies that relate to vehicles
- Implementing routine vehicle and safety inspections for vehicles, and
- Reconciling information in the department's records with SAP for accuracy and completeness.

Detailed observations and recommendations are included in the attached report.

Project: **Report on Outstanding Recommendations as of December 2018 ***

Scope: The Internal Audit Department Charter requires IA to follow-up on the status of outstanding recommendations to determine if corrective actions have been implemented. The follow-up reviews are scheduled through the Board-approved Annual Audit Plan. Executive Management supports the implementation efforts of the recommendations previously provided and/or the development of alternative controls to address the original risks identified.

Status: **Complete** - This is a status report of recommendations that are outstanding as of December 2018.

The table below provides the number of recommendations outstanding as of this Status Report. Additional details about each of the outstanding recommendations is submitted with the Annual Audit Plan in June each year. This summary provides an update on the status of follow up audits and the related outstanding recommendations. It includes new recommendations provided during this calendar year as well as considers any recommendations cleared during the year. Follow up reviews are part of the on-going monitoring activities IA performs according to the requirements of the IAD Charter. A follow up review is typically scheduled between 12 – 18 months from the date of the original audit, to allow time for full implementation. If a recommendation is deemed not to be implemented, the recommendation remains outstanding or alternate controls to mitigate any risks are evaluated to determine if the risk has been addressed and the recommendation is no longer applicable. A follow up review is also scheduled sooner, if requested by the Audit Committee or Executive Management. The audited business units are encouraged to submit additional information for IA review if they determine the recommendation has been satisfied.

Internal Audit Department Status Report for December 2018

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Payroll Audit	August 24, 2010	1	Annually
Intercompany Receivables - Watermaster	August 30, 2011	1	FY 2019
SCE Utility Payments	August 28, 2013	1	FY 2019
Accounts Payable Follow-Up	August 29, 2013	9	FY 2019
Vehicle Security Procedures	March 3, 2014	2	FY 2020
Vehicle Inventory Procedures *	March 12, 2014	13	FY 2019
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2020
Master Trade Contracts	September 1, 2016	6	FY 2020
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2020
Audit of Master Services Contracts	December 5, 2016	3	FY 2020
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2020
Water Use Efficiency Programs Audit	June 5, 2017	6	FY 2020
Contracts and Procurement Follow-Up Audit	August 30, 2017	1	FY 2020
Payroll Operations Audit	August 30, 2017	6	FY 2020
Procurement Card Audit	March 1, 2018	7	FY 2021
Wire Transfers Audit	March 1, 2018	5	FY 2021
Garden in Every School	May 31, 2018	7	FY 2022
Warehouse Annual Physical Inventory – IA Inventory Observation Report	August 22, 2018	4	FY 2022
Inter-fund Transactions Audit	August 30, 2018	3	FY 2022
Total Outstanding Audit Recommendations		90	
Recommendations related to the Regional Contract Review (these recommendations are planned for full implementation with the renegotiation of the Regional Contract IA will not follow up on these items until the renegotiation has been finalized)			
Regional Contract Review – Final Audit Report	December 16, 2015	31	Pending – Renegotiation of the Regional Contract

**Table above does not include the status of and/or any new recommendations resulting from the two audit projects completed during this quarter (as noted in this Status Report). The status of those recommendations will be added to this table once all items have been received by the Audit Committee and the Board of Directors.*

Project: Contract Extension for External Financial and Single Auditing services with Lance, Soll & Lunghard, LLP (LSL) for IEUA

Scope:

State law and IEUA's Fiscal Ordinance require that an annual financial audit be completed by an independent Certified Public Accountant (CPA) to ensure the accountability of the annual financial statements, to assess the effectiveness of internal controls and to determine compliance with laws and regulations. Lance, Soll and Lunghard, LLP (LSL) the Agency's external audit firm, has been engaged by IEUA for the last three fiscal years to complete the external financial audit and single audit of the Agency's operations.

Status: Complete

LSL has served as the Agency's external audit firm since FY 2015/16. The Agency will exercise option one of two to extend the contract for the external financial audit and single audit services for one year through Fiscal Year 2018/19. The Audit Committee is responsible for oversight of the audit services. The external auditors were at the Agency in September 2018 to perform final field work related to the FY 2017/18 CAFR and will present the results of the audit at the Audit Committee meeting scheduled for December 2018.

Internal Audit Department Status Report for December 2018

Project: **Contract Extension of Financial Auditing services with LSL for the Chino Basin Regional Financing Authority (CBRFA)**

Scope:

The CBRFA is required to have an annual financial audit performed by an independent CPA.

Status: **Complete**

LSL has served as IEUA's external audit firm since FY 2015/16. The Agency will exercise option one of two to extend the contract for external financial auditing services with LSL for one year through Fiscal Year 2018/19. The Audit Committee is responsible for oversight of the audit services. Results of the audit will be presented at the Audit committee meeting scheduled for December 2018.

Project: **Contract Extension of Audit Advisory Services for the Audit Committee Financial Advisor**

Scope:

Execute a contract extension with Rogers, Anderson, Malody & Scott, LLP for a one-year consultant agreement for Mr. Travis Hickey, CPA to serve as the Audit Committee's external financial expert. The Audit Committee Charter states that: "The Audit Committee shall have access to at least one financial expert, an outside party, who will provide advisory and consulting duties and shall be compensated as agreed upon in writing with the audit committee, the Board, Agency management and its designees." Additionally, the Audit Committee Charter requires the financial expert to possess education and experience in understanding generally accepted accounting principles and financial statements; auditing comparable entities; application of accounting principles for estimates, accruals, and reserves; internal controls; and an understanding of audit committee functions.

Status: **Complete**

In 2018, the Audit Committee Members determined that the services of the External Financial Expert were consistent with best practices and considered a valuable resource to the Agency. The Audit Committee Members provided direction to extend the consulting agreement for an additional calendar year. The contract falls within the approval authority of the General Manager for \$6,190 and extends the contract services through December 2019.

Project: **Amended Annual Audit Plan for Fiscal Year 2018/19**

Scope:

Annually, as required by the Internal Audit Department Charter, the Manager of IA must submit a flexible schedule of proposed audit projects for the fiscal year. When new/different projects take priority due to unforeseen changes or are warranted and deviations from the approved plan are necessary, a formal amendment must be submitted for Audit Committee and Board approval.

Due to the priority of the Sewer System Management Plan (SSMP) project, the Audit Plan has been amended to reflect the time and resources provided to this project, as explained in this Status Report.

Additionally, the Audit Plan has been updated to reflect that the Water Connection Fees Audit was accelerated and moved up as requested by the Audit Committee.

Status: **Complete**

An amended annual audit plan is submitted as part of the Audit Committee Agenda.

Internal Audit Department Status Report for December 2018

Project: **Audit Committee and Internal Audit Department Charter Updates**

Scope:

Review IAD Charter and Audit Committee Charter and make updates according to changes proposed by best practices and professional guidance.

Status: **Complete**

The purpose of the Audit Committee and the Internal Audit Department (IAD) Charters is to document the purpose, authority and responsibilities of each. A role of the IAD is to further ensure that the responsibilities of the Audit Committee are fulfilled. According to best practices, the authority of the IAD should be documented in a Charter to align the role of the department in a way to provide independent assurance and assistance to the Board and Executive Management in ensuring organizational goals are achieved. Best practices and both Charters require that IA completes a review of the Charters annually and makes necessary edits. No changes are proposed at this time. IA requests feedback from the Audit Committee and if any changes in the IAD scope of work, responsibilities and authority is requested, the changes will be made and the charters will be brought back for additional discussion, review and/or approval.

Projects in Process

Project: **Assisting with the audit and revision of IEUA's Sewer System Management Plan**

Scope:

Assist the Operations Division in completing the State-required 2-year audit and submit for Board-approval the revised 5-year SSMP. The SSMP is a state-required plan for any wastewater agency with at least 100 miles of wastewater infrastructure. The plan contains 13 required elements that must be readily available to provide training and serve as a manual/guide to the Agency's employees in the event of a Sewer overflow.

Status: **In Progress**

IA was asked to assist in the project to review, revise and update the Agency's 5-year SSMP that must be Board approved and submitted to the State. The review includes auditing to determine if goals and the elements within each of the 13 areas were satisfied and met. Additionally, to make needed revisions to bring the SSMP current to ensure it is a "living document". IA has assisted with evaluating the document, conducted interviews, researched information from other SSMPs and guides and provided recommendations, changes and edits to the current version. This document is planned for completion by April 2019. The next steps are finalizing and providing a workshop to the Board before requesting full approval.

Project: **Water Connection Fees Audit**

Scope:

To purpose of the audit is to:

- Ensure adequate internal controls are in place
- Determine compliance with the Agency's Ordinance and Resolution
- Determine compliance with Agency policies and procedures
- Evaluate the collection and recognition of revenue
- Determine whether there are procedures to reconcile fees collected
- Identify opportunities for improvement for the effectiveness of fee collections.

Status: **In Progress**
Interim Report Complete for review and discussion

Internal Audit Department Status Report for December 2018

The Planning and Environmental Resources Department (Planning) has responsibility for processing water connection fee transactions and the Finance and Accounting Department (FAD) has responsibility for ensuring the transactions are recorded in the Agency's records. The audit is finding areas for improvement and has a total of seven preliminary recommendations:

- Three related to preparing regular and timely reconciliations to ensure completeness of water connection fee revenues
- Additional recommendations related to:
 - Updating the Agency's water connection fee Ordinance and Resolution
 - Finalizing Standard Operating Procedures and/or Policies that provide guidance and details about the different activities involved in collecting water connection fees
 - Pursuing all avenues of collection of delinquent fees, including the County property tax system
 - Pursuing alternate sources of information about water connections from contracting agencies where water service is provided separately by a water district

Detailed observations and recommendations are included in the interim audit report, presented separately.

Planned/Future/Additional Projects

Project: **Fuel Card (Voyager Card) Program Audit**

Scope:

To evaluate the internal controls over the Voyager Fuel Card program to ensure it meets the requirements of the Agency's policies, and safeguards are in place to protect the Agency from loss, theft, misuse, or abuse and the program is used in the most effective manner. In addition, to determine whether the program meets the Agency's business goals and identify opportunities to improve the effectiveness and efficiency of operations.

Status: **Initial Research in Progress**

A final report is anticipated to be completed by March 2019.

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 provide 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 IA determines it has the necessary staff, skills and resources to provide the requested 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 assist with requests related to the findings and recommendations from the Regional Contract Review.
 - Continued to assist with policy language interpretation.
 - Participated in Safety Committee and IT Security Committee
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Internal Audit Department Status Report for December 2018

Project: Special Projects

Scope:

Perform special reviews and projects including analyzing transactions, evaluating documents and policies, verifying information, assisting with interpretation of Agency Policies or other required procedures, and providing recommendations and feedback on results of the analysis, engaging necessary assistance if and/or when necessary, reporting to the General Manager and the Audit Committee. These services are provided according to the IA and Audit Committee Charters, the Annual Audit Plan, and/or best practices.

Special Projects can be short or long-term projects, typically requiring more than 80 hours of staff time and requiring setting aside or delaying work on scheduled audit projects. The scope of the review is not generally known, and the work must be handled with the highest degree of confidentiality and care, as with all audit projects. Special Projects are usually considered highly confidential.

Internal Audit Department Staffing:

The Internal Audit Department is staffed as follows:

- 1 Full-time Manager of Internal Audit
- 2 Full-time Senior Internal Auditors

Internal Audit Staff Professional Development Activities:

As required by the *International Standards for the Professional Practice of Internal Auditing*, and the IA Charter, 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 and participation in free IIA sponsored, on-line webinars.

The Internal Audit Manager is a member of the governing board of the Inland Empire Chapter of the Institute of Internal Auditors (IIA). The governing board sets direction for the chapter.

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.

The Manager of IA has a Master's degree in Public Administration and has obtained the Certification in Control Self-Assessment® (CCSA®). The CCSA® certification program is designed for auditors that have knowledge of CCSA fundamentals, processes and other topics such as risk, controls, and business objectives. One Senior Auditor is a Certified Public Accountant (CPA). The Manager of IA and One Senior Auditor are Certified Government Audit Professionals (CGAP®). The CGAP® certification program is designed for auditors working in the public sector and demonstrates government knowledge and expertise.

Future Audit Committee Meetings:

- Monday, March 11, 2019 – Regularly Scheduled Audit Committee Meeting
 - Monday, June 10, 2019 – Regularly Scheduled Audit Committee Meeting
 - Monday, September 9, 2019 – Regularly Scheduled Audit Committee Meeting
 - Monday, December 9, 2019 – Regularly Scheduled Audit Committee Meeting
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Date: November 29, 2018

To: Christina Valencia, CFO/AGM
Javier Chagoyen-Lazaro, Manager of Finance and Accounting
Suresh Malkani, Principal Accountant

From: Teresa V. Velarde, Manager of Internal Audit *Teresa V. Velarde*
Peter Soelster, Senior Internal Auditor
Sapna Nangia, Senior Internal Auditor

Subject: Results of Internal Audit's Quality Control Review:
Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR)

The Internal Audit Department (IA) performs an annual quality control review of the Agency's Comprehensive Annual Financial Report (CAFR) prepared by the Finance and Accounting Department (FAD). IA's review is performed on "working draft" sections of the CAFR as FAD continues to finalize the information presented in the financial statements and the various sections of the CAFR. For the Fiscal Year (FY) 2018 CAFR, IA completed the initial review prior to the December 11, Audit Committee Meeting and provided comments, edits and recommendations to FAD for consideration prior to finalizing the CAFR. This memo documents IA's quality control review and provides a general summary of the results.

IA's review includes a review of the trial balances for each fund, the individual fund statements, Management's Discussion and Analysis (MD&A), the Introductory Section, the Financial Statements and Notes, the Required Supplementary Information and the Statistical sections of the CAFR. IA applied the following procedures to conduct the quality control review of the CAFR:

- Reviewed for math accuracy and consistency in the referencing of dollar amounts and totals among the narratives, notes and statements, and for overall professional presentation.
- Verified that the FY 2018 amounts and totals on the financial statements were transferred accurately from the FY 2018 Trial Balance.
- Verified the consistency of the amounts between the overall basic combining Financial Statements and combining Non-Major Financial Statements as compared to the individual fund financial statements
- Verified that the FY 2017 amounts/totals for all financial statements were transferred accurately from the FY 2017 published CAFR to the FY 2018 CAFR.
- Recalculated for mathematical accuracy the FY 2018 totals on all financial statements.
- Checked titles and years to ensure updates were made for the years they correspond to.

- Reviewed narratives for consistency, completeness, spelling and grammatical accuracy.

IA also reviewed the Continuing Disclosure Compliance Report for the outstanding bonds owed by IEUA and compared them to the prior year's disclosures.

Additionally, IA reviewed the comments made by the Government Finance Officers Association (GFOA) on the prior year (FY 2017) CAFR to determine whether those comments had been addressed in the current year (FY 2018) CAFR.

Criteria and Observations

IA did not perform tests of financial transactions, nor audit the accounts or any financial information and did not assess the reliability or accuracy of the information reported in the financial statements. The Agency relies on the professional work of the External Auditors, Lance, Soll and Lunghard, LLP (LSL), who are the Agency's Certified Public Accountants, contracted to provide reasonable assurance that the financial statements are free of material misstatement. The External Auditors and IA rely on Agency's management for the completeness and reliability of the information presented in the CAFR. Consistent with the requirements of the IA Charter and the Audit Committee Charter requirements, IA's review is intended to provide an additional level of quality control.

During IA's quality control review, observations that IA noted were promptly communicated to FAD staff for appropriate corrective action. IA did not verify that all comments/recommendations were addressed or incorporated because FAD continues to finalize the CAFR. The observations IA considered most significant and requiring attention prior to finalizing and publishing the CAFR (details have been provided to FAD under separate correspondence, additional copies can be requested from IA) are:

- Noted rounding differences and inconsistencies between the 2017 CAFR and the 2018 CAFR within the financials and the narratives.
- Noted rounding differences and inconsistencies between and among the schedules and in the narratives.
- Noted some presentation differences in the financial statements compared to the prior year.
- Provided edits, made various comments and recommendations to all sections.
- Noted instances where there were differences in amounts between different sections of the CAFR, for example among the schedules.
- Noted some mathematical errors, including percentage calculations.

Bond Disclosure Compliance Review

For the 2018 CAFR, IA compared the Continuing Disclosures to the prior year (2017) CAFR to ensure consistency. Since IA's 2017 (prior year) review was based on multiple sources of information including: The Appendix D information on Continuing Disclosures for the 2010A and 2017A Revenue Bonds, and a comparison to the IEUA prepared Supplemental Disclosure filing dated January 12, 2017, IA did not repeat that original research. IA also did not perform a complete review of the various entire bond documents to determine the completeness of the required disclosures provided.

IA's comparison of the 2018 Continuing Disclosures to those of the prior year for consistency and completeness noted no exceptions.

Government Finance Officers Association (GFOA) comments

IA noted that the GFOA provided grades for 14 separate sections of the Agency's CAFR and all sections had received a grade of "proficient". The GFOA's only comments on the FY 2017 CAFR were about the "Required Supplementary Information" section and which amounts the Agency had included for "covered payroll" in the disclosures about the Agency's pension liability. IA commented to FAD about ensuring that the "covered payroll" information be revised for all relevant prior years.

Conclusion

IA appreciates the opportunity to provide the quality control review of the draft FY 2018 CAFR and looks forward to the final version of the FY 2018 CAFR that will be presented for Board of Directors' approval on December 19, 2018. IA appreciates staff's cooperation during this review.

IA looks forward to receiving the final CAFR documents for IA's regulatory filing purposes.

Please contact any member of the Internal Audit Department if you have questions.