



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

**MONDAY, DECEMBER 9, 2019
9:00 A.M.**

CALL TO ORDER

PUBLIC COMMENT

Members of the public may address the Board on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) of Section 54954.2 of the Government Code. Those persons wishing to address the Board on any matter, whether or not it appears on the agenda, are requested to complete and submit to the Board Secretary a "Request to Speak" form, which 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 9, 2019.

B. IEUA FISCAL YEAR (FY) 2018/19 SINGLE AUDIT AND AUDITED COMPREHENSIVE ANNUAL FINANCIAL REPORT

Staff recommends that the Committee/Board:

1. Approve the Single Audit Report for fiscal year ended June 30, 2019;
2. Approve the Comprehensive Annual Financial Report for fiscal year ended June 30, 2019; and

3. 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. INTERNAL AUDIT DEPARTMENT CHARTER AND AUDIT COMMITTEE CHARTER

Staff recommends that the Committee/Board:

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

2. INFORMATION ITEMS

A. HUMAN RESOURCES AUDIT: HIRING AND PROMOTIONS OPERATIONS REVIEW (WRITTEN)

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

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

D. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR DECEMBER 2019 (WRITTEN)

3. AUDIT COMMITTEE ADVISOR COMMENTS

4. GENERAL MANAGER'S 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: 

DECLARATION OF POSTING

I, Sally H. Lee, 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 and to the IEUA Website at www.ieua.org on Thursday, December 5, 2019.



Sally H. Lee

Audit Committee

**ACTION
ITEM**

1A



**MINUTES
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
MONDAY, SEPTEMBER 9, 2019
9:00 A.M.**

COMMITTEE MEMBERS PRESENT

Steven J. Elie, Chair
Kati Parker

COMMITTEE MEMBERS ABSENT

None

STAFF PRESENT

Kathy Besser, Executive Manager of External Affairs & Policy Development/AGM
Christina Valencia, Executive Manager of Finance & Administration/AGM
Javier Chagoyen-Lazaro, Manager of Finance & Accounting
Sally Lee, Executive Assistant
Sapna Nangia, Senior Internal Auditor
Peter Soelter, Senior Internal Auditor
Daniel Solorzano, Technology Specialist I
Wilson To, Technology Specialist II
Teresa Velarde, Manager of Internal Audit

OTHERS PRESENT

Travis Hickey, Audit Committee Advisor
Paul Hofer, IEUA

The meeting was called to order at 9:02 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 10, 2019.
- ◆ Recommended that the Board:
 1. Approve the Fiscal Year 2019/20 Annual Audit Plan Amendment to be consistent with the requirements of the Internal Audit Charter;
as a Consent Calendar Item on the September 18, 2019 Board meeting agenda.

INFORMATION ITEMS

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

- ◆ Water Connection Fees (WCF): Follow-Up Audit
- ◆ Warehouse Annual Physical Inventory – Internal Audit Inventory Observation Report
- ◆ Agency Vehicle Operational Audit: Review of Vehicle Security Procedures Follow-Up
- ◆ Report of Open Audit Recommendations as of September 2019
- ◆ Audit Committee Charter and Internal Audit Department Charter
- ◆ Internal Audit Department Standard Operating Procedures (SOPs)
- ◆ Internal Audit Department Quarterly Status Report for September 2019

GENERAL MANAGER'S COMMENTS

Executive Manager of Finance & Administration/Assistant General Manager Christina Valencia had no comments.

AUDIT COMMITTEE ADVISOR COMMENTS

Mr. Travis Hickey stated that inventory being completed every two years is a growing trend in the public sector, as it is costly to close the warehouse down for this process. He mentioned that it is an acceptable practice. He commented that he supports the Internal Audit Department's SOPs, the Audit Committee Charter, and the Internal Audit Department Charter. These items maintain the department's integrity and ensure that staff's time and energy are protected.

COMMITTEE MEMBER COMMENTS

Director Parker reiterated that the Agency should consider the warehouse inventory to take place biennially. Director Elie suggested the inventory be completed over the weekend, during non-business hours.

COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

There were no Committee Member requested future agenda items.

With no further business, the meeting adjourned at 9:44 a.m.

Respectfully submitted,

Sally Lee
Executive Assistant

*A Municipal Water District

APPROVED: DECEMBER 9, 2019

Audit Committee

**ACTION
ITEM**

1B



Date: December 18, 2019

To: The Honorable Board of Directors

From: Shivaji Deshmukh, General Manager

Committee: Audit

12/09/19

Finance & Administration

12/11/19

Executive Contact: Shivaji Deshmukh, General Manager

Subject: IEUA Fiscal Year (FY) 2018/19 Single Audit and Audited Comprehensive Annual Financial Report

Executive Summary:

The Single Audit Report for FY ended June 30, 2019, was prepared by the Agency's independent audit firm Lance, Soll & Lunghard, LLP (LSL), in compliance with the Single Audit Act and the Office of Management and Budget (OMB) Uniform Guidance. In the auditor's opinion, IEUA is in compliance with each major federal grant award program and continues to qualify as a "low-risk auditee."

The Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2019, was prepared in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and audited by LSL. 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, 2019, and the respective changes in financial position, and cash flows thereof in accordance with accounting principles generally accepted in the United States (U.S. GAAP). LSL issued an unmodified (clean) opinion.

Staff's Recommendation:

1. Approve the Single Audit Report for fiscal year ended June 30, 2019;
2. Approve the Comprehensive Annual Financial Report for fiscal year ended June 30, 2019; and
3. 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 2019/20 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 19, 2018, the Board of Directors approved the Single Audit and the Comprehensive Annual Financial Reports for FY 2017/18 reviewed by the Audit Committee on December 11, 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 2018/19 Single Audit and the Comprehensive Annual Financial Reports are 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 - Single Audit

Exhibit B - FY 2018/19 Audited Comprehensive Annual Financial Report (in Substantive Completed Form - <https://www.ieua.org/fy-2018-2019-comprehensive-annual-financial-report-substantive-completed-form-fiscal-year-ended-june-30-2019/>)

Attachment 2 - PowerPoint

Attachment 3 - LSL Financial Audit Results Presentation

Background

Subject: IEUA Fiscal Year (FY) 2018/19 Single Audit and Audited Comprehensive Annual Financial Report (CAFR)

FY 2018/19 Single Audit

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 2018/19, IEUA incurred \$2,367,017 in total federal costs, including \$526,816 from United States Bureau of Reclamation (USBR) programs and \$1,840,201 from Environmental Protection Agency (EPA) programs.

The Agency's independent external audit firm, Lance, Soll & Lunghard, LLP (LSL), performed the annual single audit for the fiscal year ended June 30, 2019, to be processed by the Federal Clearing House by March 2020. The total federal cost figures are subject to change after processing by the Federal Clearing House. The Single Audit Report for the FY 2018/19 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."

Qualifying as a "low-risk auditee" benefits the Agency by improving IEUA's ability to obtain future grant and loan awards. Achieving this status through the Single Audit is indicative of diligent grant management and shows grantors that IEUA is a reliable partner for future funding opportunities

FY 2018/19 Comprehensive Annual Financial Report

The Agency' Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2019 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 2018/19 Financial Highlights

The Agency's statement of net position for fiscal year (FY) ended June 30, 2019, reflects \$709 million, an increase of \$62 million compared to the prior fiscal year.

Decrease in the Wastewater and Water Connection Fees

Connection fees to the regional water and wastewater systems were lower than the prior fiscal year. Wastewater connections fees were \$22.9 million, with 3,390 new units compared to 5,233 units and \$32.8 million in the prior fiscal year. The lower number of new connections is primarily due to slower building activities in FY 2018/19 as compared to prior year. Water connection fees were \$5.9 million in FY 2018/19 compared to \$7.8 million in FY 2017/18.

Imported Water Pass-Through Sales and Purchases

Imported water deliveries for FY 2018/19 were 64,168-acre feet (AF) compared to 67,977 AF reported in FY 2017/18, a decrease of 3,809 AF. The decrease is due to lower demand as a result of wet winter season in FY 2018/19, partially offset by a shift from groundwater to imported water supplies by some member agencies due to water quality restrictions, primarily 1,2,3-Trichloropropane (TCP).

Funding of Employee Retirement Liabilities

Consistent with the Board policy, funding of the pension unfunded liabilities and other post-employment benefits (OPEB) continued in FY 2018/19 with \$4.5 million and \$2.0 million, respectively. Since the inception of the funding plan, cumulative additional contributions toward the unfunded liabilities of \$22.5 million for pension and \$15 million for OPEB have been made through fiscal year ended June 30, 2019. As of June 30, 2019, the most recent actuarial valuation date, the OPEB plan is 87 percent funded with an unfunded actuarial accrued liability of \$2.1 million. The net pension liability measured as of June 30, 2019 using measurement date of June 30, 2018 was 81.3 percent funded at \$38.1 million, in accordance with GASB 68.

Work in Progress (WIP)

The number of open projects under the category of Work in Progress (WIP) decreased by 20 percent in FY 2018/19 compared to FY 2017/18. WIP total cost increased from \$96.6 million from \$81.7 million mainly due to the ongoing design phase of the RP-5 Expansion project and the RP-5 Biosolids Facility project, and the construction of the RP-1 Headworks Gate Replacement project.

Interfund transfers

Inter-fund transfers are used to transfer funds between Agency Funds to support debt service, capital and operations and maintenance costs. One example is the transfer of water connections fees initially recorded in the Recycled Water fund and transferred to other fund to support eligible capital and water use efficiency projects. The individual transactions offset one another and do

not impact the overall net position of the Agency, with the receiver fund recording an increase and sender fund recording a decrease in net position.

In FY 2018/19, inter-fund transfers of \$17.9 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 2018/19 Transfers In

	Transfer In							Total
	Major Funds				Non-Major Funds			
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin. Services	Groundwater Recharge	Non-Reclaimable Wastewater	
Debt Service		\$0.3	\$2.4			\$0.5		\$3.2
Total Capital Contributions	\$5.4	\$6.3		\$0.4	\$1.4		\$0.2	\$13.7
Operations Support					\$0.4	\$0.6		\$1.0
TOTAL	\$5.4	\$6.6	\$2.4	\$0.4	\$1.8	\$1.1	\$0.2	\$17.9

Table 2. FY 2018/19 Transfers Out

	Transfer Out							Total
	Major Funds				Non-Major Funds			
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin. Services	Groundwater Recharge	Non-Reclaimable Wastewater	
Debt Service	\$3.2							\$3.2
Total Capital Contributions	\$6.0	\$5.4	\$2.3					\$13.7
Operations Support		\$0.3	\$0.6		\$0.1			\$1.0
TOTAL	\$9.2	\$5.7	\$2.9	\$ -	\$0.1	\$ -	\$ -	\$17.9

Debt Service Interfund Transfer \$3.2 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 2018/19, 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 Interfund Transfer \$13.7 million

Capital interfund transfers support capital project expenditures as determined by the nature of the project and funding sources during the fiscal year.

Projects are assigned to the fund that will benefit from the investment. In some cases, where a project will benefit multiple funds, 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 2018/19, interfund transfers from the Wastewater Operations fund to the Wastewater Capital fund recorded its share of cost for projects such as the RP-1 Liquids and Solids Treatment Expansion, Carbon Canyon Water Recycling Facility Asset Management and Improvements, and the RP-5 Liquid Expansion.

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, replacement of records management system and related projects, and enhancement to the Agency's computer infrastructure network and cybersecurity.

The 2015 engineering rate study included the allocation of water and wastewater connection fees amongst eligible projects recorded in various Agency funds. Interfund transfers are used to allocate connection fees amongst eligible projects based on actual expenditures and funding sources.

In Fiscal Year 2018/19 water connection fees initially recorded in the Recycled Water fund supported projects like the Water Bank and water planning initiatives recorded in the Water Resources fund, as well as a small portion of the Recharge Master Plan Update (RMPU) and Administrative Services fund project costs.

Inter fund transfers of wastewater connection fees to the Administrative Services and the Non-Reclaimable Wastewater fund supported eligible project costs.

Operation Support Interfund Transfer \$1.0 million

Operation support interfund transfers are limited to certain non-capital projects, 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 2018/19 Wastewater Operations, Recycled Water, and Non-Reclaimable funds supported Administrative services non-capital projects like Agency wide coatings.

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, 2019, 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 2018/19 to be processed by the Federal Clearing House by March 2020. No findings in the Single Audit were noted by LSL.

Fiscal Year 2018/19 is the fourth 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 twenty years, the Agency has applied for and received the GFOA CAFR Award for excellence in financial reporting. The deadline to submit the FY 2018/19 CAFR is December 31, 2019.

The IEUA FY 2018/19 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.

INLAND EMPIRE UTILITIES AGENCY

SINGLE AUDIT REPORT

JUNE 30, 2019

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INLAND EMPIRE UTILITIES AGENCY

SINGLE AUDIT REPORT

JUNE 30, 2019

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CPAs AND ADVISORS

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, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated [REDACTED], 2019.

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, Solt & Loughard, LLP

Brea, California
2019

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CPAs AND ADVISORS

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, 2019. 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, 2019.



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, 2019, and the related notes to the financial statements, which collectively comprise Agency's basic financial statements. We issued our report thereon dated **December 13, 2019**, 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



CPAs AND ADVISORS

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

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 & Luyhard, LLP

Brea, California
December 13, 2019

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INLAND EMPIRE UTILITIES AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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	\$ 311,432	\$ 311,432
Reclamation States Emergency Drought Relief	15.514	N/A	-	178,257
Water Conservation Field Services	15.530	N/A	-	37,127
Total U.S. Department of the Interior			311,432	526,816
<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	80-832-1913	-	1,840,201
Total Environmental Protection Agency			-	1,840,201
Total Expenditures of Federal Awards			\$ 311,432	\$ 2,367,017

*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

The accompanying notes are an integral part of this schedule.

INLAND EMPIRE UTILITIES AGENCY

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019, 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-06-8105-110	\$ 17,800
C-06-8105-120	2,189,656
Subtotal	<u>2,207,456</u>
Adjustment for expenditures reported in the prior fiscal period:	
C-06-8105-120	(2,189,656)
Adjustment for expenditures accrued in the current fiscal period:	
C-06-8105-120	580,939
C-06-8173-110	1,241,462
Subtotal	<u>(367,255)</u>
Total Federal Expenditures of the Capitalization Grants for Clean Water State Revolving Funds Program (GAAP)	<u>\$ 1,840,201</u>

INLAND EMPIRE UTILITIES AGENCY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none 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 no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

15.504
66.458

Title XVI Water Reclamation and Reuse
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?

yes no

INLAND EMPIRE UTILITIES AGENCY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

DRAFT



6075 Kimball Avenue • Chino, CA 91708
P.O. Box 9020 • Chino Hills, CA 91709
TEL (909) 993-1600 • FAX (909) 993-1985
www.ieua.org

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

There were no findings reported for the fiscal year ended June 30, 2018.

DRAFT

Water Smart – Thinking in Terms of Tomorrow

Paul Hofer
President

Jasmin A. Hall
Vice President

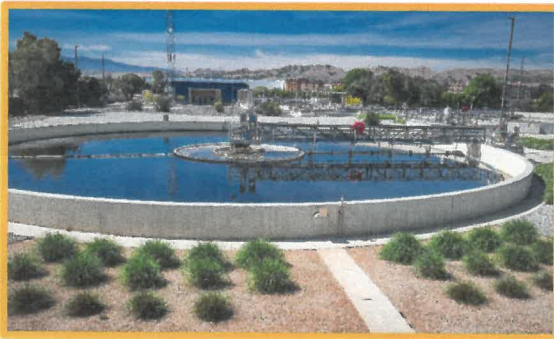
Kati Parker
Secretary/Treasurer

Michael E. Camacho
Director

Steven J. Elie
Director

Shivaji Deshmukh
General Manager

Single Audit and Comprehensive Annual Financial Reports Fiscal Year Ended June 30, 2019



FY 2018/19 Single Audit

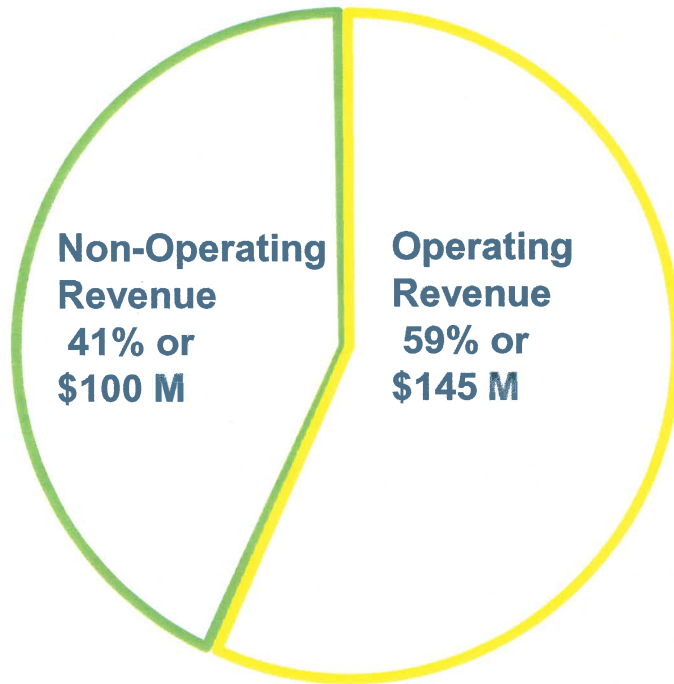
- Federal Cost \$2.37 million:
 - \$0.53 million US Bureau of Reclamation (USBR)
 - \$1.84 million Environmental Protection Agency (EPA)
- In compliance with each major federal grant award program,
- No significant deficiencies in internal control over major federal award programs,
- No findings or questioned costs to major federal award programs, and
- IEUA qualifies as a “low-risk auditee”.

FY 2018/19 Financial Highlights

- **Increased total net position by \$62 million:**
 - Operating activities: (\$24) million
 - Non-operating activities: \$86 million
- **Total net position as of 6/30/19 \$709 million:**
 - \$442 million net investment in capital assets
 - \$113 million restricted assets
 - \$154 million designated / unrestricted assets
- **Interfund transfers \$17.9 million (Note 15 to Financial Statements):**
 - \$ 3.2 million Debt service support
 - \$13.6 million Capital support
 - \$ 1.1 million Operations and Maintenance support

FY 2018/19 Revenues

Total Revenue
\$245 Million



\$ Million

Operating revenue:

• Water Sales	\$46
• Service Charges	\$85
• Recycled Water Sales	<u>\$14</u>
Total Operating Revenue	<u>\$145</u>

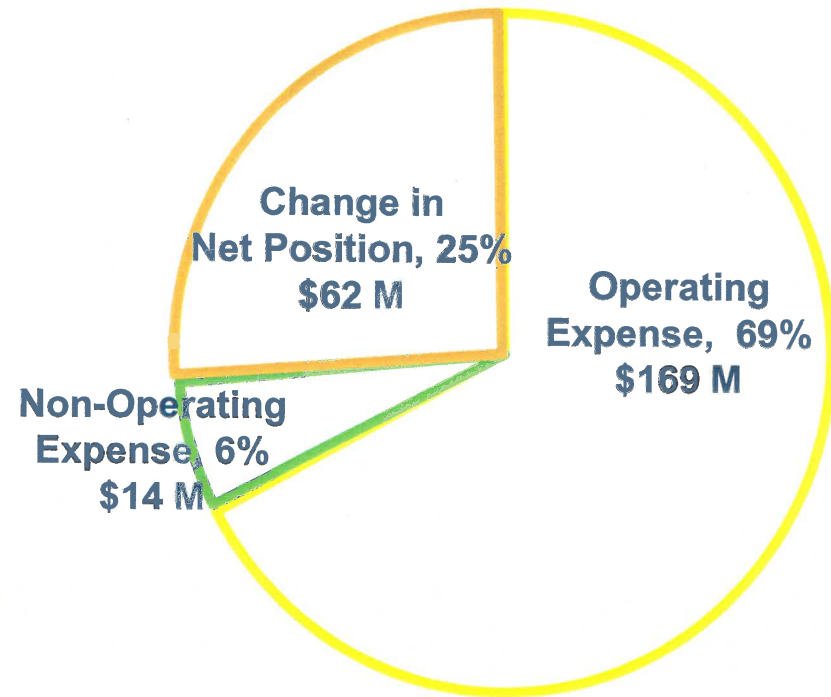
Non-Operating revenue:

• Property Tax	\$53
• Connection Fees	\$29
• Capital Grants	\$ 2
• Other nonoperating expenses	<u>\$16</u>
Total Non-Operating Revenue	<u>\$100</u>

FY 2018/19 Expenses & Change in Net Position

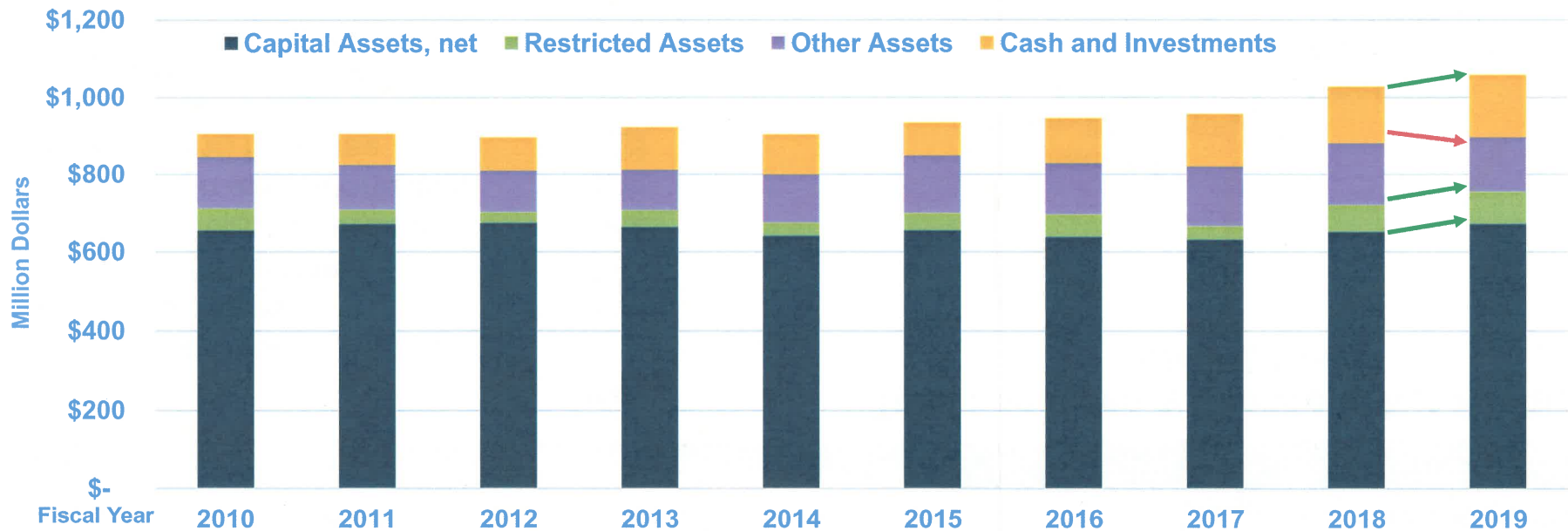
	\$ Million
Operating expense:	
• Water Purchases	\$46
• Wastewater Treatment	\$45
• O&M and Support Services	\$42
• Depreciation and Amortization	<u>\$36</u>
Total Operating Expense	<u>\$169</u>
Non-Operating Expense:	
• Interest on long term debt	\$ 6
• Other nonoperating expenses	<u>\$ 8</u>
Total Non-Operating Revenue	<u>\$ 14</u>
Change in Net Position:	\$62

**Total Expenses & Change in Net Position
\$245 Million**



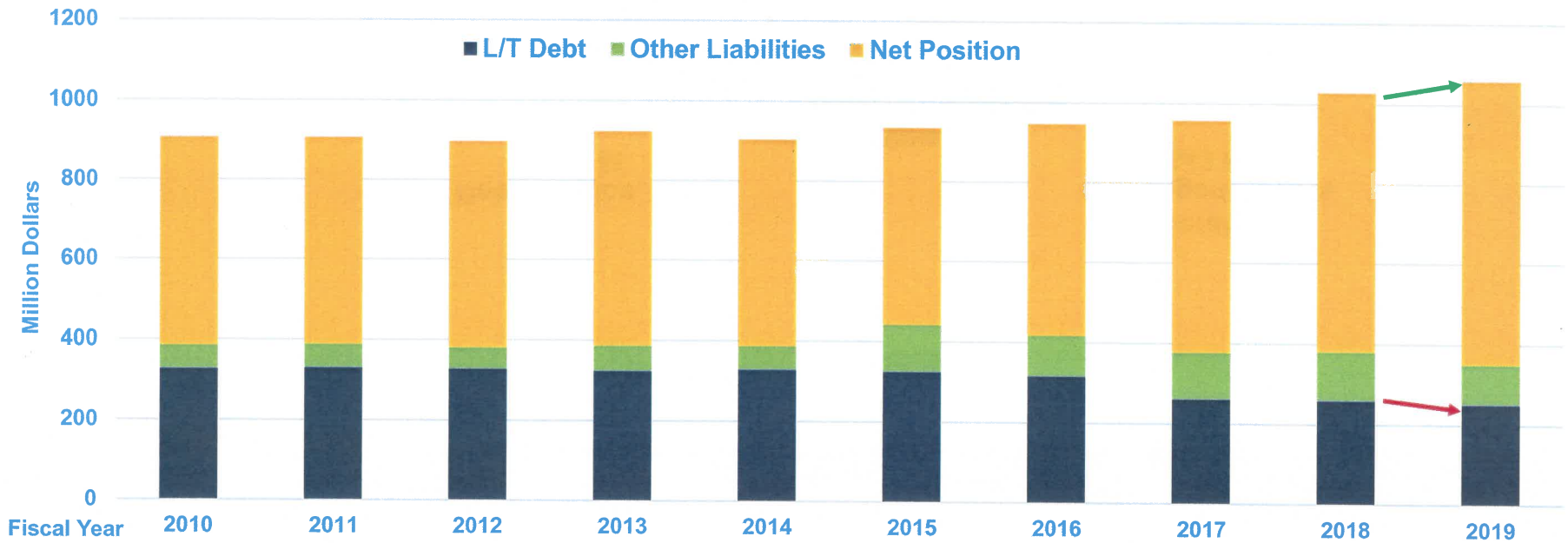
Total Assets increased \$41 million

- Capital assets, restricted assets and cash and investments grew, other assets went down driven by reduction in deferred outflows related to pension



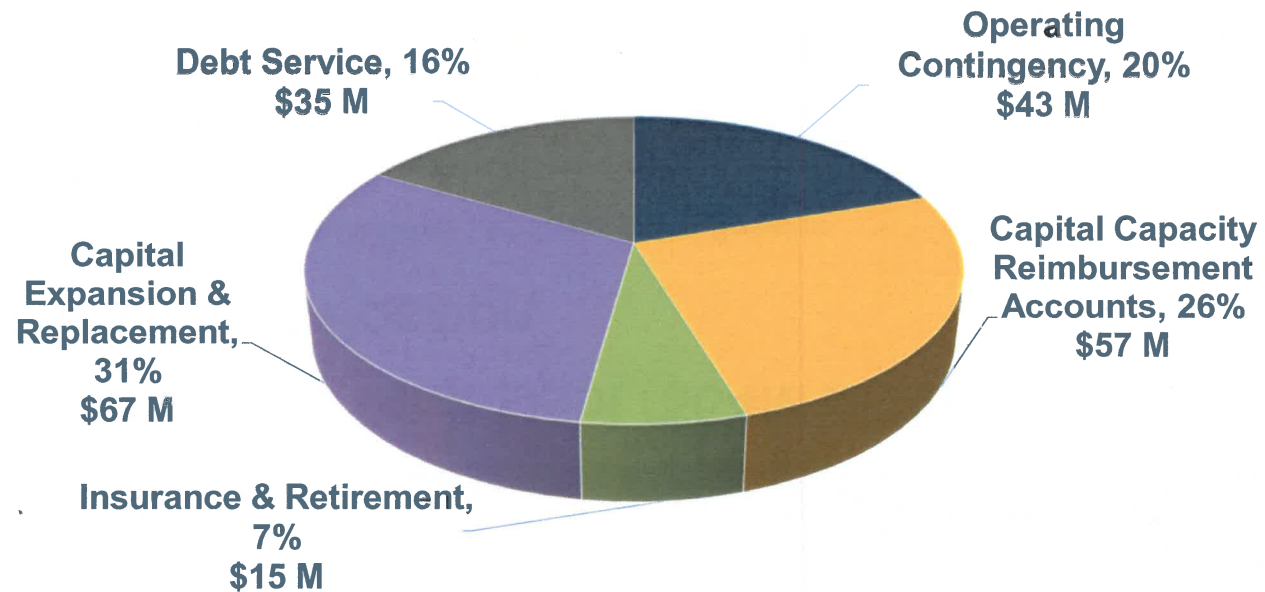
Total Liabilities and Net Position

- \$ 8.0 M decrease in Long Term Debt (\$64M in last 3 years)
- \$ 62.0 M increase in Net Position



FY 2018/19 Ending Cash Position \$246 Million

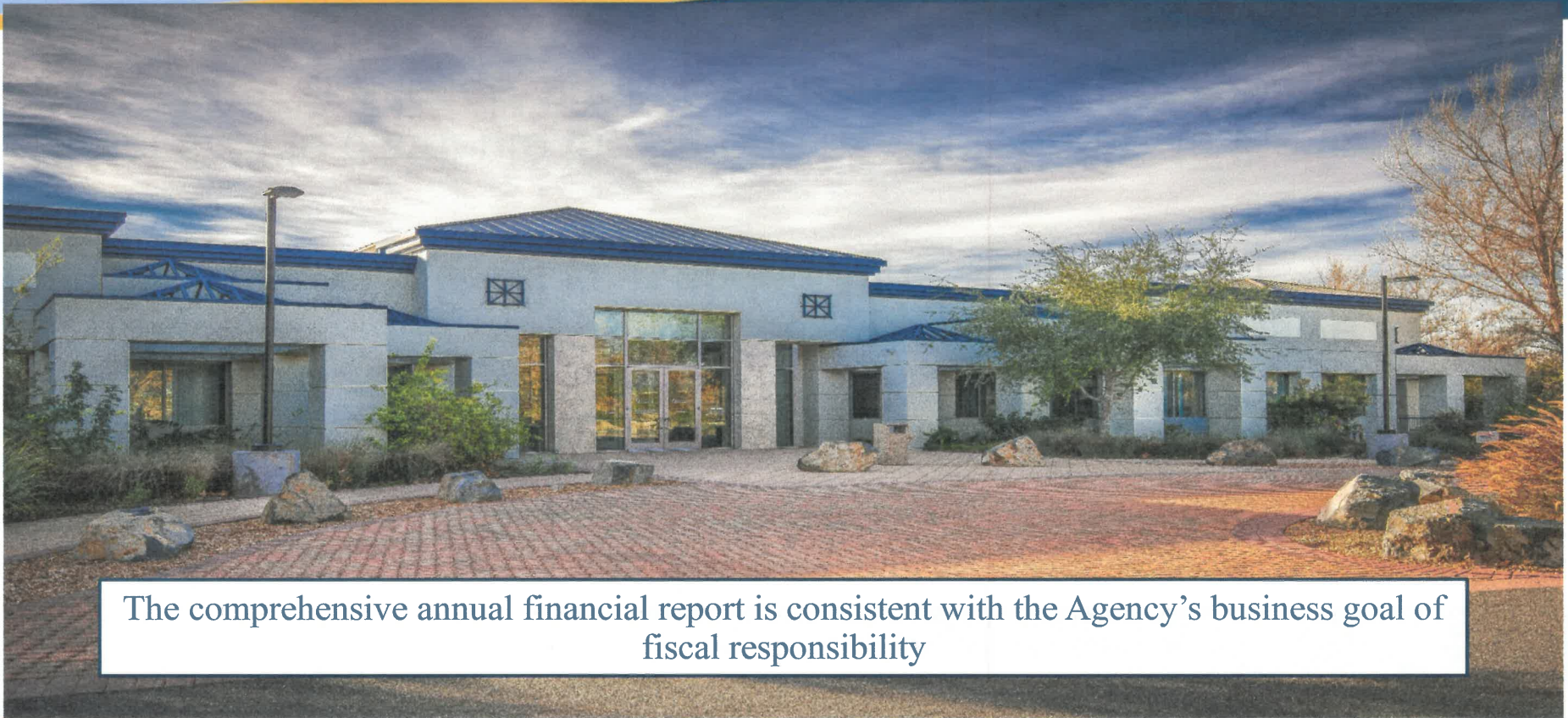
- \$29 million increase from prior fiscal year



Recommendation

1. Approve the Inland Empire Utilities Agency Single Audit Report for fiscal year ended June 30, 2019;
2. Approve the Inland Empire Utilities Agency Comprehensive Annual Financial Report for fiscal year ended June 30, 2019; and
3. Direct staff to distribute the reports as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties.

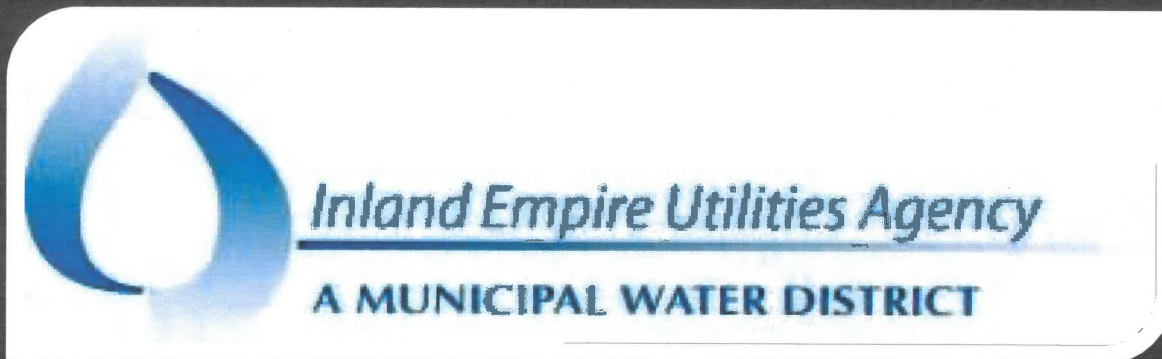
Questions



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



INLAND EMPIRE UTILITIES AGENCY FISCAL YEAR ENDED JUNE 30, 2019 FINANCIAL AUDIT RESULTS



Focused
on YOU



HIGHLIGHTS FROM LAST MEETING

- Met last with auditors June 10, 2019
- Discussed our planning and audit approach
- Met with audit committee outside of management
- Audit fieldwork performed the week September 30, 2019



FY 2019 Audit Communication Results

Financial Audit

- Opinion Letter
- Report on Internal Control and Other Matters
- Audit Communication Letter (SAS 114 – **conclusion**)

Single Audit

- Schedule of Expenditures of Federal Awards
- Report on Internal Control over Compliance



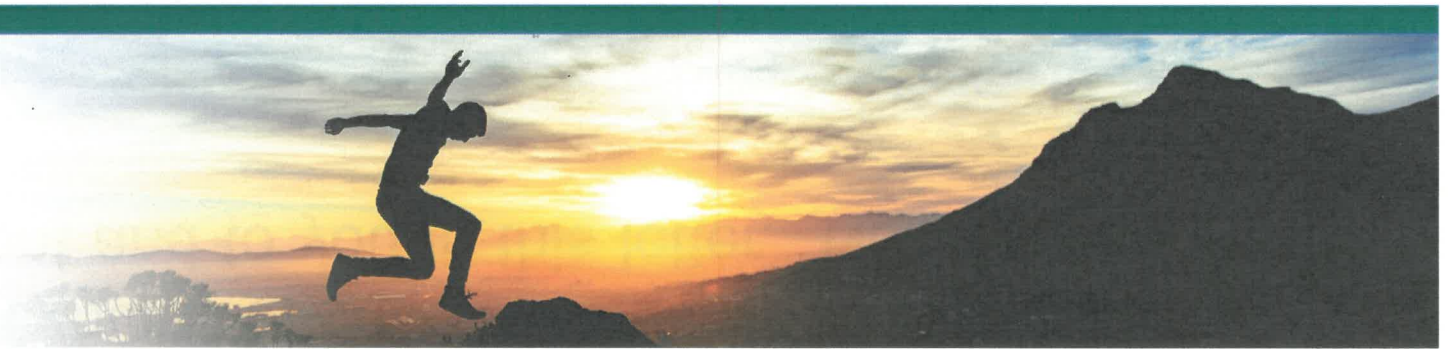
Opinion Letter

- **Unmodified Opinion**
 - Based on our audit of significant transactions, our understanding of the Agency's policies and procedures, and our testwork results, we have issued an Opinion that the financials statements are free of material misstatements at June 30, 2019.



Report on Internal Control over Financial Reporting and on Compliance and Other Matters

- In planning and performing the audit, we consider the Agency's Internal Controls over Financial Reporting specific to giving an opinion of the Financial Statements, but this is not the purpose of the audit.
- No opinion is expressed on the internal controls
- During our course of audit procedures weaknesses may come to our attention and communicated to Management and to you in this letter. None to report at this time.



Audit Communication Letter (SAS 114 – conclusion)

- Significant Audit Findings
 - Accounting Practices
 - Significant and Appropriate Estimates: OPEB and Pension Liabilities
 - No Difficulties Encountered in Performing the Audit
 - No Disagreements with Management to disclose
 - Management Representation includes a letter to the auditors regarding their acceptance of responsibilities and disclosures of no known errors or fraudulent activities to communicate to auditors



Audit Communication Letter (SAS 114 – conclusion)

- 2019 – Implemented this year.
 - Asset Retirement Obligations (GASB 83) – none noted
 - New disclosures relating to debt (GASB 88) – updated to footnotes
- FUTURE YEAR – New Accounting Pronouncements
- 2020
 - Fiduciary Activity changes (GASB 84)
- 2021
 - Lease reporting (GASB 87)



CPAs AND ADVISORS



Single Audit

- Federal Expenditures of \$2.4 million.
 - Title XVI Water Reclamation and Reuse s \$311 thousand
 - Water State Revolving Fund \$1.8 Million
- No findings noted



Thank you

- Contact information:

- Deborah.harper@lslcpas.com

- Ryan.Domino@lslcpas.com

- 714-672-0022

- Any Questions



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

**ACTION
ITEM**

1C



Date: December 18, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/09/19

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. IA brought the Charters in draft form to the Audit Committee in September 2019 for review and discussion with proposed changes and edits. Attached for final approval are the charters in final form with all edits incorporated as discussed.

The Audit Committee Charter documents the Audit Committee's purpose, composition, authority, and responsibilities. The IA Charter documents IA's 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 best practices and 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. Approve the Audit Committee Charter and the Internal Audit Department Charter; and
2. Direct staff to implement the charters.

Budget Impact *Budgeted (Y/N): Y* *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 19, 2018, 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 IA's purpose, authority and responsibilities.

Attachments:

- Attachment 1 - Audit Committee Charter
- Attachment 2 - Internal Audit Department Charter



INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 18, 2019

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 Audit 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.
- Support the Internal Audit Department audit projects, evaluations and analysis.

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/or 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
Approved on December 18, 2019

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 the most current Board-approved Ordinance, 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.
- 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).

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 18, 2019

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.
 - Ensure corrective action is taken on audit findings, risks and recommendations identified by the Internal Audit Department and/or accept risks identified through audit findings in lieu of corrective action, as deemed appropriate and necessary.

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 18, 2019

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).
- Periodically review the Agency's Code of Conduct/Ethics Policy to ensure that it is adequate and up to date.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 18, 2019

- 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)*.
- Conduct the Manager of Internal Audit performance appraisals and recommend Manager of Internal Audit merit increases and incentive compensation to the Board.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 18, 2019

- 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
Approved on December 18, 2019

- 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
Approved on December 18, 2019

- 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

Approved on December 18, 2019

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 (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 Audit Committee and is an independent function from management. The purpose, responsibilities and authority 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 independent 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.
- Provide independent, objective assurance and consulting services.
- Improve Agency risk management, control and governance.
- Promote the Agency's vision and mission through a high degree of professionalism.
- Assist the Board of Directors and senior management achieve organizational goals and objectives.

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 18, 2019

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 recommendations and 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 and among 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 Annual 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 Audit Committee in a timely manner or immediately and to the Board at the next regularly scheduled Audit Committee Meeting through the Quarterly Status Report and/or an amendment to the Annual Audit Plan and/or other communication.

Annually, a listing of outstanding audit recommendations provided by the Internal Audit Department and the corresponding corrective actions taken by Agency management will be presented to the Committee for the purpose of providing a progress report on the status of open audit recommendations.

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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 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 Agency management.

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- Authority to deviate from the approved Annual Audit Plan, when necessary, urgent, and if warranted by unforeseen issues that require immediate attention. The Manager of Internal Audit will use professional discretion and judgment in response to such unforeseen issues and resolve them according to the requirements of the Charter. Significant changes to or deviations from the approved Annual Audit Plan shall be reported to the Audit Committee in a timely manner or as soon as possible and to the Board at the next regularly scheduled Audit Committee meeting.
- 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.
- 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.
- Assist with the evaluation of the External Auditors and the Audit Committee Advisor and make appropriate recommendations to the Audit Committee and 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

INLAND EMPIRE UTILITIES AGENCY
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Approved on December 18, 2019

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:

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. Make recommendations to encourage the efficient use of and safeguard of Agency assets.
- Provide recommendations that encourage efficient use of Agency resources. 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.
- Hold staff accountable for the resolution of audit recommendations and expect resolution of audit recommendations that have been agreed to and discussed during audit meetings and Audit Committee meetings. Resolution of audit recommendations is achieved through the implementation, a corrective action plan or adopting alternate controls to mitigate the risk identified through the audit. Conduct special projects, studies, or audits as requested by management, the Audit Committee and the Board of Directors.

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- 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, senior management, and/or others as required.
- Provide recommendations to mitigate risks related to fraud, waste and abuse.

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.
- 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 professional 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 IA activity to the Audit Committee quarterly. The Quarterly 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 Quarterly Status Report will be presented at the next regularly scheduled IEUA Board of Directors meeting.

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- 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 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 Audit 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.

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- 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 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.
- Implementation and resolution of audit recommendations agreed to. Resolution of audit recommendations is achieved through the implementation, a corrective action plan or adopting alternate controls to mitigate the risk identified through the audit.
- 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.

INFORMATION
ITEM
2A



Date: December 18, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/09/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Human Resources Audit: Hiring and Promotions Operations Review

Executive Summary:

Internal Audit completed an audit of the Human Resources Department(HR) related to Hiring and Promotions. Overall, HR has effective processes in place to assist Agency departments in their recruitment and promotion efforts. The audit identified opportunities to further strengthen and tighten processes and controls, including:

- Consider including additional justifying information to support the final candidate selection,
- Consider implementing automation opportunities for HR documents and files,
- Consider investing in fireproof and waterproof cabinets to safeguard HR files,
- Consider the best process to ensure compliance with Agency Policy A-20, to ensure performance appraisals are completed and provided to employees in a timely manner,
- Consider a additional controls/oversight over internal promotions (specifically during periods of interim General Manager, Executive Management, and/or Manager of Human Resources),
- Consider formalizing a comprehensive Agency-wide Ethics and Conflict of Interest policy and training for all employees,
- Establish written contracts with vendors used by HR, and
- Update Agency policies and department-specific SOPs related to hiring and recruitment.

The report attached provides details of the observations and recommendations.

Staff's Recommendation:

This is an information item.

Budget Impact *Budgeted (Y/N):* Y *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 September 18, 2019, the Board of Directors approved the amended Fiscal Year 2019/20 Annual Audit Plan. The original Fiscal Year 2019/20 Annual Audit Plan was approved on June 19, 2019. This audit was scheduled in the Annual Audit Plan.

On December 19, 2018, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

The Human Resources Audit: Hiring and Promotions Operations Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing an independent evaluation of the Human Resources Department, suggesting recommendations for improvements, monitoring the internal control environment of the Agency, and assisting Agency management in achieving organizational goals and objectives.

Attachments:


Attachment 1 - Human Resources Audit: Hiring and Promotions Operations Review Report



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DATE: December 2, 2019

TO: Shivaji Deshmukh
General Manager

FROM: 
Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Human Resources Audit: Hiring and Promotions Operations Review

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed an audit of the Human Resources Department Hiring and Promotions Policies, Procedures and Operations. The audit was performed under the authority given by the IEUA Board of Directors and the Fiscal Year 2019/20 Annual Audit Plan. The attached report provides IA's observations and recommendations.

Audit Objective and Scope

The objectives of the Human Resources Audit are to evaluate various processes and operations of the Human Resources Department (HR) and determine whether Agency policies are followed, and department standard operating procedures are implemented. Additionally, the audit will evaluate the department's published business goals, key performance indicators and workload indicators to determine whether those are met and to evaluate key functions and compare those with other similar agencies. Lastly, the audit intends to follow up on any outstanding recommendations from prior audit reports.

IA intends to perform the Human Resources audit in multiple stages. The Hiring and Promotions Operations Review is the first report and it evaluated policies and processes for hiring and promoting employees, including recruitment, applications, background checks and document retention processes. The Hiring and Promotions Operations Review Report is the first of the Human Resources Audit reports. IA will finalize an audit report after the completion of each area reviewed.

Water Smart - Thinking in Terms of Tomorrow

Paul Hofer
President

Jasmin A. Hall
Vice President

Kati Parker
Secretary/Treasurer

Michael Camacho
Director

Steven J. Elie
Director

Shivaji Deshmukh
General Manager

Audit Techniques:

Audit techniques included:

- Interviews of Agency staff
- Walkthroughs of department processes
- Review of Agency policies, department procedures, and practices
- Review of recruitment and employee personnel files
- Analysis of financial transactions and supporting documents

Audit Results – Executive Summary

Overall, HR has effective processes in place to assist management in their recruitment and promotion efforts. IAs review identified opportunities to improve and strengthen processes and controls. The bullet points below provide a summary:

- Candidate selection: Consider including additional information in the recruitment file of the final candidate selected and ensure the justification is included to close out the file.
- Workflows & electronic files: Implement processes to automate workflows and retain electronic files.
- Fireproof & waterproof cabinets: Consider acquiring cabinets that are fireproof and waterproof to safeguard personnel, recruitment, and other HR related files.
- Performance appraisals: Determine the best method to ensure compliance with Agency Policy A-20, to ensure employee performance appraisals are completed timely.
- Internal promotions: Consider additional controls and oversight over internal promotions for management level positions during periods of temporary leadership and changes (such as interim General Manager, Executive Managers and/or Manager of Human Resources).
- Confidentiality Agreement/Conflict of Interest Policies: Implement a comprehensive Ethics and Conflicts of Interest policy and training for all employees.
- Contracts: Establish written contract with vendors used by HR.
- Policies & SOPs: Ensure Agency policies and department-specific SOPs related to hiring and recruitment are updated to the current format and requirements, and processes/procedures listed are up to date.

The Human Resources Audit: Hiring and Promotions Operations Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing an independent evaluation of the Human Resources Department, suggesting recommendations for improvements, monitoring the internal control environment of the Agency, and assisting Agency management in achieving organizational goals and objectives.

Acknowledgements

IA would like to extend our appreciation to the Human Resources Department staff for their cooperation and assistance during this review.

Discussions with Management

Drafts of this audit report were provided to the Human Resources Department for their review and input; prior to finalizing, their comments have been incorporated.

Background

The Human Resources Department (HR) is responsible for providing support to Agency management and employees, in the areas of recruitment, employee retention, benefits and training programs. Additionally, HR is responsible for assisting in the application and administration of the various bargaining units' Memorandum of Understanding (MOU) and Personnel Manuals, establishment of positive labor relations with bargaining units, motivation for staff, and compliance with personnel State and Federal laws and regulations.

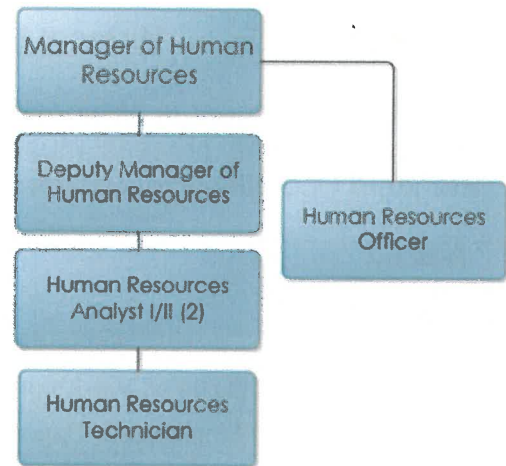
Reorganization

During Fiscal Year (FY) 2018/19, HR Department was moved from the Finance and Administration Division to the Agency Management Division, reporting directly to the General Manager. In addition, the Safety unit was moved from HR to the Contracts and Procurement Department.

Department Staffing

As of July 1, 2019, the staffing and reporting structure for the HR Department is as follows:

Position	Number
Manager of Human Resources	1
Deputy Manager of Human Resources	1
Human Resources Officer	1
Human Resources Analysts	2
Human Resources Technician	1
Interns	0
Total HR Positions	6



Human Resources Department Expenses

The table below provides expense information for the HR Department, which includes HR, Benefits and Training. HR department expenses are mostly for wages and benefits.

Description	FY 2017 (actual)	FY 2018 (actual)	FY 2019 (actual)
Wages	\$ 821,940	\$ 736,792	\$ 667,978
Benefits	1,473,180	385,462	289,593
Office & Administration	121,043	88,511	94,832
Professional Fees & Services	197,157	381,885	406,045
Other	462	534	22,244
Total Expenses	\$ 2,613,782	\$ 1,593,184	\$ 1,480,692

Source: Department information obtained from the Agency's financial system (SAP).

Agency-Wide Employment Information

Salaries and benefits expenses amount to approximately a quarter of the Agency’s total expenses for an estimated 300 or more employees, and the expenses range between \$49 to \$ 51 million for each of the last three Fiscal Years 2016/17 to 2018/19.

Agency Staffing

Agency-wide Staffing levels are in the table below:

Description	Authorized Positions	Filled Positions	Vacant
Staff	290	267	23
Interns	38	22	16
Directors	5	5	-
Limited Term	16	12	4
Totals	349	306	43

Source: Position Control Report, August 2019.

Hiring & Internal Promotions Processes

The HR Department is responsible for facilitating and processing all hiring and internal promotions. The process must follow the requirements of Agency Policies and HR Standard Operating Procedures (SOPs), including:

Agency Policy/SOP & Number	Title/Topic	Effective Date
A-26	Procedure to Conduct a Recruitment to Fill a Vacant Position, which includes A-83, Guide on Pre-Employment Inquiries and Interviewing Techniques	7/15/2005
A-29	Equal Employment Opportunity	3/26/2007
HR4-20	New Hire Background Checks	10/13/2016
HR4-27	New/Reclassified Employee Notification Form	7/1/2008
HR4-29	New Hire Processing	10/13/2016

The recruitment process for both new hires and promotions includes the following steps:

- An Agency department determines a position needs to be filled and completes a *Request to Fill a Vacant Position* form and submits to HR.
- HR will work with the requesting department to obtain the various approvals and determine the needs of the department.
- HR will begin recruitment for the position and utilize various sources to advertise for a 2-week period and/or until the 1st review of applications.

- HR receives all applications electronically. Any applications that do not meet the minimum qualifications and/or are incomplete do not continue through the recruitment process.
- HR forwards the remaining applications to the hiring department for Subject Matter Expert (SME) review.
- After SME review of the applications, candidates:
 - May be invited to participate in a test and/or practical exam. Candidates' responses are reviewed by a rater for pass/fail and can be used to filter for eligible candidates that are invited for in-person interviews.
 - May be invited for in-person interviews.
- Interviews are scheduled. Interviewers are selected that include staff and/or external resources (such as representatives from member or similar agencies).
- Interviews are conducted, candidates are scored and ranked by the interviewers. All supporting and scoring documents are retained in the corresponding recruitment files and/or personnel files.
- An eligibility list is established listing all eligible candidates based on the practical exam and the interviews.
- Recommendation memo is completed, including reference checks if applicable. Fact sheet is prepared and signed by all necessary parties. Job offer is made to the candidate selected by the Hiring Manager. Once the offer has been accepted, HR will complete all the required items:
 - New Hire Process Checklist: Lists the pre-employment processing (i.e., background check, physical, etc.); benefit, employment, and final new hire documents required; new employee resource guide & handbook.
 - Classification Change Checklist: Lists the items to be provided and/or completed for internal promotions, i.e., offer letter/job description, Resolution 2013-5-1 (at will employment), MOU/Personnel Manual/Salary Matrix, Confidentiality Agreement, Benefits Eligibility, etc. For internal promotions, a background check is not required as with New Hires, pre-employment physical may be required only if the position requires a higher physical exam than given when first hired.
- New hire/promotion announcement is distributed Agency-wide. HR compiles and closes out the recruitment file, updates the employee's personnel file and updates the Agency's financial system with the corresponding payroll information.

Attachment 1 provides a process flow diagram of the hiring and promotion process.

Observations and Recommendations

NEW HIRES

A new hire is a new employee selected through the recruitment process.

To evaluate whether the recruitment process follows Agency policy requirements, IA selected 20 of 150 new hires that began employment with the Agency during the period from January 1, 2016 to July 3, 2019 (42 months). IA reviewed the recruitment files and personnel files to verify that the various steps in the recruitment process were followed and documented.

IA noted that in all 20 instances HR followed the requirements of **Agency Policy A-26 Procedure to Conduct a Recruitment to Fill a Vacant Position (effective 7/15/2005)** and related HR SOPs. IA's review of the selected files and supporting documentation noted that the recruitment process has evolved over the period examined. Changes to the process were attributed to refinements due to HR staff experiences and training. This resulted in updates and new ideas to incorporate into and improve the hiring process. For example, IA noted some changes in the sequence of required steps, such as the timing of a written exam and interview. In other instances, additional tools and documents were used and retained in the files that documented the selection process, for example scoring tools and other notes. The enhancements observed in the process followed Agency Policy A-26 and provided additional support and documentation in the various files.

IA reviewed the recruitment files for the 20 candidates/positions selected. IA noted:

- Recruitment files are kept for all positions advertised. These are locked and safeguarded in HR's office for the required retention period of two years, then sent to storage for records retention.
- Multiple applicants applied and submitted the required applications for all recruitments. Incomplete applications were not accepted by HR for any positions.
- In some instances, if the hiring manager required an additional assessment, such as a practical/written exam as part of the selection criteria, the additional assessment tested for questions and topics relevant to the position.
- Additional information about the position from the recruitment website is retained.
- In the recruitment files, IA observed:
 - The same interview panel interviewed all candidates. (IA noted only one instance where there was a change in the interview panel for some of the interviews, and this was for an internship position).
 - The same questions were asked of all candidates during interviews.

- Interviewers gave each candidate a numerical assessment and provided some evaluation notes and a recommendation to hire or not hire the candidate.

Overall, IA noted that the recruitments followed Agency policies, are well documented and files contain the required supporting information. IA provides the following recommendations for HR to consider.

Observation:

Recruitment files should include additional justification for the final selection.

IA noted that based on high scores and positive comments, most recruitments resulted in more than one acceptable candidate. In some cases, the top-ranked candidate was not always the hired candidate. From the documentation reviewed, it is initially unclear whether a higher ranked candidate informally declined the position or whether there were other reasons for hiring a similarly ranked, but not the highest ranked candidate. IA recommends that the recruitment file include the justification for the final selection in order to close-out the selection process and document the reasoning for the selection. HR indicated that this information is documented in the selected candidate's personnel file, and they agree justification should be added to the recruitment file (separate from the individual's personnel file) so that the recruitment file stands alone and does not leave any unanswered questions.

2019 Recommendation #1:

Human Resources should include additional justification information for the final selection made in the recruitment file to close out the recruitment file and ensure it stands alone.

Observation:

There are opportunities to automate the recruitment processes and transition from manual files to electronic files.

IA noted some steps in the recruitment process are automated. The Agency uses the "Neogov" system for candidates to submit applications and their resumes and this same system tracks all candidates through the recruitment process. HR maintains manual "recruitment" and "personnel" files, stored within the HR offices (until they are moved to Records Management for storage). The recruitment processes are primarily manual. For instance, the "Request to Fill" form is circulated manually and requires up to 5 "wet" signatures to process. The applications, interview questions and responses, and ranking information are all printed documents and included in either the recruitment or personnel files. Some recruitment files are inches thick with paper documents that may add up to 2 volumes. This means files reaching 300 pages or more of manual documents for each

recruitment. There were 150 recruitments since January 2016 amounting to 9 or 10 filing boxes of manual recruitment documents.

To make the recruitment process more efficient, HR should consider implementing automated “workflows” and electronic document retention processes to streamline the hiring and personnel processes and retain the recruitment documentation electronically and to be more environmentally conscious.

2019 Recommendation #2:

Human Resources should take the lead and work with Business Information Services and determine ways to implement automated workflows for recruitment documents and forms and utilize electronic files.

Observation:

Hardcopy files should be safeguarded in fireproof and waterproof cabinets.

IA had previously completed a Payroll Operations Audit (dated August 30, 2017) and recommended that, until the Agency automates personnel and other HR related files, the printed physical files should be maintained in fireproof and waterproof cabinets for safeguarding as a disaster preparedness effort to safeguard the original manual personnel documents.

2019 Recommendation #3:

Human Resources should take the lead to install fireproof and waterproof filing cabinets to safeguard manual personnel, recruitment, and other HR related files, in the event of a disaster.

Observation:

Agency Policies and department Standard Operating Procedures for recruitment and hiring processes require updates.

Currently, the following policies and SOPs address recruitment and hiring policies:

Agency Policy/SOP & Number	Title/Topic	Effective Date
A-26	Procedure to Conduct a Recruitment to Fill a Vacant Position, which includes A-83, Guide on Pre-Employment Inquiries and Interviewing Techniques	7/15/2005
A-29	Equal Employment Opportunity	3/26/2007
HR4-20	New Hire Background Checks	10/13/2016
HR4-27	New/Reclassified Employee Notification Form	7/1/2008
HR4-29	New Hire Processing	10/13/2016

IA recommends HR ensure all policies and SOPs are brought to the most current Agency required format as described in A-01: Documentation of Policies and Procedures,

effective November 11, 2013 and A-51: Standard Operating Procedures, effective November 11, 2013. Additionally, HR should ensure all policies and SOPs contain the most current requirements and match the Agency's current practices to ensure policy matches practices. Keeping policies updated and current ensures employees are provided with the most current and accurate information and can be held accountable to the policy requirements.

2019 Recommendation #4:

Human Resources should take the lead to ensure all Agency policies related to hiring and recruitment, as well as the department's SOPs are updated to include the most recent and accurate requirements for the processes and Agency formats.

PROMOTIONS

A promotion is the advancement of an employee within the Agency. IA evaluated the processes for internal promotions to determine if the documentation complied with Agency policy requirements, and to evaluate whether the process and documentation support the promotion decisions and minimize any potential risks for the Agency.

To evaluate the Agency's promotion process, IA selected 10 of the 37 promotions that occurred over the previous 42 months. IA reviewed the personnel files and documents for the selected employees. IA tested the following:

- Ensure Agency Policies and Department SOPs were followed
- All HR checklists were followed and completed
- All supporting documents were retained and appropriately signed when needed
- The appropriate recruitment process was followed, and all steps were documented
- Performance Appraisals were completed as required under Agency Policy A-20

Promotions by Agency Department were:

Time Period: January 1, 2016 to July 3, 2019

Department Name	Number of Promotions
Agency Management	1
Engineering & Construction Management	4
External Affairs	4
Integrated Systems Services	1
Laboratories	4
Operations & Maintenance	19
Planning & Environmental Resources	4
Total number of promotions	37

The following table provides information about the records selected for review:

Promotions selected for review	Total Number of:			
	Applications received	Internal applications candidates	Candidates Interviewed	Internal Candidates Interviewed
10	527	33	67	31
	(Total received for the 10 files selected. The lowest was 2 and the highest was 139)	(Total received for the 10 files selected. The lowest was 1 and highest was 6)	(Total received for the 10 files selected. The lowest was 2 and the highest was 11)	(Total received for the 10 files selected. The lowest was 1 and the highest was 6)

Observation:

Employee performance appraisals were not completed according to Agency-Policy.

IA tested the timeliness of the completion of performance appraisals to determine whether a performance appraisal was completed before and after the promotion according to Agency policies. Agency Policy *A-20 Performance Appraisals* (effective date May 16, 2019) establishes the guidelines and timelines for the preparation and administration of the performance appraisals and states the following:

- A performance appraisal shall be prepared **every year** for employees.
- An appraisal is due to be provided to the employee **upon their appraisal review date**.
- An appraisal review completed with the employee within **15 calendar days** of the appraisal due date **shall not be considered late**.
- Supervisors and management employee’s appraisals are due September 15th of each year for the prior fiscal year appraisal period.

Because the performance appraisal is a formal, documented evaluation of an employee’s performance, it is a valuable tool for both the employee and the supervisor. As well, it can be a resource to determine whether the candidate is in good standing and eligible for promotion opportunities. Having a completed performance appraisal on file is not a requirement for promotion at the Agency, but it can be additional justification about the competency and performance of an employee. IA’s noted the following in regards to the performance appraisal activity:

Number of Performance Appraisals:	Number of Days			
	Performance Appraisals were late for Employees Promoted			
	2016	2017	2018	2019
Not yet due	N/A	1	N/A	2
Completed on time	2	2	3	1
Not Completed	1		2	
Late	7	7	5	7
Range in number of days of late performance appraisals	4 – 107 days	35 - 180 days	13 – 104 days	5 – 96 days

Source: IA’s Promotion’s Review.

Using the *Agency-wide Merit Review Report*, IA has compiled the number of appraisals that are late and the amount of time (as of a specified point in time) for the last four calendar years, the table below highlights how late some employee’s evaluations can be:

Description	Agency-wide Merit Review Report Date of Report:			
	February 29, 2016	March 8, 2017	March 7, 2018	March 5, 2019
Number of employees	289	282	283	283
Late performance Appraisals	35	50	51	55
Range in number of days of late performance appraisals	1 – 900 days	3 - 372 days	2 – 538 days	1 – 216 days

Source: IEUA’s Merit Review Report provided by HR Department.

Based on IA’s review, completion and timeliness of employee’s performance appraisals continues to be an on-going issue. This observation was originally noted in IA’s audit report *Human Resources Operations Audit and Response* completed in July 2007. During that time, performance appraisals selected for review were between 1 day to 273 days late for both probationary and permanent employees.

According to the HR Department, enforcing the timely completion of performance appraisals has been and continues to be an issue across the Agency. HR provides monthly reminders through the Merit Review Report and also during Manager and/or Executive meetings. While this has sometimes improved timeliness, there are still many late evaluations. HR believes this has been a problem because there is a lack of consequences for those responsible to complete them.

2019 Recommendation #5:

Human Resources should work with Executive Management to determine the best approach to ensure compliance with the Agency Policy A-20 on completing timely performance appraisals for employees.

Observation:

Consider additional controls/oversight over internal promotions.

IA’s review of the selected files showed that the hiring managers have a level of discretion to select their staff through hiring and/or promotions; IA found no noncompliance with Agency policies and procedures in the hiring and promotion processes. *As an added control/guideline over internal promotions, and to prevent any potential appearance of impropriety and to reduce any potential for complaints, IA recommends that promotions of management staff and above be frozen or temporarily held up for further review, during times when Agency leadership changes or when vacancies exist for the HR Manager, Executive Managers and/or the General Manager.* This is a soft recommendation to consider increasing controls and oversight over internal promotions.

Observation:

There is a need to formalize an Agency Ethics Policy, including documenting the requirement for a Confidentiality Agreement and a Conflict of Interest policy/requirements and related training.

Currently, HR requires that some employees sign a **Confidentiality Agreement**. A confidentiality agreement is a memorandum signed by the employee and outlines the expectations and consequences for handling confidential information. There is no formal Agency-wide policy that determines which employees should sign a Confidentiality Agreement. HR Department stated they require only new and/or promoted employees with access to confidential information to sign a one-time Confidentiality Agreement with no renewal requirement. IA has recommended that this be signed by all or no employees.

The Agency's External Financial Auditors recommended that the Agency consider adopting a **Conflict of Interest Policy** that applies to all Agency employees to minimize risks of fraud and collusion.

On January 17, 2018, the Board of Directors adopted the Agency's Administrative Handbook which is specific to the Board of Director's conduct and functions. The Administrative Handbook, in Chapter 7 has a specific chapter, *Conflict of Interest* and discusses the expectation for all Agency employees and the Board to avoid all conflicts of interest.

On January 17, 2018 the Board rescinded Agency Resolution #2005-2-9, which was the Agency's documented **Ethics Policy** which addressed the conduct of all Agency employees. The resolution is still referenced in the main website under EthicsPoint and in AIM and it is tied to 8 other Agency policies. IA has previously recommended this Resolution be evaluated and updated to ensure it is clear and updated. Because the resolution has been rescinded, there is no formal documented Agency Ethics Policy. As a general best practice, the Agency should have a formal policy that documents the ethical conduct of employees.

HR should work with Executive Management to determine the best approach to address having a formalized Ethics Policy and training, Conflict of Interest policy and training and the need for the confidentiality agreement. At a minimum, training should be provided to all Agency employees; departments should encourage their employees to take department specific training to increase the awareness of these topics.

2019 Recommendation #6:

Human Resources should work with Executive Management to determine an approach/method on how to address: having an Agency-wide Ethics Policy, the requirement for a Confidentiality Agreement for selected employees, and Conflict of Interest policy and related training that covers all topics. Any requirement should be documented and be clearly communicated to all Agency employees.

CONTRACTING PRACTICES EVALUATION

IA reviewed the following vendors used by HR:

- NBI – performs background checks for new hires
- US Healthworks/Concentra: Performs physical examinations for new hires and drug testing and other health care screenings of employees.

Agency Procurement Ordinance

The Agency's Board-approved **Procurement Ordinance #108** describes the methods and authorizations necessary to legally obtain goods and services in the course of conducting Agency business. The Procurement Ordinance states in Section 8:

SECTION 8: PROHIBITION OF UNAUTHORIZED PROCUREMENT COMMITMENTS AND REQUIREMENTS FOR PROCUREMENT FUNDING

1. No work or services, except in emergency situations, shall be authorized or accepted until an appropriate and approved procurement instrument has been fully secured or executed, as required pursuant to this Ordinance. If work or services are procured in violation of this provision, and the value of the procurement is \$10,000 or less, then the employee securing the unauthorized procurement shall obtain the written approval of the GM and/or the Manager of CAP to secure the purchase requisition documents necessary to generate the appropriate purchase order or contract for payment. Unauthorized procurements with a value in excess of \$10,000 shall require approval from the Board. Public works field change orders do not fall under the provision of this section. A violation of this provision shall be cause for disciplinary action up to and including termination of the violator. The

Attachment 2 has additional excerpts from the Agency's Procurement Ordinance.

In support of the Procurement Ordinance, the Agency has also established **Agency Policy A-32: Authority to Contractually Commit the Agency**. This policy includes language describing who has authority to make procurement commitments in *Section 3.4 Funding and Authority to Commit the Agency*:

B. Pursuant to the Board's ordinance for best value procurements and procurement-related activities, after obtaining appropriate internal approvals for budgetary authorization, only the following Agency employees are authorized to contractually obligate or commit the Agency for the purchase of materials, equipment, supplies, leases, consultants and services:

- General Manager;
- Executive Managers/AGM;
- Manager of CAP;
- CAP staff and specific staff members delegated with specific authority ascribed by the Manager of CAP; and,
- Individual staff members who have been issued procurement/credit cards within the cards authorized parameters

- | | |
|-----|--|
| 3.5 | Any employee/individual effecting any procurement commitments outside of their explicit area of authority may, at the discretion of the GM, may receive disciplinary action up to and including termination. |
| 3.6 | Unauthorized procurement commitments made with a value in excess of \$10,000, the party responsible for the unauthorized procurement commitment shall request approval for the expenditure from the Board prior to payment being made in accordance with the Board's ordinance for best value procurements and procurement related activities. |
| 3.7 | At the request of the Manager of CAP, General Counsel will provide an opinion or interpretation, as to whether a given procurement action should be presented to the Board for ratification. |
| 3.8 | Emergency procurements shall be reported to the Board at the next scheduled Board meeting following said occurrence. Should the emergency procurement require a budget augmentation, the emergency procurement shall be presented to the Board for ratification and approval of the budget amendment. |
| 3.9 | All procurement commitments with the exception of emergency procurements shall have "appropriated funding." As represented by an approved purchase requisition. |

Impact

In FY 2019, the Agency paid NBI \$7,565 and the clinic \$12,036. Neither expense represents a significant dollar amount. However, without an "agreement" on file, the procurement method for these services does not follow the Agency's approved procurement process.

IA discussed the vendor activity with the Contracts and Procurement Department. They indicated that it would be best to establish an approved procurement document or agreement with the vendors to ensure the Agency is receiving the best value, minimizing liability and protecting the best interests of employees and their confidential information.

There are multiple risks to the Agency when payments are being made to vendors for goods or services that are not supported by the appropriate procurement documents and processes:

1. There is no contractual document describing the scope of the services.
2. There is no contractual document describing costs for the services to be provided.
3. There is no supporting information that the Agency has obtained the best price or highest quality for the services to be provided.
4. There is no supporting information that the services are authorized or in the Agency's best interests.

Both activities (background checks and physical exams) are important and necessary to the proper functioning of the Agency and the services that HR provides. IA provides the following recommendation.

2019 Recommendation #7:

IA recommends that Human Resources and Contracts and Procurement work together to establish written contracts for all vendors used by HR to document the scope, terms and conditions and prices for the services. The contracts should establish what information is included in the invoices for payment and what information needs to be maintained separately and confidentially.

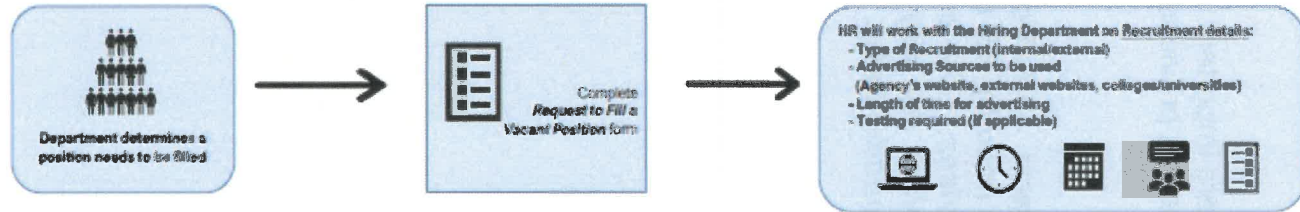
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Attachment 1:

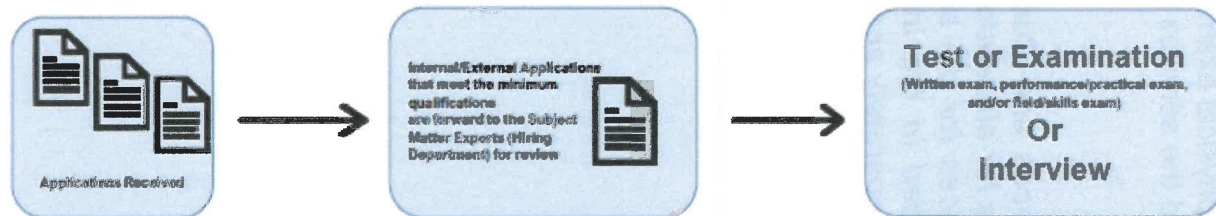
IEUA's Hiring and Promotions Process

Steps:

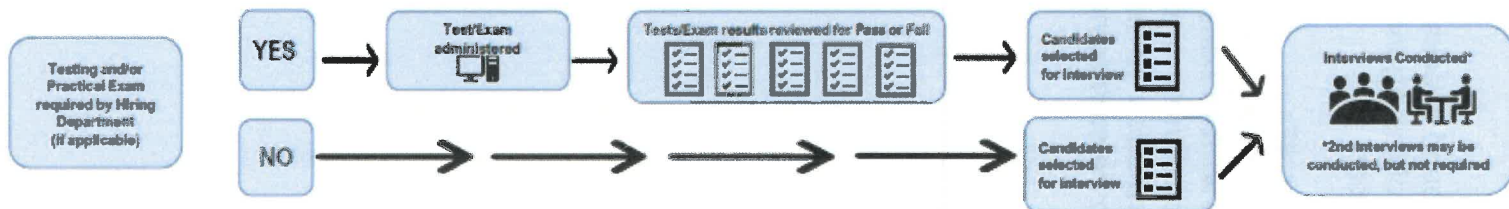
1. Vacancy Assessment, Advertising and Recruitment.



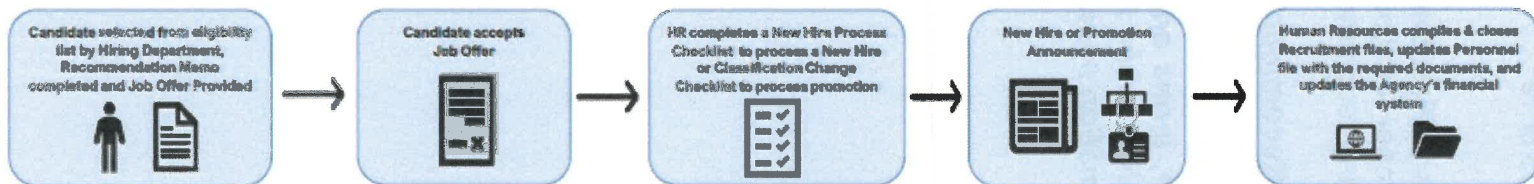
2. Receipt of Applications and Department Review.



3. Testing, Candidate Selection, and Interviews Conducted.



4. Selection of Final Candidate, Job Offer, Acceptance, Announcement, and Solidify Personnel files.



Attachment 2:

EXCERPTS FROM PROCUREMENT ORDINANCE #108 (approved October 16, 2019)

DEFINITIONS (SECTION 1):

- Z. "Professional Services" shall mean any specially-trained and experienced individual, firm or corporation, providing services and advice in financial, economic, accounting, engineering, information services, technical, architectural, or other administrative/professional matters.

PROCUREMENT PROCESS (SECTION 3):

- 2. Multi-year procurement terms and extension limits are as follows:
 - A. The term for initial procurements may not exceed five years.
 - B. The aggregate term of all extensions for initial procurements may not exceed two years, as determined by the GM.
 - C. Exceptions to the term limits, as determined by the GM, shall be compelling, in the best interest of the Agency, and documented accordingly.
- 3. Negotiated procurement parameters and term limits (subject to other provisions of this Ordinance) are as follows:
 - A. Negotiated procurements shall be authorized in writing by the respective Department Manager, and approved by the Manager of CAP for documented circumstances where there exists a single or sole source supplier, or unusual time or other constraint (e.g., power and energy, emergency communications, insurance carrier, specialized materials, services or equipment, information technology equipment, limited-time discount opportunities, best-value, etc.).
 - B. Negotiated procurements shall not require any formal or informal solicitation. However, for single or sole source negotiated procurements exceeding \$100,000, Board approval is required.
 - C. The aggregate term, including all extensions thereof, of any negotiated procurement may not exceed seven years.
 - D. Exceptions to the term limits shall be compelling, in the best interest of the Agency, and documented accordingly in the GM Report to the Board.

AUTHORIZATION LIMITS (SECTION 2):

Approver	Emergency	Competitively-Let	Single or Sole Source	Public Works Change Order & Amendments	Non Public Works Change Order & Amendments
Board		>\$100K	>\$100K	>\$100K	>\$40K
GM	Unlimited	≤\$100K	≤\$100K	≤\$100K	≤\$40K
Exec. Mgr. of Fin. & Admin.	As delegated	≤\$100K	≤\$100K	≤\$100K	≤\$40K
Mgr. of CAP	As delegated	≤\$100K	≤\$100K	≤\$100K	≤\$40K

PROHIBITIONS (SECTIONS 8 & 9):

SECTION 8: PROHIBITION OF UNAUTHORIZED PROCUREMENT COMMITMENTS AND REQUIREMENTS FOR PROCUREMENT FUNDING

1. No work or services, except in emergency situations, shall be authorized or accepted until an appropriate and approved procurement instrument has been fully secured or executed, as required pursuant to this Ordinance. If work or services are procured in violation of this provision, and the value of the procurement is \$10,000 or less, then the employee securing the unauthorized procurement shall obtain the written approval of the GM and/or the Manager of CAP to secure the purchase requisition documents necessary to generate the appropriate purchase order or contract for payment. Unauthorized procurements with a value in excess of \$10,000 shall require approval from the Board. Public works field change orders do not fall under the provision of this section. A violation of this provision shall be cause for disciplinary action up to and including termination of the violator. The

Manager of CAP shall retain the discretion to refer any violation of this provision to the Internal Audit Department for investigation.

2. No procurement instrument, except in emergency situations, shall be used which commits Agency funds or other financial obligations thereof, unless and until such unencumbered funding has been identified, authorized, and appropriated for said procurement.

SECTION 9: DEPARTMENT COOPERATION

All Agency employees, agents, volunteers, contractors, sub-contractors, consultants, etc. shall comply with the provisions of this Ordinance to ensure the responsible and prudent expenditure of public funds, and to maintain the preservation of the public trust.

Attachment 3:

2019 Audit Recommendations provided in the report:

Rec #	Recommendations
1	<i>Human Resources should include additional justification information for the final selection made in the recruitment file to close out the recruitment file and ensure it stands alone.</i>
2	<i>Human Resources should take the lead and work with Business Information Services and determine ways to implement automated workflows for recruitment documents and forms and utilize electronic files.</i>
3	<i>Human Resources should take the lead to install fireproof and waterproof filing cabinets to safeguard manual personnel, recruitment, and other HR related files, in the event of a disaster.</i>
4	<i>Human Resources should take the lead to ensure all Agency policies related to hiring and recruitment, as well as the department's SOPs are updated to include the most recent and accurate requirements for the processes and Agency formats.</i>
5	<i>Human Resources should work with Executive Management to determine the best approach to ensure compliance with the Agency Policy A-20 on completing timely performance appraisals for employees.</i>
6	<i>Human Resources should work with Executive Management to determine an approach/method on how to address: having an Agency-wide Ethics Policy, the requirement for a Confidentiality Agreement for selected employees, and Conflict of Interest policy and related training that covers all topics. Any requirement should be documented and be clearly communicated to all Agency employees.</i>
7	<i>IA recommends that Human Resources and Contracts and Procurement work together to establish written contracts for all vendors used by HR to document the scope, terms and conditions and prices for the services. The contracts should establish what information is included in the invoices for payment and what information needs to be maintained separately and confidentially.</i>

Audit Committee

INFORMATION
ITEM
2B



Date: December 18, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/09/19

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 two of two to extend the contract for Financial and Single Auditing services in the combined amount of \$40,380 for one year through Fiscal Year (FY) 2019/20 (to December 31, 2020) 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 are: \$31,270 Financial Audit and \$4,710 Single Audit for IEUA and \$4,400 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 2015/16. 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 over 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 timelines. 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): Y* *Amendment (Y/N): Y* *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 December 19, 2018, 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 No. 4600002079-002 for External Financial and Single Auditing Services

Attachment 2 - Contract Amendment No. 4600002081-002 for Chino Basin Regional Financing Authority Financial Auditing Services



**CONTRACT AMENDMENT NUMBER: 4600002079-002
FOR
EXTERNAL FINANCIAL AND SINGLE AUDITING SERVICES**

AMENDMENT NUMBER TWO is made and entered into this 10th day of October, 2019, 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, with offices located in 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 4600002079-002, the termination date of this Contract shall be extended to December 31, 2020; 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

10/10/19
(Date)



Deborah A. Harper
Partner

10/10/2019
(Date)



**CONTRACT AMENDMENT NUMBER: 4600002081-002
FOR
CHINO BASIN REGIONAL FINANCING AUTHORITY
FINANCIAL AUDITING SERVICES**

AMENDMENT NUMBER TWO is made and entered into this 10th day of October, 2019, 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, with offices located in 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 4600002081-002, the termination date of this Contract shall be extended to December 31, 2020; 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.

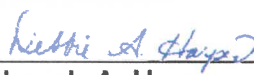
INLAND EMPIRE UTILITIES AGENCY:
**A MUNICIPAL WATER DISTRICT*

LANCE, SOLL & LUNGHARD, LLP:



Warren T. Green
Manager of Contracts and
Procurement

10/10/19
(Date)



Deborah A. Harper
Partner

10/10/2019
(Date)

Audit Committee

INFORMATION
ITEM
2C



Date: December 18, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/09/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Contract Extension for 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 consulting services and shall be compensated as agreed upon, in writing with the Audit Committee, the Board, Agency management and its designees". 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, has developed professional relationships with Agency staff and is a valuable asset to the organization. The Audit Committee members agreed the services of the External Financial Advisor are consistent with the Charter and best practices and considered a value to the Agency. The Audit Committee members provided direction to extend the consulting agreement for the maximum allowable time under the Procurement Ordinance. The contract is for 5 years plus 2 single year options. The contract falls within the approval authority of the General Manager/Manager of Contracts for \$6,500 per year.

Staff's Recommendation:

This is an information item for the Board of Directors.

Budget Impact *Budgeted* (Y/N): Y *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):

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Project No.:

Prior Board Action:

On December 19, 2018, 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 No. 4600002846 for Audit Advisory Services



CONTRACT NUMBER: 4600002846
FOR
AUDIT ADVISORY SERVICES

THIS CONTRACT (the "Contract"), is made and entered into this 25th day of November, 2019, 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 interchangeably referred to as "IEUA" and "Agency") and Rogers, Anderson, Malody & Scott, LLP with offices located in San Bernardino, California (hereinafter referred to as "Consultant"), for audit advisory services.

NOW, THEREFORE, in consideration of the mutual promises and obligations set forth herein, the parties agree as follows:

1. **PROJECT MANAGER ASSIGNMENT:** All technical direction related to this Contract shall come from the designated Project Manager. Details of the Agency's assignment are listed below.

Project Manager: Teresa V. Velarde, Manager of Internal Audit
Address: 6075 Kimball Avenue, Building A
Chino, California 91708

Telephone: (909) 993-1521
Facsimile: (909) 993-1983
Email: tvelarde@ieua.org

2. **CONSULTANT ASSIGNMENT:** Special inquiries related to this Contract and the effects of this Contract shall be referred to the following:

Consultant: Travis C. Hickey, CPA
Rogers, Anderson, Malody & Scott LLP
Address: 290 North D Street, Suite 300
Facsimile: San Bernardino, California 92401

Cell: (951) 233-2261
Facsimile: (909) 889-5361
Email: travis_hickey@msn.com

3. **ORDER OF PRECEDENCE:** The documents referenced below represent the Contract Documents. Where any conflicts exist between the General Terms and Conditions, or addenda attached, then the governing order of precedence shall be as follows:
- A. Amendments to Contract Number 4600002846
 - B. Contract Number 4600002846 General Terms and Conditions
 - C. Consultant's Proposal dated November 19, 2019, Exhibit A
4. **SCOPE OF WORK AND SERVICES:** Consultant's services and responsibilities, specifically Mr. Travis C. Hickey, CPA, shall include providing independent, objective advisory services and recommendations to the Agency's Audit Committee and the Internal Audit Department. Consultant shall conduct services at the request of the Project Manager on behalf of the Audit Committee, as needed. Consultant shall provide an estimate to the Project Manager of the hours needed to conduct the services and shall obtain a written notice to proceed prior to conducting the service. Any change to the designated Consultant shall be approved by the Agency in writing by an Amendment to the Contract.

Familiarity With Scope Of Work: By execution of this Agreement, Consultant warrants that:

- (1) It has thoroughly investigated and considered the scope of the Work under this Agreement to be performed, based on all available information; and
 - (2) It carefully considered how the Work should be performed; and
 - (3) It fully understands the difficulties and restrictions attending the performance of the Work under this Agreement; and
 - (4) It has the professional and technical competency to perform the Work and the production capacity to complete the Work in a timely manner with respect to the Scope of Work.
5. **TERM:** The term of this Contract shall extend from the date of the Notice to Proceed and terminate on December 31, 2024, which shall be agreed to by both parties, reduced to writing, and amended to this Contract. Agency hereby reserves the right to exercise (2) one-year optional extensions to the Contract term.
6. **COMPENSATION:** Agency shall pay Consultant's properly-executed invoice, approved by the Project Manager, within thirty (30) days following receipt of the invoice by IEUA. Invoices shall include the name of assigned personnel, fully-burdened hourly billing rate, dates worked, a brief description of work, as well as the Contract Number 4600002846 for payment. Payment shall be withheld for any service which does not meet Agency requirements or have proven unacceptable until such service is revised, the invoice resubmitted and accepted by the Project Manager. Consultant's original invoice shall be submitted electronically to apgroup@ieua.org.

In compensation for the Work represented by this Contract, Agency shall pay Consultant at a fixed annual fee of \$6,500 per year for a NOT-TO-EXCEED maximum total of \$32,500.00 for all services provided in accordance with Exhibit A, referenced herein, attached hereto, and made a part hereof.

Agency may, at any time, make changes to the Scope of Work, including additions, reductions, and changes to any or all of the Work, as directed in writing by the Agency. Such changes shall be made by an Amendment to the Contract. Any changes shall be made by a written Amendment to the Contract.

7. **CONTROL OF THE WORK:** The Consultant shall perform the Work in compliance with the Work Schedule. If performance of the Work falls behind schedule, the Consultant shall accelerate the performance of the Work to comply with the Work Schedule as directed by the Project Manager. If the nature of the Work is such that Consultant is unable to accelerate the Work, Consultant shall promptly notify the Project Manager of the delay, the causes of the delay, and submit a proposed revised Work Schedule.

8. **FITNESS FOR DUTY:**

A. **Fitness:** Consultant on the Jobsite:

1. shall report for work in a manner fit to do their job;
2. shall not be under the influence of or in possession of any alcoholic beverages or of any controlled substance (except a controlled substance as prescribed by a physician so long as the performance or safety of the Work is not affected thereby); and
3. shall not have been convicted of any serious criminal offense which, by its nature, may have a discernible adverse impact on the business or reputation of Agency.
4. **Compliance:** Consultant shall advise all Consultant and subcontractor personnel and associated third parties of the requirements of this Contract ("Fitness for Duty Requirements") before they enter on the Jobsite and shall immediately remove from the Jobsite any employee determined to be in violation of these requirements. Consultant shall impose these requirements on its Subcontractors. Agency may cancel the Contract if Consultant violates these Fitness for Duty Requirements.

9. **INSURANCE:** During the term of this Contract, the Consultant shall maintain at Consultant's sole expense, the following insurance.

A. **Minimum Scope of Insurance:** Coverage shall be at least as broad as:

1. **Commercial General Liability (CGL):** Insurance Services Office (ISO) Form CG 00 01 covering CGL on an "occurrence" basis, including products and completed operations, property damage, bodily injury and personal & advertising injury with limits no less than \$1,000,000 per occurrence. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location (ISO CG 25 03 or 25 04) or the general aggregate limit shall be twice the required claim limit.

2. Automobile Liability: ISO Form Number CA 00 01 covering any auto (Code 1), or if Consultant has no owned autos, covering hired, (Code 8) and non-owned autos (Code 9), with limit no less than \$1,000,000 per accident for bodily injury and property damage.
3. Workers' Compensation and Employers Liability: Workers' compensation limits as required by the State of California, with Statutory Limits, and Employer's Liability Insurance with limit of no less than \$1,000,000 per accident for bodily injury or disease.
4. Professional Liability (Errors and Omissions): Insurance appropriate to the Consultant's profession, with limit no less than \$1,000,000 per occurrence or claim, \$2,000,000 aggregate.

B. Deductibles and Self-Insured Retention: Any deductibles or self-insured retention must be declared to and approved by the Agency. At the option of the Agency, either: the insurer shall reduce or eliminate such deductibles or self-insured retention as respects the Agency, its officers, officials, employees and volunteers; or the Consultant shall procure a bond guaranteeing payment of losses and related investigations, claims administration and defense expenses.

C. Other Insurance Provisions: The policies are to contain, or be endorsed to contain, the following provisions:

1. General Liability and Automobile Liability Coverage
 - a. Additional Insured Status: The Agency, its officers, officials, employees, and volunteers are to be covered as additional insureds on the CGL policy with respect to liability arising out of work or operations performed by or on behalf of the Consultant including materials, parts or equipment furnished in connection with such work or operations. General liability coverage can be provided in the form of an endorsement to the Consultant's insurance (at least as broad as ISO Form CG 20 10 11 85 or both CG 20 10, CG 20 26, CG 20 33, or CG 20 38; and CG 20 37 forms if later revisions used).
 - b. Primary Coverage: The Consultant's insurance coverage shall be primary insurance coverage at least as broad as ISO CG 20 01 04 13 as respects the Agency, its officer, officials, employees and volunteers. Any insurance or self-insurance maintained by the Agency, its officers, officials, employees, volunteers, property owners or engineers under contract with the Agency shall be excess of the Consultant's insurance and shall not contribute with it.
 - c. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the Agency, its officers, officials, employees or volunteers.

- d. The Consultant's insurance shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability.
- e. The Consultant may satisfy the limit requirements in a single policy or multiple policies. Any such additional policies written as excess insurance shall not provide any less coverage than that provided by the first or primary policy.

2. Workers' Compensation and Employers Liability Coverage

The insurer hereby grants to Agency a waiver of any right to subrogation which any insurer of said Consultant may acquire against the Agency by virtue of the payment of any loss under such insurance. Consultant agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation, but this provision applies regardless of whether or not the Agency has received a waiver of subrogation endorsement from the insurer.

3. All Coverages

Each insurance policy required by this contract shall be endorsed to state that coverage shall not be suspended, voided, canceled by either party, reduced in coverage or in limits except after thirty (30) days prior written notice by certified mail, return receipt requested, has been given to the Agency.

- D. Acceptability of Insurers: All insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:-VII, and who are admitted insurers in the State of California.
- E. Verification of Coverage: Consultant shall furnish the Agency with original certificates and amendatory endorsements or copies of the applicable policy language effecting coverage required by this clause. All certificates and endorsements are to be received and approved by the Agency before work commences. However, failure to obtain the required documents prior to the work beginning shall not waive the Consultant's obligation to provide them. The Agency reserves the right to require complete, certified copies of all required insurance policies, including endorsements required by these specifications, at any time.
- F. Submittal of Certificates: Consultant shall submit all required certificates and endorsements to the following:

Inland Empire Utilities Agency, a Municipal Water District
Attn: Angela Witte
P.O. Box 9020
Chino Hills, California 91709

10. LEGAL RELATIONS AND RESPONSIBILITIES

- A. Professional Responsibility: The Consultant shall be responsible, to the level of competency presently maintained by other practicing professionals performing the same or similar type of work.
- B. Status of Consultant: The Consultant is retained as an independent Consultant only, for the sole purpose of rendering the services described herein and is not an employee of the Agency.
- C. Observing Laws and Ordinances: The Consultant shall keep itself fully informed of all existing and future state and federal laws and all county and city ordinances and regulations which in any manner affect the conduct of any services or tasks performed under this Contract, and of all such orders and decrees of bodies or tribunals having any jurisdiction or authority over the same. The Consultant shall at all times observe and comply with all such existing and future laws, ordinances, regulations, orders and decrees, and shall protect and indemnify, as required herein, the Agency, its officers, employees and agents against any claim or liability arising from or based on the violation of any such law, ordinance, regulation, order or decree, whether by the Consultant or its employees.
- D. Subcontract Services: Any subcontracts for the performance of any services under this Contract shall be subject to the written approval of the Project Manager. For this project subcontractor list law shall apply.
- E. Grant-Funded Projects: For Federal/State grant/loan-funded projects, the Consultant shall be responsible to comply with all grant requirements related to the Project. These may include, but shall not be limited to: Davis-Bacon Act, Endangered Species Act, Executive Order 11246 (Affirmative Action Requirements), Equal Opportunity, Disadvantaged Business Enterprise (DBE) Requirements, Competitive Solicitation, Record Retention and Public Access to Records, and Labor Compliance and Compliance Review.
- F. Conflict of Interest: No official of the Agency who is authorized in such capacity and on behalf of the Agency to negotiate, make, accept or approve, or to take part in negotiating, making, accepting or approving this Contract, or any subcontract relating to services or tasks to be performed pursuant to this Contract, shall become directly or indirectly personally interested in this Contract.

Consultant understands and acknowledges that executing this Agreement may inhibit the Consultant from engaging in future contracts, jobs, or agreements with the Agency that is, or can be considered, related to the Scope of Work due to a potential conflict of interest.
- G. Equal Opportunity and Unlawful Discrimination: During the performance of this Contract, the Consultant shall not unlawfully discriminate against any employee or employment applicant because of race, color, religion, sex, age, marital status,

ancestry, physical or mental disability, sexual orientation, veteran status or national origin. The Agency is committed to creating and maintaining an environment free from harassment and discrimination. To accomplish these goals the Agency has established procedures regarding the implementation and enforcement of the Agency's Harassment Prohibition and Equal Employment Opportunity commitments. Please refer to IEUA Policies A-29 (Equal Employment Opportunity) and A-30 Harassment Prohibition for detailed information or contact the Agency's Human Resources Administrator. A copy of either of these Policies can be obtained by contacting the Project Manager for your respective Contract. Please advise any of your staff that believes they might have been harassed or discriminated against while on Agency property, to report said possible incident to either the Project Manager, or the Agency's Human Resources Administrator. Please be assured that any possible infraction shall be thoroughly investigated by the Agency.

- H. Non-Conforming Work and Warranty: Consultant represents and warrants that the Work and Documentation shall be adequate to serve the purposes described in the Contract. For a period of not less than one (1) year after acceptance of the completed Work, Consultant shall, at no additional cost to Agency, correct any and all errors in and shortcomings of the Work or Documentation, regardless of whether any such errors or shortcoming is brought to the attention of Consultant by Agency, or any other person or entity. Consultant shall within three (3) calendar days, correct any error or shortcoming that renders the Work or Documentation dysfunctional or unusable and shall correct other errors within thirty (30) calendar days after Consultant's receipt of notice of the error. Upon request of Agency, Consultant shall correct any such error deemed important by Agency in its sole discretion to Agency's continued use of the Work or Documentation within seven (7) calendar days after Consultant's receipt of notice of the error. If the Project Manager rejects all or any part of the Work or Documentation as unacceptable and agreement to correct such Work or Documentation cannot be reached without modification to the Contract, Consultant shall notify the Project Manager, in writing, detailing the dispute and reason for the Consultant's position. Any dispute that cannot be resolved between the Project Manager and Consultant shall be resolved in accordance with the provisions of this Contract. The Consultant's liability with respect to any claims arising out of the Work and the Consultant shall bear no liability whatsoever for any consequential loss, injury or damage incurred by the Agency, including but not limited to, claims for loss of use, loss of profits and loss of markets.

I. Disputes:

1. All disputes arising out of or in relation to this Contract shall be determined in accordance with this section. The Consultant shall pursue the work to completion in accordance with the instruction of the Agency's Project Manager notwithstanding the existence of dispute. By entering into this Contract, both parties are obligated, and hereby agree, to submit all disputes arising under or relating to the Contract, which remain unresolved after the exhaustion of the procedures provided herein, to independent arbitration. Except as

otherwise provided herein, arbitration shall be conducted under California Code of Civil Procedure Sections 1280, et. seq, or their successor.

2. Any and all disputes during the pendency of the work shall be subject to resolution by the Agency Project Manager and the Consultant shall comply, pursuant to the Agency Project Manager instructions. If the Consultant is not satisfied with any such resolution by the Agency Project Manager, they may file a written protest with the Agency Project Manager within seven (7) calendar days after receiving written notice of the Agency's decision. Failure by Consultant to file a written protest within seven (7) calendar days shall constitute waiver of protest, and acceptance of the Agency Project Manager's resolution. The Agency's Project Manager shall submit the Consultant's written protests to the General Manager, together with a copy of the Agency Project Manager's written decision, for his or her consideration within seven (7) calendar days after receipt of said protest(s). The General Manager shall make his or her determination with respect to each protest filed with the Agency Project Manager within ten (10) calendar days after receipt of said protest(s). If Consultant is not satisfied with any such resolution by the General Manager, they may file a written request for arbitration with the Project Manager within seven (7) calendar days after receiving written notice of the General Manager's decision.
3. In the event of arbitration, the parties hereto agree that there shall be a single neutral Arbitrator who shall be selected in the following manner:
 - a. The Demand for Arbitration shall include a list of five names of persons acceptable to the Consultant to be appointed as Arbitrator. The Agency shall determine if any of the names submitted by Consultant are acceptable and, if so, such person shall be designated as Arbitrator.
 - b. In the event that none of the names submitted by Consultant are acceptable to Agency, or if for any reason the Arbitrator selected in Step (a) is unable to serve, the Agency shall submit to Consultant a list of five names of persons acceptable to Agency for appointment as Arbitrator. The Consultant shall, in turn, have seven (7) calendar days in which to determine if one such person is acceptable.
 - c. If after Steps (a) and (b), the parties are unable to mutually agree upon a neutral Arbitrator, the matter of selection of an Arbitrator shall be submitted to the San Bernardino County Superior Court pursuant to Code of Civil Procedure Section 1281.6, or its successor. The costs of arbitration, including but not limited to reasonable attorneys' fees, shall be recoverable by the party prevailing in the arbitration. If this arbitration is appealed to a court pursuant to the procedure under California Code of Civil Procedure Section 1294, et. seq., or their successor, the costs of arbitration shall also include court costs associated

with such appeals, including but not limited to reasonable attorneys' fees which shall be recoverable by the prevailing party.

4. **Joinder in Mediation/Arbitration:** The Agency may join the Consultant in mediation or arbitration commenced by a subcontractor on the Project pursuant to Public Contracts Code Sections 20104 et seq. Such joinder shall be initiated by written notice from the Agency's representative to the Consultant.
 - J. **Attorney's Fees:** In the event an action is commenced by a party to this Contract against the other to enforce its rights or obligations arising from this Contract, the prevailing party in such action, in addition to any other relief and recovery ordered by the court or arbitration, shall be entitled to recover all statutory costs, plus reasonable attorney's fees.
 - K. **Worker's Legal Status:** For performance against this Contract, Consultant shall only utilize employees and/or subConsultants that are authorized to work in the United States pursuant to the Immigration Reform and Control Act of 1986.
11. **INDEMNIFICATION:** Consultant shall indemnify the Agency, its directors, employees and assigns, and shall defend and hold them harmless from all liabilities, demands, actions, claims, losses and expenses, including reasonable attorneys' fees, which arise out of or are related to the negligence, recklessness or willful misconduct of the Consultant, its directors, employees, agents and assigns, in the performance of work under this Contract, to the extent caused by Consultant's negligence or willful misconduct. Notwithstanding the foregoing, to the extent that this Contract includes design professional services under Civil Code Section 2782.8, as may be amended from time to time, such duties of Consultant to defend and to indemnify Agency shall only be to the full extent permitted by Civil Code Section 2782.8.
 12. **OWNERSHIP OF MATERIALS AND DOCUMENTS/CONFIDENTIALITY:** The Agency retains ownership of any and all partial or complete reports, drawings, plans, notes, computations, lists, and/or other materials, documents, information, or data prepared by the Consultant and/or the Consultant's subcontractor(s) pertaining to this Contract. Any modifications or reuse of such materials for purposes other than those intended by the Contract shall be at the Agency's sole risk and without liability to Consultant. Said materials and documents are confidential and shall be available to the Agency from the moment of their preparation, and the Consultant shall deliver same to the Agency whenever requested to do so by the Project Manager and/or Agency. The Consultant agrees that same shall not be made available to any individual or organization, private or public, without the prior written consent of the Agency.
 13. **TITLE AND RISK OF LOSS:**
 - A. **Documentation:** Title to the Documentation shall pass to Agency when prepared; however, a copy may be retained by Consultant for its records and internal use. Consultant shall retain such Documentation in a controlled access file, and shall not

reveal, display or disclose the contents of the Documentation to others without the prior written authorization of Agency or for the performance of Work related to the Project.

- B. Material: Title to all Material, field or research equipment, and laboratory models, procured or fabricated under the Contract shall pass to Agency when procured or fabricated, and such title shall be free and clear of any and all encumbrances. Consultant shall have risk of loss of any Material or Agency-owned equipment of which it has custody.
- C. Disposition: Consultant shall dispose of items to which Agency has title as directed in writing by the Agreement Administrator and/or Agency.

14. PROPRIETARY RIGHTS:

- A. Rights and Ownership: Agency's rights to inventions, discoveries, trade secrets, patents, copyrights, and other intellectual property, including the Information and Documentation, and revisions thereto (hereinafter collectively referred to as "Proprietary Rights"), used or developed by Consultant in the performance of the Work, shall be governed by the following provisions:
 - 1. Proprietary Rights conceived, developed, or reduced to practice by Consultant in the performance of the Work shall be the property of Agency, and Consultant shall cooperate with all appropriate requests to assign and transfer same to Agency.
 - 2. If Proprietary Rights conceived, developed, or reduced to practice by Consultant prior to the performance of the Work are used in and become integral with the Work or Documentation, or are necessary for Agency to have complete enjoyment of the Work or Documentation, Consultant shall grant to Agency a non-exclusive, irrevocable, royalty-free license, as may be required by Agency for the complete enjoyment of the Work and Documentation, including the right to reproduce, correct, repair, replace, maintain, translate, publish, use, modify, copy or dispose of any or all of the Work and Documentation and grant sublicenses to others with respect to the Work and Documentation.
 - 3. If the Work or Documentation includes the Proprietary Rights of others, Consultant shall procure, at no additional cost to Agency, all necessary licenses regarding such Proprietary Rights so as to allow Agency the complete enjoyment of the Work and Documentation, including the right to reproduce, correct, repair, replace, maintain, translate, publish, use, modify, copy or dispose of any or all of the Work and Documentation and grant sublicenses to others with respect to the Work and Documentation. All such licenses shall be in writing and shall be irrevocable and royalty-free to Agency.

- B. No Additional Compensation: Nothing Set forth in this Contract shall be deemed to require payment by Agency to Consultant of any compensation specifically for the assignments and assurances required hereby, other than the payment of expenses as may be actually incurred by Consultant in complying with this Contract.
15. INFRINGEMENT: Consultant represents and warrants that the Work and Documentation shall be free of any claim of trade secret, trademark, trade name, copyright, or patent infringement or other violations of any Proprietary Rights of any person.

Consultant shall defend, indemnify and hold harmless, Agency, its officers, directors, agents, employees, successors, assigns, servants, and volunteers free and harmless from any and all liability, damages, losses, claims, demands, actions, causes of action, and costs including reasonable attorney's fees and expenses arising out of any claim that use of the Work or Documentation infringes upon any trade secret, trade mark, trade name, copyright, patent, or other Proprietary Rights.

Consultant shall, at its expense and at Agency's option, refund any amount paid by Agency under the Contract, or exert its best efforts to procure for Agency the right to use the Work and Documentation, to replace or modify the Work and Documentation as approved by Agency so as to obviate any such claim of infringement, or to put up a satisfactory bond to permit Agency's continued use of the Work and Documentation.

16. NOTICES: Any notice may be served upon either party by delivering it in person, or by depositing it in a United States Mail deposit box with the postage thereon fully prepaid, and addressed to the party at the address set forth below:

Agency: Warren T. Green
Manager of Contracts
Inland Empire Utilities Agency, a Municipal Water District
P.O. Box 9020
Chino Hills, California 91709

Consultant: Travis C. Hickey, CPA
Rogers, Anderson, Malody & Scott, LLP
290 North D Street, Suite 300
San Bernardino, California 92401

Any notice given hereunder shall be deemed effective in the case of personal delivery, upon receipt thereof, or, in the case of mailing, at the moment of deposit in the course of transmission with the United States Postal Service.

17. SUCCESSORS AND ASSIGNS: All of the terms, conditions and provisions of this Contract shall inure to the benefit of and be binding upon the Agency, the Consultant, and their respective successors and assigns. Notwithstanding the foregoing, no assignment of the duties or benefits of the Consultant under this Contract may be assigned, transferred or otherwise disposed of without the prior written consent of the Agency; and any such

purported or attempted assignment, transfer or disposal without the prior written consent of the Agency shall be null, void and of no legal effect whatsoever.

18. **PUBLIC RECORDS POLICY:** Information made available to the Agency may be subject to the California Public Records Act (Government Code Section 6250 et seq.) The Agency's use and disclosure of its records are governed by this Act. The Agency shall use its best efforts to notify Consultant of any requests for disclosure of any documents pertaining to this work.

In the event of litigation concerning disclosure of information Consultant considers exempt from disclosure, (e.g., "Confidential," "Proprietary" or "Trade Secret,") Agency shall act as a stakeholder only, holding the information until otherwise ordered by a court or other legal process. If Agency is required to defend an action arising out of a Public Records Act request for any of the information Consultant has marked "Confidential," "Proprietary" or "Trade Secret," Consultant shall defend and indemnify Agency from all liability, damages, costs, and expenses, including attorneys' fees, in any action or proceeding arising under the Public Records Act.

19. **CERTIFICATION UNDER LABOR CODE SECTION 1861 BY CONSULTANT:** I, the undersigned Consultant, am aware of the provisions of Section 3700 et seq. of the Labor Code which requires every employer to be insured against liability for Worker's Compensation or to undertake self-insurance in accordance with the provisions of the Code, and I, the undersigned Consultant, agree to and will comply with such provisions before commencing the performance of the work of this Agreement.
20. **RIGHT TO AUDIT:** The Agency reserves the right to review and/or audit all Consultant's records related to the Work. The option to review and/or audit may be exercised during the term of the Contract, upon termination, upon completion of the Contract, or at any time thereafter up to twelve (12) months after termination of the Contract. The Consultant shall make all records and related documentation available within three (3) working days after said records are requested by the Agency.
21. **INTEGRATION:** The Contract Documents represent the entire Contract of the Agency and the Consultant as to those matters contained herein. No prior oral or written understanding shall be of any force or effect with respect to those matters covered by the Contract Documents. This Contract may not be modified, altered or amended except by written mutual agreement by the Agency and the Consultant.
22. **GOVERNING LAW:** This Contract is to be governed by and constructed in accordance with the laws of the State of California, County of San Bernardino.
23. **TERMINATION FOR CONVENIENCE:** The Agency reserves and has the right to immediately suspend, cancel or terminate this Contract at any time upon written notice to the Consultant. In the event of such termination, the Agency shall pay Consultant for all authorized and Consultant-invoiced services up to the date of such termination.

24. FORCE MAJEURE: Neither party shall hold the other responsible for the effects of acts occurring beyond their control; e.g., war, riots, strikes, natural disasters, etcetera.
25. NOTICE TO PROCEED: No services shall be performed or furnished under this Contract unless and until this document has been properly signed by all responsible parties and a Notice to Proceed order has been issued to the Consultant.
26. AGENCY-PROVIDED INFORMATION AND SERVICES: The Agency shall furnish Consultant available studies, reports and other data pertinent to Consultant's services; obtain or authorize Consultant to obtain or provide additional reports and data as required; furnish to Consultant services of others required for the performance of Consultant's services hereunder, all subject to Agency's prior approval, and Consultant shall be entitled to use and rely upon all such information and services provided by the Agency or others in performing Consultant's services under this Agreement.
27. THIRD PARTIES: The services to be performed by Consultant are intended solely for the benefit of the Agency. No person or entity not a signatory to this Agreement shall be entitled to rely on Consultant's performance of its services hereunder, and no right to assert a claim against Consultant by assignment of indemnify rights or otherwise shall accrue to a third party as a result of this Agreement of the performance of Consultant's services hereunder.

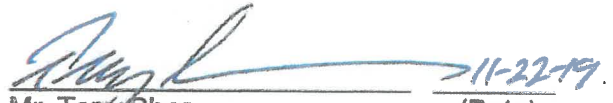
IN WITNESS WHEREOF, the parties hereto have caused the Contract to be entered as of the day and year written above.

INLAND EMPIRE UTILITIES AGENCY:
(A Municipal Water District)

ROGERS, ANDERSON, MALODY & SCOTT,
LLP:


for Warren T. Green
Manager of Contracts and
Procurement

11/25/2019
(Date)


Mr. Terry Shea
Partner

11-22-19
(Date)

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Exhibit A



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

November 19, 2019

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)
Kirk A. Franks, CPA (Partner Emeritus)

DIRECTORS

Jenny Liu, CPA, MST

MANAGERS / STAFF

Charles De Simoni, CPA
Gardenya Duran, CPA
Brianna Schultz, CPA
Jingjie Wu, CPA
Evelyn Morentin-Barcena, CPA
Jin Gu, CPA, MT
Veronica Hernandez, CPA
Tara R. Thorp, CPA, MSA
Laura Arvizu, CPA

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

*Employee Benefit Plan
Audit Quality Center*

California Society of
Certified Public Accountants



A Worldwide Alliance of Independent
Accounting, Law and Consulting Firms

**Audit Committee
Inland Empire Utilities Agency
Attn: Teresa Velarde, Internal Audit Manager
6075 Kimball Avenue
Chino, CA 91708**

Dear Ms. Velarde:

We are pleased to provide our proposal to continue serving as a financial expert, providing advisory and consulting services to the Audit Committee (Committee) of the Board of Directors of the Inland Empire Utilities Agency (Agency). Mr. Travis Hickey has served in this capacity since 2008 with the previous eight years being in association with Rogers, Anderson, Malody & Scott, LLP (RAMS). Over this period Mr. Hickey has served as a trusted resource and advisor to both the Committee and the Internal Audit Department (IAD). In addition to the Committee meetings and Board meeting where the annual audit is presented, Mr. Hickey has assisted the Agency with a variety of other projects including presenting training on fraud in government organizations, reviewing the Committee and IAD Charters, and assisting the Agency with the external audit firm selection.

As a member of both the American Institute of Certified Public Accountants and the California Society of Municipal Finance Officers, Mr. Hickey continues to maintain his skills in areas related to governmental accounting and auditing. Additionally, over the course of providing services to the Agency for the past eleven years, Mr. Hickey has gained a wealth of knowledge about internal operations and practices which allows him to provide the highest level of service to the Committee. We believe that his exposure to prior internal audits and other matters before the Committee make him uniquely qualified to provide the best possible advice to the Agency. Lastly, in association with RAMS, a whole host of resources are available to the Agency including qualified staff in Mr. Hickey's absence as well as additional experts in the areas governmental accounting, auditing, and taxation.

STABILITY. ACCURACY. TRUST.

We are pleased to offer our services to the Agency for the term of this agreement at a fixed annual fee of \$6,500 per year. The proposed fee represents a slight increase over the previous contract, which was not increased during the prior eight years. We understand the Agency is contemplating a five year contract with two one-year renewal options. We are pleased to report that our fee during this term (including optional extension years) will be unchanged.

We look forward to continuing our relationship with the Agency, Committee, and Internal Audit Department and thank you for providing us the opportunity to present our proposal. Should you have any questions, please feel free to call me at (909) 889-0871.

Sincerely,

ROGERS, ANDERSON, MALODY & SCOTT, LLP



Terry P. Shea, CPA

INFORMATION
ITEM
2D



Date: December 18, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

12/09/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for December 2019

Executive Summary:

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

During this quarter, Internal Audit (IA) staff worked primarily on the Human Resources Audit: Hiring and Promotions Operations Review and completed the quality control review of the Agency's Fiscal Year (FY) 2018/19 Comprehensive Annual Financial Report. Additionally, IA worked on various on-going and required administrative items such as the budget process tasks and completed training as required by the IA Department's Charter, among other duties and responsibilities.

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 details and information of the audit projects.

Staff's Recommendation:

This is an information item.

Budget Impact *Budgeted (Y/N): Y* *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 September 18, 2019, the Board of Directors approved the amended FY 2019/20 Annual Audit Plan. The original FY 2019/20 Annual Audit Plan was approved on June 19, 2019. The plan was in accordance with auditing standards and the Charter requirements.

On December 19, 2018, 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 ethical and internal control environment, safeguarding assets and fiscal health, providing recommendations to improve efficiencies and to assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Internal Audit Department Quarterly Status Report for December 2019
Attachment 2 - Results of Internal Audit's Quality Control Review: Fiscal Year 2019
Comprehensive Annual Financial Report

Internal Audit Department Quarterly Status Report for December 2019

Projects Completed This Period

Project: **Human Resources Audit: Hiring and Promotions Review**

Scope:

To evaluate processes and operations of the Human Resources Department (HR). The Hiring and Promotions Operations Review is the first of the HR audit reports to be completed. The review evaluated policies, controls, processes and practices for hiring and promoting, including recruitment, applications, background checks and document retention processes and methods.

Status: **Complete**

The audit found that HR has effective processes in place to assist management in their recruitment and promotion efforts. IA has identified opportunities to improve and strengthen processes and controls. During the period from January 1, 2016 to July 3, 2019 (approximately 42 months), the Agency hired 150 new employees and had 37 promotions. IA provides the following recommendations for HR to consider, detailed observations and recommendations are included in the audit report, under separate cover:

- Candidate selection: Consider including additional justifying information to support the final selection.
- Workflows & Electronic files: Implement automation opportunities for HR documents and files.
- Fire/Waterproof cabinets: Consider fireproof and waterproof cabinets to safeguard HR files.
- Performance appraisals: Determine the best process to ensure compliance with Agency Policy A-20, to ensure performance appraisals are completed and provided to employees in a timely manner.
- Internal Promotions: Consider a promotion freeze for management level positions and above during interim periods of temporary leadership (specifically during periods of interim General Manager, interim Executive Managers and/or interim Manager of Human Resources).
- Ethics Policy/Confidentiality Agreement/Conflict of Interest Policy: Implement a comprehensive Agency-wide Ethics and Conflicts of Interest policy and/or training for all employees.
- Contractors: Work with Contracts and Procurement to establish contracts with vendors used by HR.
- Policies & SOPs: Update Agency policies and SOPs related to hiring and recruitment.

Project: **Quality Control Review of the FY 2018/19 Comprehensive Annual Financial Report**

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 October and has reviewed the financial statements and CAFR documents. Internal Audit coordinates with both Finance and Accounting and the External Auditors to review the financial statements and the CAFR.

IA's role is that of an added level of quality control review to double check totals, transfers of information and to ensure a professional 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.

Internal Audit Department Quarterly Status Report for December 2019

- Verified that the FY 2019 amounts and totals on the financial statements were transferred accurately from the FY 2019 Trial Balance.
- Verified that the FY 2018 amounts/totals for all financial statements were transferred accurately from the FY 2018 published CAFR to the FY 2019 CAFR.
- Recalculated the FY 2019 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 (2018) CAFR for consistency and completeness and noted no exceptions.

IA also compared the 2019 CAFR information to the recommendations from GFOA from their review of the 2018 CAFR. IA noted that the GFOA graded all 14 sections of the CAFR with a "proficient" rating. GFOA comments were:

- Formatting of the table of contents
- Reporting and classification of "Restricted assets"
- Describing the valuation techniques used in the fair value measurement for "Level 2" inputs
- The use of "covered employee payroll" as the measure of payroll for disclosures concerning "Other Post-Employment Benefits (OPEB)"

IA reviewed the draft 2019 CAFR documents to ensure that the GFOA comments had been considered and implemented.

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. IAs report to Finance and Accounting's management is included as an attachment.

Project: **Contract Extension with Lance, Soll & Lunghard, LLP (LSL) for:
Financial and Single Auditing services for IEUA
Financial Auditing services for the Chino Basin Regional Financing Authority (CBRFA)**

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 four 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 2016. The Agency will exercise the final option to extend the contract for the external financial audit and single audit services for one year through Fiscal Year 2020. This will be LSL's 5th and final year. State requirements state that the Agency must rotate the External Financial Auditor every 5 years. The Audit Committee is responsible for oversight of the audit services.

LSL attended the June Audit Committee Meeting to discuss the scope of the financial audit. The external auditors were at the Agency in October 2019 to perform final field work related to the FY 2019 CAFR and will present the results of the audit at the Audit Committee meeting scheduled for December 2019.

Internal Audit Department Quarterly Status Report for December 2019

Project: **Audit Committee Financial Advisor Contract Extension**

Scope:

The Agency will execute a new contract to establish a new consultant agreement with Rogers, Anderson, Malody & Scott, LLP to have Mr. Travis Hickey, CPA continue serving as the Audit Committee's external financial expert.

Status: **Complete**

The contract is a 5-year contract with two single-year options, as allowed under the Procurement Ordinance. The firm is keeping their annual fee at \$6,500 for the entire duration of the contract.

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

Scope:

To review and make necessary updates to the IA Charter and the AC Charter as required to ensure they meet best practices and the Agency's goals.

Status: **Complete**

The purpose of the Audit Committee and 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/changes. IA proposed changes related to the handling of projects and requests. The Charters were presented in draft form in September 2019 with proposed updates for consideration by the Audit Committee. IA is bringing the charters in final form under separate cover.

Project: **Report on Open Recommendations as of December 2019***

Scope:

The IAD Charter requires IA to follow-up on the status of outstanding recommendations to determine if corrective actions have been implemented. 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 & On-going- Status of outstanding recommendations as of December 2019.**

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 each June. This summary provides an updated count of the outstanding recommendations. This summary includes new recommendations provided during this fiscal year as well as considers any recommendations cleared during the year (up to the prior quarter). A follow up review is typically scheduled between 12–24 months from the date of the original audit, to allow time for full implementation. If a recommendation is deemed not 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.

As shown on the following table, of the 78 recommendations:

- 19 recommendations are planned to be reviewed in the current fiscal year (approximately 25%)
- 20 recommendations are expected to be reviewed in the following fiscal year (approximately 23%)
- 39 recommendations that are highlighted in gray do not require follow-up as the issuance date is within the last 18 months (approximately 52%).

Internal Audit Department Quarterly Status Report for December 2019

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA*	Planned Follow-Up
Accounts Payable Follow-Up (Deferred Recommendations related to Agency Policies)	August 29, 2013	2	FY 2020
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 2021
Water Use Efficiency Programs Audit	June 5, 2017	6	FY 2021
Contracts and Procurement Follow-Up Audit	August 30, 2017	1	FY 2021
Payroll Operations Audit	August 30, 2017	6	FY 2021
Procurement Card Audit	March 1, 2018	7	FY 2022
Wire Transfers Audit	March 1, 2018	5	FY 2022
Garden in Every School	May 31, 2018	7	FY 2022
Inter-fund Transactions Audit	August 30, 2018	3	FY 2022
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	November 29, 2018	3	FY 2022
Water Connection Fees Audit	February 25, 2019	5	FY 2023
Accounts Payable Follow-Up Audit	May 30, 2019	5	FY 2023
Voyager Fuel Card Audit	May 30, 2019	4	FY 2023
Total Outstanding Audit Recommendations		78	

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

**The Outstanding Recommendations Table does not update the status of recommendations resolved by follow-up audits during the current quarter or add any new recommendations resulting from the projects completed during this quarter (as noted in this Status Report). The table is revised for those changes once all items have been received by the Audit Committee and the Board of Directors which is when items are determined to be final.*

Projects in Process

Project: Human Resources Audit – additional areas

Scope:

IA is performing an operational audit of the HR Department that will be completed in phases. An audit report will be provided after the completion of each area reviewed. To-date, IA has completed the first review which evaluated the Agency's Hiring and Promotions processes. Reports will be submitted under separate cover. Other planned areas of review include:

- Goals and Objectives
- Performance Workload Indicators
- Policies, Processes and SOPs
- Effectiveness and Efficiencies
- Employee Grievance Process
- Training & Education Programs
- Personal Computer Loan Program
- Other requested areas of review

Status: On-going - IA continues to work with HR through this audit.

**Internal Audit Department
Quarterly Status Report for December 2019**

Planned/Future/Additional Projects

Project: **Recycled Water Program Revenue Audit**

Scope:

Recycled water revenue in FY 2017/18 was almost \$16.9 million. IA is beginning to evaluate whether the internal controls over revenue recognition comply with Agency policies and legal and regulatory requirements, revenues are recorded accurately in the Agency's accounting records and financial statements and identify any potential additional revenue due the Agency. The Planning & Environmental Resources and Finance and Accounting departments are the primary contact departments. This was a request by the Audit Committee to move this audit up in priority.

Status: **Initial Research in Progress**

A final report is anticipated to be completed by March 2020.

Project: **Garden in Every School® Follow-Up Audit**

Scope:

To evaluate the implementation status of the 7 recommendations provided in the May 31, 2018 Garden in Every School® Audit report and determine if additional time is necessary to fully implement recommendations.

Status: **Initial Research in Progress**

The original report was completed at the request of the Audit Committee. The scope of the original audit was to evaluate if gardens are used as intended and identify opportunities to improve the program. IA provided 7 recommendations which staff began to work on. Recently External Affairs staff indicated that they have either implemented or are in progress of implementing recommendations and asked if we would provide additional review to certify the implementation status. IA continues to work with staff.

A final report is anticipated to be completed by March 2020.

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 IAD Charter, the Annual Audit Plan, and best practices. The management request projects are short-term projects, typically lasting no more than 60–75 hours 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 or assistance, the Manager of IA and when deemed appropriate by Executive Management.

During this quarter, IA was working on the following "Management Requests":

- Continued to assist with policy language interpretation and review of Agency policies.
 - Participated in Safety Committee and IT Security Committee
-

Internal Audit Department Quarterly Status Report for December 2019

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 must regularly 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 literature and participation in 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. One Senior Auditor serves on the same Chapter's Board of Directors as the Chapter Secretary.

Two IA members are preparing for the 3-part Certified Internal Auditor (CIA) examination and certification. 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. 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. One Senior Auditor is a Certified Public Accountant (CPA) and Certified Internal Auditor (CIA).

Future Audit Committee Meetings:

- *Monday, March 9, 2020 – Regularly Scheduled Audit Committee Meeting*
 - *Monday, June 8, 2020 – Regularly Scheduled Audit Committee Meeting*
 - **September 2020 - Special Audit Committee Meeting (Date to be finalized)**
(this year, the regularly scheduled date falls on a Holiday)
 - *Monday, December 7, 2019 - Regularly Scheduled Audit Committee Meeting*
-

Date: December 2, 2019

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
Peter Soelter, Senior Internal Auditor
Sapna Nangia, Senior Internal Auditor

Subject: Results of Internal Audit's Quality Control Review:
Fiscal Year 2019 Comprehensive Annual Financial Report (CAFR)

DRAFT

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 FY 2019 CAFR, IA completed the initial review prior to the December 9, 2019 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 2019 amounts and totals on the financial statements were transferred accurately from the FY 2019 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 2018 amounts/totals for all financial statements were transferred accurately from the FY 2018 published CAFR to the FY 2019 CAFR.
- Recalculated for mathematical accuracy the FY 2019 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.

Finally, IA reviewed the comments made by the Government Finance Officers Association (GFOA) on the prior year (FY 2018) CAFR to determine whether those comments had been addressed in the current year (FY 2019) CAFR.

In addition to the Agency's CAFR, IA reviewed the draft financial statements of the Chino Basin Regional Financing Authority for the year ended June 30, 2019 and provided comments and suggestions to FAD.

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 2018 CAFR and the 2019 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

IA's comparison of the 2019 Continuing Disclosures to those of the prior year for consistency and completeness noted no exceptions. However, the Continuing Disclosures chart includes the statement that "no total assessed value noted". IA defers to FAD as to this comment.

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 received a grade of "proficient". The GFOA did, however have several comments about presentation and disclosures:

1. Table of contents: Segregation of the three essential sections of the CAFR.
2. Reporting of "Restricted assets".

The GFOA comment states that "Restricted assets" should be included with either "Current assets" or "Noncurrent assets" and not as a separate category. IA has not been provided a final version of the CAFR to verify the final presentation but did note that in the version of the CAFR provided to IA, "Restricted assets" were included with "Noncurrent assets".

3. Fair value measurement disclosures for Level 2 inputs.
4. "Covered payroll" disclosure for "OPEB plans".

As of the date of this memo (December 2) IA has not been able to determine whether the GFOA comments have been addressed and implemented because IA has not reviewed a finalized version of the CAFR.

IA Recommendations

1. During IA's review IA noted that many of IA's comments and suggestions were being repeated from the prior year. Discussions with FAD noted that FAD revises the final CAFR drafts before printing and that these revisions are not transferred back to the original Word, Excel and other documents used in the CAFR development process.

IA suggests that, once the CAFR has been completed and issued and in preparation for the following year, FAD perform a comprehensive review of all spreadsheets, worksheets and financial statements used for the development of the CAFR so that the most current versions, wording and classifications are used throughout. This will reduce duplication of effort, repetitive review comments and create a more efficient CAFR completion process each successive year.

Conclusion

IA appreciates the opportunity to provide the quality control review of the draft FY 2019 CAFR and looks forward to the final version of the FY 2019 CAFR that will be presented for Board of Directors' approval on December 18, 2019. 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.