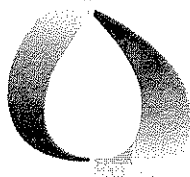


NOTICE OF MEETING

OF THE
**AUDIT
COMMITTEE**

OF THE
BOARD OF DIRECTORS
OF THE



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

IS SCHEDULED FOR
WEDNESDAY, MARCH 11, 2015
9:00 A.M.

AT THE ADMINISTRATION HEADQUARTERS
6075 Kimball Avenue, Building A
Chino, CA 91708



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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

**WEDNESDAY, MARCH 11, 2015
9:00 A.M.**

CALL TO ORDER

PUBLIC COMMENT

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

ADDITIONS TO THE AGENDA

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

1. **ACTION ITEMS**
 - A. **MINUTES**

The Committee will be asked to approve the Audit Committee meeting minutes from December 10, 2014.
2. **INFORMATION ITEMS**
 - A. **REGIONAL CONTRACT REVIEW UPDATE - INTERIM REPORT (WRITTEN)**
 - B. **INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR MARCH 2015 (WRITTEN)**
3. **GENERAL MANAGER'S COMMENTS**
4. **COMMITTEE MEMBER COMMENTS**
5. **COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS**

6. **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.

DECLARATION OF POSTING

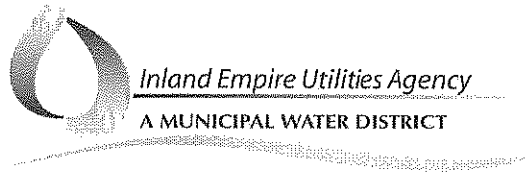
Proofed by: SR

I, Stephanie Riley, Administrative Assistant of the Inland Empire Utilities Agency, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. in the foyer at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, March 5, 2015.

Stephanie Riley
Stephanie Riley

**ACTION
ITEM**

1A



**MINUTES
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
WEDNESDAY, DECEMBER 10, 2014
9:00 A.M.**

COMMITTEE MEMBERS PRESENT

Terry Catlin, Chair
Jasmin A. Hall

STAFF PRESENT

P. Joseph Grindstaff, General Manager
Christina Valencia, Chief Financial Officer/Assistant General Manager
Teresa Velarde, Manager of Internal Audit
Craig Proctor, Pretreatment and Source Control Supervisor
Jason Gu, Grants Officer
Javier Chagoyen-Lazaro, Manager of Finance and Accounting
Sapna Nangia, Senior Internal Auditor
Stephanie Riley, Administrative Assistant
Suresh Malkani, Accounting Supervisor

OTHERS PRESENT

Nitin Patel, White Nelson Diehl Evans
Peter Soelter, Senior Internal Auditor IEUA Temp
Travis Hickey, Audit Committee Advisor

The meeting was called to order at 9:05 a.m. There were no public comments received or additions to the agenda.

ACTION ITEMS

The Committee:

- ◆ Approved the Audit Committee meeting minutes of September 10, 2014
- ◆ Approved the FY 2013/14 Comprehensive Annual Financial Report and Financial Audit
- ◆ Approved the FY 2013/14 Single Audit

INFORMATION ITEMS

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

- ◆ Regional Contract Review Update – Interim Report for the City of Chino and the City of Fontana
- ◆ Internal Audit Department Quarterly Status Report for December 2014

GENERAL MANAGER'S COMMENTS

None.

COMMITTEE MEMBER COMMENTS

None.

COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

None.

With no further business, the meeting adjourned at 10:08 a.m.

Respectfully submitted,



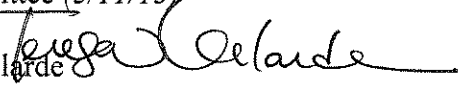
Stephanie Riley
Recording Secretary

*A Municipal Water District

APPROVED: MARCH 11, 2015

INFORMATION
ITEM
2A



Date: March 18, 2015
To: The Honorable Board of Directors
Through: Audit Committee (3/11/15)
From: Teresa V. Velarde 
Manager of Internal Audit
Subject: Regional Contract Review
Interim Audit Report for Cucamonga Valley Water District

RECOMMENDATION

This is an information item for the Board of Directors.

BACKGROUND

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

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

The report for the Cucamonga Valley Water District (CVWD or Contracting Agency) has been completed and is attached. IA identified several observations and recommendations to strengthen administrative, accounting, recording, and reporting controls to ensure the intent of the Regional Contract is achieved. For example, with the previous four Regional Contract reports, most of the IA recommendations provided could be applied to all Contracting Agencies on a going-forward basis, as part of an amendment and/or as part of the Regional Contract review and renegotiation process; in order to ensure all Regional Contracting Agencies apply and administer the Regional Contract in a uniform and consistent manner. A summary of IA's recommendations are listed in Exhibit A for IEUA's Executive Management to consider. Following are summaries of the main observations noted and the attached reports provide additional details.

IA also identified areas where the Contracting Agency should have tighter controls, stronger reconciliation procedures and greater oversight to ensure items are recorded, reported and

collected appropriately. As well as, to ensure the Regional Contract is administered and applied properly. IA's suggestions to the Contracting Agencies can be found in Exhibit A. Because the observations noted impact the fees owed/paid to IEUA, IA recommends the IEUA's Planning and Environmental Compliance Department staff work closely with the Contracting Agencies to ensure the observations and recommendations provided in these reports are resolved timely.

Cucamonga Valley Water District

The main observations noted during the CVWDs review include:

- No Connection Fees were collected for the Chaffey College – Rancho Cucamonga Campus, which included new construction and/or renovation of 10 buildings, since 2007. IA staff performed a physical observation but did not have access to most buildings and cannot estimate the Connection Fees that should have been collected by CVWD. In comparison, the City of Fontana collected \$52,800 for one new building on the Chaffey College in Fontana. The City of Chino did not collect for three new buildings on the Chaffey College in Chino, and IA estimated a low estimate of approximately \$90,000 in Connection Fees that were not collected.
- No Connection Fees were collected for a 14-classroom building with restrooms at Los Amigos Elementary School in the Cucamonga School District. IA reviewed aerial photographs before and after the new construction and noted a building and portable classrooms appear to have been removed. If any buildings were removed, a credit would be applied for any demolished fixture units. Without access to perform a physical observation on the school campus, IA cannot estimate the unpaid Connection Fees. However, for comparative purposes, a similar elementary school also built a building with 14-classrooms and restrooms in 2010; CVWD collected and reported Connection Fees totaling \$66,957.
- No Connection Fees have been collected for on-going and/or future improvements at Etiwanda High School and Rancho Cucamonga High School. IA staff performed a physical observation of the high schools sites and noted that construction is in progress. IA cannot estimate the unpaid Connection Fees since construction has not yet been completed. For comparative purposes, Alta Loma High School (also within the same School District) currently has on-going construction at their school campus for additions that are similar in nature to the expansions planned at the two high schools noted above, CVWD collected and reported Connection Fees totaling \$42,792 in 2014.

In the audit report "Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs" issued in June 2014, IA noted that other similar agencies (for example Los Angeles County Sanitation District) exclude local governments and schools from connection and sewer fees. IA noted that CVWD, like several of the other Contracting Agencies did not collect from most local Public Service Facilities.

- CVWD provided a credit of 119.5 EDUs totaling \$561,642 in Connection Fees to Evolution Fresh (a subsidiary of Starbucks), but has not been able to provide supporting documentation, nor an explanation to validate that the credit extended was justified. Without supporting documentation, it is unknown whether the credit to Evolution Fresh was warranted.

IA spoke with the Program Director at Evolution Fresh, who stated that the credit of 119.5 EDUs was provided because Evolution Fresh purchased the EDUs from a third party, not CVWD. The Program Director at Evolution Fresh also stated that the EDUs purchased from the third party were purchased at “reduced rate”. There is no clear supporting documentation that CVWD had knowledge of the transfer and/or reduce purchase of EDUs, however, CVWD signed the cost sheet that shows approval of the credit for the EDUs and also issued and signed the plumbing release. It is IA’s audit opinion that the credit extended does not follow the guidelines and provisions of the Regional Contract. (See the audit report for additional details).

IA recommends IEUA take the lead to facilitate on-going and regular meetings, tours, and workshops with Contracting Agency staff in the building departments, plan check, utility billing, etc. to discuss items related to the application of the Regional Contract, evolving businesses, new building activity, questionable items and individual situations. The on-going discussion will serve as a means to foster collaboration and maintain on-going dialogue about the application of the Regional Contract and address questions and issues timely.

IA also recommends adding contract provisions for recourse for under collection of fees; currently the Regional Contract does not provide enforcement language for Connection Fees.

Additionally, IA recommends developing standardized calculation worksheets for Connection Fees, requiring more detail to monthly sewerage reporting, to assist in increasing IEUAs oversight and involvement in reviewing information reported by the Contracting Agencies.

Finally, IA recommends IEUA to provide the final sign-off for Connection Fees as part of the permitting and plan check process as an additional verification step to ensure all Contracting Agencies have interpreted and applied the Regional Contract consistently.

- CVWD is the only Contracting Agency that reports and pays IEUA Sewer Service Fees based on revenues collected. The other Contracting Agencies reviewed to date (Chino, Fontana, Montclair, and Upland) report monthly EDUs to IEUA based on the amount billed. With CVWD applying a different methodology to report IEUA’s Sewer Service Fees, there is no consistency, among the Contracting Agencies, in reporting Volumetric Sewerage Fees.

The Regional Contract does not provide any guidelines on the methodology that should be applied to report IEUA’s Volumetric Fees, other than to report in EDUs to IEUA on a monthly basis. IA recommends IEUA work with the Contracting Agencies to evaluate both methods and

determine what the most appropriate methodology for Monthly Sewer Service Fees should be and ensure all Contracting Agencies are consistent.

IA would like to extend its appreciation to CVWD staff, as well as the IEUA Planning and Environmental Compliance Department for their cooperation and assistance during this review.

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

- City of Chino Hills
- City of Ontario

To-date, IA has submitted as an information items to the following audit reports:

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

PRIOR BOARD ACTION

On September 17, 2014, the Board approved the Fiscal Year 2014/15 Annual Audit Plan.

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

IMPACT ON BUDGET

None.

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

No.	Recommendations	Contracting Agencies				
		Upland	Montclair	Fontana	Chino	CVWD
		\$505,462	\$262,500	\$830,226	\$2,620,202	\$1,901,701
1.	<p>CONNECTION FEES RECOMMENDATIONS and FEES: 2013/2014</p> <p>In addition to the regular meetings of the Regional Technical and Regional Policy Committees, IEUA has already begun to provide ad-hoc meetings and training as needed for things such as the updated excel Building Activity Report and the Exhibit J subcommittee. IA noted that great variability and understanding of IEUA, the Regional Contract and Exhibit J exists amongst Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing. In order to develop greater consistency and uniformity throughout the region, IEUA should consider taking the lead in holding quarterly or more regular workshops, meetings, plant tours and similar activities as an avenue where Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing and/or others as well can discuss and ask questions about the application of the Regional Contract and Program. The workshops would provide a forum to discuss questions about category types to apply, definitions, other questionable items and individual situations, and foster cooperation and collaboration among all. A Contracting Agency may encounter questions or situations that could apply to other Contracting Agencies. Frequent and on-going dialogue about the application of the Regional Contract would benefit all Contracting Agencies and the Regional Program to ensure consistent application of the Regional Contract and that issues are addressed on a timely basis.</p>	X	X	X	X	X
2.	IEUA and the Contracting Agencies should add language to the Regional Contract regarding IEUA's inspection and verification rights for connection fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported connection fees.		X	X	X	X
3.	IEUA Planning and Pretreatment groups should take the lead to exercise the authority provided under Regional Contract Section 26 Inspection of Facilities, and establish an on-going monitoring program to inspect random facilities or those where there is a suspected discrepancy in order to ensure the intent of the Regional Contract is applied and ensure the integrity of the Regional Program.			X		X
4.	IEUA and the Contracting Agencies should consider, as part of the permitting and plan check process, a requirement that an IEUA representative provide final sign-off and approval prior to the Contracting Agency issuing a permit to a nonresidential entity and allowing a connection to the regional system. This added approval step will ensure IEUA agrees with the interpretation of the contract and the appropriate category type and sewage factor have been applied so correct connection fees are assessed and collected.	X	X	X	X	X
5.	IEUA and the Contracting Agencies should consider developing a standardized calculation worksheet to assist Contracting Agencies in the connection fee calculations. Currently, each Contracting Agency has its own unique calculation worksheet and it is not always consistent with the Regional Contract Exhibit J. A standardized calculation worksheet should mirror the fixture unit types in Exhibit J and provide additional clarification and uniformity to the fixture count process. The worksheet should be flexible enough to allow for multiple components of a business to be calculated at different commercial categories when there is more than one type of business at the same location (for example, a gas station/minimart with a car wash). A standardized calculation worksheet would provide assistance in computing the connection fees so that Contracting Agencies would not each need to develop their own tools, creating a lack of consistency and uniformity. IA noted varying application of fixture counts because the Contracting Agencies' calculation worksheets are not consistent.	X	X		X	

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

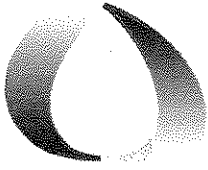
No.	Recommendations	Upland	Montclair	Fontana	Chino	CVWD
6.	IEUA should consider developing expertise in fixture count techniques and providing regular and ongoing training at the Building Departments of the Contracting Agencies to develop consistency in the IEUA fixture count process across the region,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

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

No.	Recommendations	Upland	Montclair	Fontana	Chino	CVWD
	PUBLIC SERVICE FACILITIES RECOMMENDATIONS					
	<i>Examples of recent Public Service Facilities with NO Connection Fees collected</i>	None noted, per audit sample	Moreno Elem. classroom building (OMSD) Montclair H. S. additions (CIUHSD)	None noted, per audit sample (City made conscious choice not to charge Kaiser Fontana)	Howard Cattle Elem. classroom building (CVUSD) Chaffey College-Chino Campus	Los Arroyos Elem. Classroom building (Cucamonga SD) Etiwanda H. S. and Rancho Cucamonga H.S. (CIUHSD) Chaffey College-Rancho Cucamonga Campus
1.	IEUA and the Contracting Agencies should consider the exclusion of Public Service Facilities from the charge for Connection Fees and Monthly Sewerage Charges. As documented under the audit report "Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs", IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public K – 14 schools and City governments from both Connection Fees and Monthly Sewerage Charges.				X	X
2.	Consider the City of Upland's cross-departmental approach to the development review process as a regional model for Contracting Agencies to follow. The City of Upland has formed an inclusive group from all city departments that meets regularly to review new development. The group includes representatives from the Planning, Building, Public Works, and Police and Fire departments. Since planning for fire safety is required for new construction to ensure access and egress, Fire department representatives are often the first to know about new PSF construction. This will trigger Public Works and Building department representatives to be involved resulting in the assessment of connection fees, including those for IEUA in accordance with Exhibit J.	n/a	X	n/a	X	n/a
3.	IEUA should add language to the Regional Contract regarding IEUA's inspection and verification rights for Public Service Facilities as to connection and monthly sewer fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported such fees.	n/a	X	n/a	X	X

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

No.	Recommendations	Contracting Agencies				
		Upland	Montclair	Fontana	Chino	CVWD
	MONTHLY SEWERAGE BILLING RECOMMENDATIONS and FEES: 2013/2014	\$4,294,863	\$1,981,117	\$8,196,601	\$4,592,930	\$10,288,244
1.	IEUA and the Contracting Agencies should consider establishing the collection of monthly sewerage fees directly for the entire region through the County's property tax roll. Collection of sewerage fees through the property tax roll could result in a more efficient process and reduce the administrative resources used by Contracting Agencies in billing and collecting these fees. Residential properties could be transferred initially until consideration is given to ways in which and whether to transition fees from commercial, industrial and other entities.			X		
2.	IEUA should add language to the Regional Contract regarding IEUA's inspection and verification rights as to monthly sewerage fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or underreported such fees.		X		X	
3.	IEUA and the Contracting Agencies should evaluate the methodology used for billing monthly sewerage fees and consider alternatives, either by water consumption or EDUs purchased. Since the adoption of the existing billing methodology in a 1997 memorandum there have been greater efficiencies achieved in water usage, which may have an impact on the type and amount of sewerage discharged and the types of services provided to the region as a whole. The billing methodology should be aligned with the services provided. Another approach to consider as part of the billing methodology would be examining Winter season usage by residential properties to investigate a volumetric rather than an EDU based rate structure. The billing methodology should be presented to the IEUA Board of Directors and formally adopted, since the Regional Contract specifies that the role of the Regional Technical Committee is to make recommendations. As part of this process a Rate and Fee Study would assist in establishing a sustainable and equitable rate structure that recovers the cost of providing services.			X		
4.	Evaluate and consider the relationship between monthly Sewer Service Fees and Connection Fees and determine the need to create a correlation between the two. For example, fast-food restaurants and full-service restaurants are both included in Category 8 for monthly sewerage billing purposes and pay at the same rate. However, for purposes of connection fees fast-food restaurants are grouped with office, retail and similar uses (which are Category 1 for monthly sewerage billing). Therefore, fast-food restaurants incur lower Initial Connection Fees, but pay monthly Sewer Service Fees at the higher rates charged to full-service restaurants.		X		X	X
5.	IEUA should evaluate the current process used for invoicing each Contracting Agency for monthly sewer fees. By establishing a contract for monthly payment rather than relying on invoices, each Contracting Agency could provide the EDU information and remit the funds to IEUA directly within a reasonable period of time. This contrasts with the current approach whereby Contracting Agencies provide EDU information and then wait for an invoice from IEUA before payment thereby delaying payment for up to 45 days. By reengineering the process, IEUA would receive monthly sewer fees in a more efficient and timely manner.	X	X	X	X	X
6.	IEUA and the Contracting Agencies should consider standardizing and providing automated and itemized listings of non-residential monthly sewerage charges. This would provide information that could be reviewed and researched for anomalies and reconciled on a regular basis.	X	X	X	X	X
7.	IEUA and Contracting Agency staff should work together to resolve the identified differences and over/under collected amounts and unreported service fees. The review identified businesses that are not reported to IEUA in the monthly sewer fee report and fees not paid for the services provided by IEUA as well as classification errors and formula mistakes.	X	X		X	X



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

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

DATE: March 2, 2015

TO: Joe Grindstaff
General Manager

Teresa V. Velarde

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: **REGIONAL CONTRACT REVIEW**
Interim Audit Report
Cucamonga Valley Water District

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed a review of the Agency's Regional Sewage Service Contract (Regional Contract) as implemented with the Regional Contracting Agencies (Contracting Agency). The review was performed under the authority given by the IEUA Board of Directors as documented in the Internal Audit Department Charter and according to the Fiscal Year 2013/14 Annual Audit Plan.

Audit Objective and Scope

The objectives of the Regional Contract Review are to evaluate how each of the seven Contracting Agencies apply the Regional Contract provisions, determine whether processes are in compliance with Regional Contract requirements, determine opportunities to improve processes and procedures and make recommendations to consider as part of the Regional Contract amendment/renegotiation. The review covered the period from July 1, 2012 through December 31, 2013 and where possible considered events subsequent to that period.

The review included audit procedures to evaluate compliance with the Regional Contract, Exhibit J Connection Fees provisions as well as the recurring Sewer Service Fees billing for the various types of land uses (commercial, industrial, residential, public service and extra-territorial). IA performed a variety of review procedures at each Contracting Agency to evaluate:

- Initial Connection Fees
- Public Service Facilities Connection Fees
- Monthly Volumetric Sewerage Charges
- Extra-Territorial Fees
- Reconciliations of fees collected and held for or paid to IEUA
- Overall Recordkeeping

Water Smart – Thinking in Terms of Tomorrow

Terry Catlin
President

Michael E. Camacho
Vice President

Steven J. Elle
Secretary/Treasurer

Jasmin A. Hall
Director

Gene Koopman
Director

P. Joseph Grindstaff
General Manager

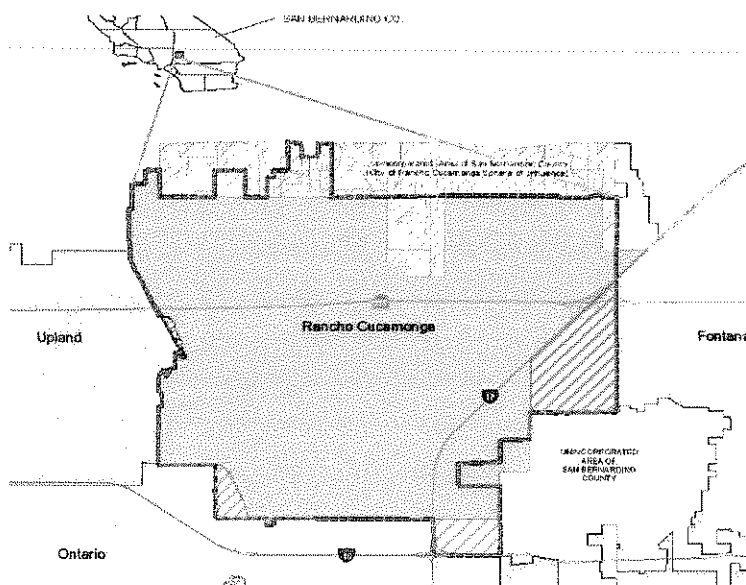
This report describes the results of the procedures performed at the Cucamonga Valley Water District.

Cucamonga Valley Water District - Background

The Cucamonga Valley Water District (CVWD or the District) is an independent special district that operates under the authority of Division 12 of the California Water Code. The District is governed by a five-member elected Board of Directors and was incorporated on March 25, 1955. CVWD has a population of 171,058¹ and is located about 40 miles east of downtown Los Angeles. The District encompasses a minimum of 39¹ square miles, which is 16% of the 242-square-miles covered by IEUA's service area.

CVWD provides water, local wastewater, and recycled water services to residential, commercial, and industrial properties within its boundaries, while trash services are provided through Burrtec Waste Industries. The District's service area primarily includes the City of Rancho Cucamonga and portions of the cities of Fontana, Ontario, Upland, and some of the unincorporated areas of County of San Bernardino that are located to the north of CVWD's boundary limits.

Figure 1 – CVWD District Boundary



CVWD only provides water services to those sections within its District boundaries, which encompasses portions of the cities of Fontana, Ontario and Upland. For

¹ IEUA's Fiscal Year 2014/15 Operating and Capital Program Budget – June 2014, Table 5-11.

Fontana, the sewer services and the collection of the fees are performed by the City of Fontana. For the sections that cross over into Ontario and Upland, CVWD will assess and collect sewer service fees if the property is receiving Sewer Services from the District.

CVWD bills residential, commercial, and industrial properties on a bi-monthly basis for the water and sewer services provided. CVWD performs water meter readings on a regularly scheduled basis. The amount billed includes water, local sewer service fees, and IEUA sewer service treatment fees (Volumetric Fees). For sewer services, Single-family residents, Multi-family complexes, and certain other entities pay a flat fee, whereas commercial and industrial properties are billed according to the amount of water usage in accordance with IEUA's formulas.

Financial Information

As part of the Regional Contract, CVWD is required to report *Initial Connection Fees* and *Sewer Service Fees* on a monthly basis.

Initial Connection Fees (Connection Fees): Connection Fees are one-time fees levied on new development connecting to the Regional Sewerage System, as well as existing users who expand their number of fixture units. These connections and corresponding fees are reported in the monthly Building Activity Reports (BAR) to the IEUA Planning & Environmental Compliance Department (Planning) and are recorded in the Agency's financial system.

The number of EDUs and amount of Connection Fees collected varies from year to year depending on the construction activity occurring within the Contracting Agency's boundaries. EDUs purchased and fees reported by the City during the last two fiscal years are:

**Cucamonga Valley Water District
Connection Fees**

Fiscal Year	EDUs	Fees collected
2012/13	826	\$ 4,054,981
2013/14	382	\$ 1,901,701

EDUs and fees collected reflect the amounts reported in the BAR to IEUA's Planning and Environmental Compliance Department. For Fiscal Year 2012/13, the fees collected are substantially higher due to new construction activity occurring in new residential housing tracts.

CCRA Account: Connection Fees are collected by the District and held in a Capital Connection Reimbursement Account (CCRA) until "called" by IEUA. The CCRA

balances as reported by CVWD in their June 30, 2013 and June 30, 2014 CAFR were \$6,929,681 and \$8,831,382, respectively.

Sewer Service Fees (Volumetric Sewerage Fees): Sewer Service Fees are recurring fees assessed and collected from users that discharge into the Agency's Regional Sewerage System. According to the Regional Contract, Contracting Agencies must pay IEUA for sewer services each month. The District self-reports the total number of EDUs to IEUA on a monthly basis, based on which cycle of their bi-monthly sewer billing process have come due and Sewer Service Fees collected. The EDUs reported are comprised of the following: one EDU for single-family residential, 0.7 EDU for multi-family residential, fixed EDUs for public schools and community college (based on student enrollment), and variable EDUs for commercial and industrial entities (based on water consumption information) in accordance with IEUA's formulas.

**Cucamonga Valley Water District
 Sewer Service Fees**

Fiscal Year	EDUs	Fees
2012/13	769,392.01	\$ 9,532,767
2013/14	768,352.79	\$ 10,288,244

At December 31, 2014, the total number of EDUs billed to customers in CVWD service area consisted of the following:

Type of Account	Number of EDUs	Percentage of EDUs
Residential Customers:		
Single-Family Residential and Trailer Park	73,261	54%
Multi-Family Residential	38,241	28%
Non-Residential Customers ¹	24,473	18%
Total	135,974	100%

(1) = Non-Residential Customers include commercial, industries, public schools and a community college.

Initial Connection Fees

Each Contracting Agency is required to assess, collect, and report Connection Fees for any new development that connects to the Regional Sewerage System, or users who expand their fixture unit count. The fees are to be assessed and collected by the Contracting Agency in accordance with the provisions of Exhibit J in the Regional Contract. Exhibit J includes for purposes of fee calculation: ***"All structures designed for the purpose of providing permanent housing for enterprises engaged in exchange of good and services. This shall include, but not be limited to, all private business and service establishments, schools, churches, and public facilities."***

CVWD is a special district whose main purpose is to provide potable water and wastewater services and therefore does not have the variety of departments and/or provide the variety of services as a general law City. CVWD is one of the seven members of the Regional Contract, while the other six contracting agencies are all cities. The cities have a specific department for Building and Safety that is dedicated to reviewing construction projects to ensure conformance with applicable ordinances, codes, regulations and laws. At the cities, a review of the projects occurs through the plan check and permit process along with issuance of the final building/occupancy permit and collection of any Connection Fees. The City of Rancho Cucamonga has a Building and Safety Department that reviews construction projects and issues building permits; however, the city does not assess nor collect Connection Fees. For CVWD's service area, the responsibility for the assessment and collection of Connection Fees lies with CVWD through the Development Services Department.

CVWD has a "coordinated approach" with the City of Rancho Cucamonga whereby the applicant must also submit the architectural/plumbing plans to CVWD and pay any Connection Fees due before the final building/occupancy permit can be issued. The process includes the submittal of an application, review and approval of the plans, collection of any Connection Fees due, and issuance of a "Plumbing Release" by CVWD. This "Plumbing Release" is a document that authorizes the applicant to make water and sewer improvements per the approved plumbing plan. The applicant is required to submit the "Plumbing Release" to the City of Rancho Cucamonga's Building and Safety department before any permits can be issued. The City of Rancho Cucamonga will not issue a final building permit to the applicant unless they are able to present a "Plumbing Release" from CVWD.

Public Service Facilities

CVWD staff does not have a comprehensive list of Public Service Facilities (PSF); therefore, IA performed a search of various websites to ascertain whether there had been any new construction or expansions of PSF's such as schools, hospitals, and local city or other government facilities. The websites reviewed included School Districts along with the School Accountability Report Cards for schools, Office of Statewide Health Planning and Development (OSHPD) for hospitals, and the City of Rancho Cucamonga for City facilities.

The Division of the State Architect's Office (DSA) of the State of California provides design and construction oversight for public schools (kindergarten through 12th grade), community colleges, and various other state-owned and leased facilities. Likewise, the Office of Statewide Health Planning and Development (OSHPD) regulates hospital construction. Entities that fall under the DSA or OSHPD have a permit and plan check process that is separate and includes limited or no coordination with the local jurisdiction. The permitting process under the DSA and OSHPD does not include the collection of Connection Fees, even though the construction projects reviewed could be new construction or expansions that result in additional fixture units. It is the

responsibility of each individual local jurisdiction to ensure collection of the Connection Fees from entities that fall under the DSA/OSHPD and reside within their service area.

IA selected various businesses and Public Service Facilities (PSF) to test whether Connection Fees were accurately calculated, collected and reported to IEUA in accordance with Exhibit J of the Regional Contract. The different businesses and PSF were selected from the following sources to verify the Contracting Agency applied and collected the correct EDU rate according to the Board-approved rates and to determine the accuracy of the categorization type used per Exhibit J of the Regional Contract:

- The new business license report provided by CVWD staff
- IA conducted physical observations of the CVWD's commercial districts
- Building Activity Reports submitted to IEUA
- Input received from IEUA's Planning Department.

Initial Connection Fees & Public Service Facilities Review

IA judgmentally selected 40 commercial businesses and 8 Public Service Facilities (PSF) for testing. Of the items reviewed, IA identified issues with one Industrial User and various Public Service Facilities as discussed in the following sections.

Evolution Fresh

Evolution Fresh, a juice manufacturer, is a subsidiary of the Starbucks Corporation and opened in Rancho Cucamonga in 2013.

EDU Credit – not supported

CVWD classified Evolution Fresh as an Industrial User and Connection Fees were assessed based on individual components; the office area was assessed using Commercial fixture units, while the manufacturing area was assessed based on Sewer Flow, Biochemical Oxygen Demand, and Total Suspended Solids. IA reviewed the "Tenant Improvement Cost Sheet" dated January 23, 2013, which is the calculation worksheet prepared by the CVWD to determine total new fixture units and assess the Connection Fees. CVWD assessed 233.96 new EDUs, and a credit of 119.54926 EDUs was recorded, Evolution Fresh was responsible for payment of the remaining 114.41079 EDUs and Connection Fees were collected in the amount of \$561,642.57, as reported to IEUA in the BAR for February 2013.

IA requested supporting documentation for the credit applied of 119.54926 EDUs to validate that a credit was due. According to CVWD staff, the EDU credit was applied because the building had existing fixture units. CVWD staff indicated that the 2013 Connection Fees were assessed based on an "EDU survey"/physical inspection that determined the existing and new fixture units; however, *CVWD was not able to provide supporting documentation to validate that the credit applied was accurately applied.*

The following is an excerpt from the Tenant Improvement Cost Sheet:

SEWER FEES BREAKDOWN

CAPITAL CAPACITY REIMBURSEMENT FEES:

- **COMMERCIAL USE**
130.5 FIXTURE UNITS × 0.0741 SEWER FACTOR = 9.67005 Equivalent Dwelling Units (EDUs)

- **INDUSTRIAL USE**
 SEWER FLOW: 50,000 gallons per day (largest average discharge based on calendar month average)
 BOD: 500 mg/liter (largest average concentration based on calendar month average)
 TSS: 115 mg/liter (largest average concentration based on calendar month average)

$$50000 \text{ gpd} / 270 \text{ gpd} \times [0.37 + 0.31 \times (500 \text{ mg/L} / 230 \text{ mg/L}) + 0.32 \times (115 \text{ mg/L} / 220 \text{ mg/L})] = \underline{224.29} \text{ EDUs}$$

- **CAPITAL CAPACITY CREDIT**
The following paid and available Capital Capacity EDUs are to be applied to this Tenant Improvement project per the Building Owner's written permission submitted to the District, or by demolition of existing sewer drainage fixtures within Tenant space: EDU Credit: 119.54926 EDUs

- **TOTAL EDUs** (Ord. 32-C, Exhibit A)
114.41079 EDUs × \$4,909.00 PER EDU = \$561,642.57

Fixture Re-count

IA requested the building plans for Evolution Fresh to perform a fixture re-count. The purpose of the re-count was to verify the number of fixture units, validate the existing and new fixture units reported on the BAR and determine that the EDUs were accurately assessed and collected. The building plans provided for review were incomplete, therefore, auditors were not able to perform the re-count. According to CVWD staff, the plans have been misplaced. *Without the plumbing plans, IA cannot validate the accuracy of the fixture units reported to IEUA and the accuracy of the credit extended.*

CVWD has not been able to provide evidence to support the credit of 119.54926 EDUs given to Evolution Fresh. Without supporting documentation it is questionable whether the credit was justified. Connection Fees associated with the credit applied total \$586,867.32 (119.54926 EDUs x \$4,909 per EDU = \$586,867.32).

IA Discussion with Evolution Fresh

IA discussed the EDU purchase with the Program Director of Evolution Fresh. Accordingly, Evolution Fresh purchased a total of 222.03005 EDUs, 114.41079 were purchased directly from CVWD and 107.61926 were purchased at a "reduced price" from a third party, and a credit of 11.93 EDUs was granted for existing fixture units. Evolution Fresh's Program Director stated that his understanding of the third party purchase was an "intra-district transfer" from a customer physically located at a different

While there is no supporting documentation to support whether CVWD had knowledge or involvement in the transfer and/or “reduced” purchase, the cost sheet, signed by CVWD approves the credit of the EDUs, and the Plumbing Release, also signed by CVWD indicates that CVWD approved and issued the Plan Check release. Therefore, it appears CVWD had direct knowledge of the transaction. *It is our audit opinion that the “intra-district transfer” does not follow the Regional Contract guidelines and therefore, CVWD should not have approved it.*

IEUA and CVWD should work together to determine the correct number of EDUs and determine if any Connection Fees are due to IEUA as required by the Regional Contract. Additionally, CVWD should ensure the Regional Contract requirements are followed for each transaction. Lastly, CVWD and IEUA should ensure the correct number of EDUs is accurately reported to each tributary area.

Public Service Facilities - Public Schools

IA noted that construction and/or expansions have occurred and/or are planned in the near future that could result in new or additional fixture units at public schools (kindergarten-12th grade) in the CVWD service area. IA noted the following:

Cucamonga School District: Los Amigos Elementary School

CVWD did not collect Connection Fees for a new 14 classroom building at Los Amigos Elementary School. CVWDs records show Connection Fees of \$10,809 were collected for a Cafeteria/Multipurpose building that resulted in a net increase in fixture units, as reported to IEUA in the BAR for April 2012. However, there is no information to support that fees were collected for the 14 classroom building.

IA obtained the 2012 aerial photograph and 2013, 2014 and 2015 Google Earth pictures for Los Amigos Elementary School. The purpose was to determine if there had been any new construction and if there were any existing buildings that were demolished during this time.

IA’s review revealed that a building and several portable classrooms were once located near the location of the new building. With only the Google Earth pictures, it is not possible to determine the type and size of the building, along with the total number of previous existing fixture units. The observation indicates an existing building was demolished, therefore, a credit would be due for existing fixture units. (See the Internal Audit Department to request copies of the aerial photographs reviewed.)

Currently, CVWD does not have a process in place to identify and pursue PSF construction or expansions. With the plan check process going through the DSA and no coordination with the local jurisdiction, the District noted that they only collect fees from schools when they come through CVWD’s plan check process. Otherwise fees are not collected as required by the Regional Contract.

For comparative purposes, IA identified another elementary school in CVWD's service area that had construction of a new 14 classroom and restroom building. In 2010, Bear Gulch Elementary School (Central Elementary School District) was assessed Connection Fees in the amount of \$ 66,957.53 which were collected and reported in the BAR to IEUA for December 2010.

IEUA should provide guidance and assistance to the CVWD to adopt a collaborative approach and foster a relationship with the various School Districts to ensure Connection Fees are charged and collected for any future planned projects with new construction or expansion.

Chaffey Joint Union High School District (CJUHSD):
Alta Loma High School, Etiwanda High School & Rancho Cucamonga High School

The audit identified future/on-going improvements at **three high schools** that fall within CVWD's service area as noted below. The CJUHSD's website notes that construction has begun with the demolition of existing facilities and/or grading of the site at both Etiwanda High School and Rancho Cucamonga High School, however, Connection Fees have not been collected/reported.

Name of the High School	New Additions/Renovations ⁽¹⁾	Month/Year Fees Collected	Amount Collected
Alta Loma High School	Classroom wing/building, Gymnasium Expansion, and Athletic Field Complex	December 2014	\$ 42,792
Etiwanda High School	Classroom wing/building (approximately 98,000 square feet), Food Service building, Performing Arts Auditorium (800 seats), and Athletic Field Complex	No fees collected to-date	0
Rancho Cucamonga High School	New Auditorium Building (approximately 22,500 square feet, 800 seats) and Athletic Field Complex	No fees collected to-date	0

(1) = New additions that could potentially add new fixtures units to the campus.

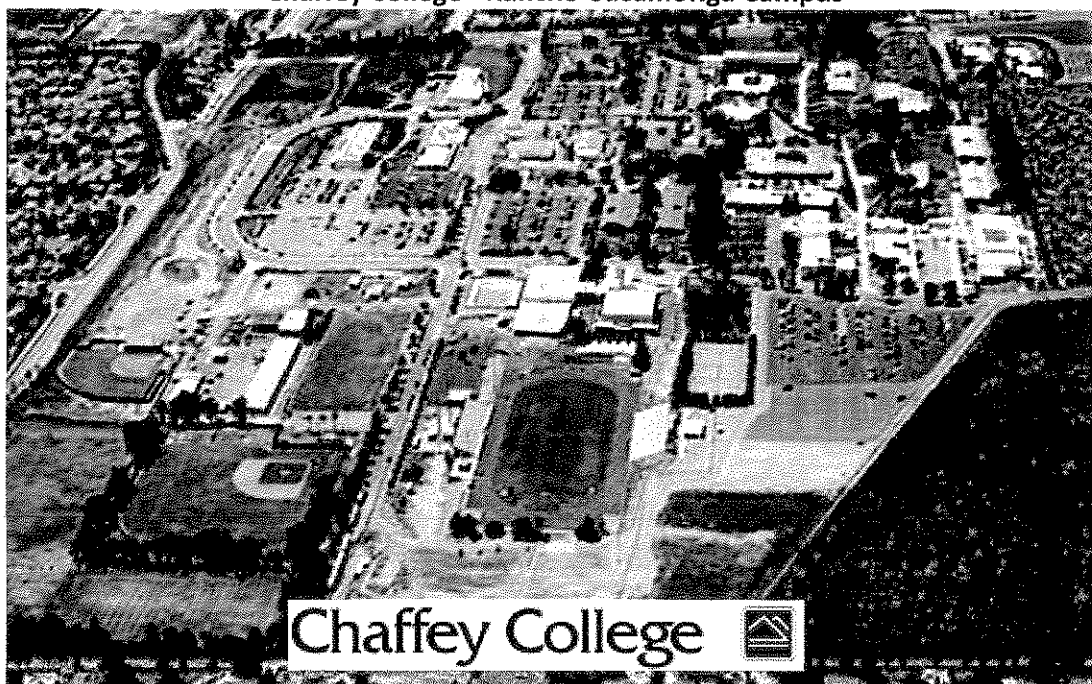
According to CVWD staff, construction projects for public schools do not come through the regular plan check and permit process and include limited or no coordination with CVWD. In this case, the new construction planned at Alta Loma High School came through the plan check and permit process resulting in the collection of Connection Fees. However, at the time of writing this report, no information has come through the plan check and permit process for the other two high schools.

IA performed a physical observation of the high school sites and noted that construction is in progress. IA recommends that *IEUA and CVWD work together and collaborate with the school district to ensure Connection Fees are assessed and collected for projects in progress and any planned.*

Chaffey College – Rancho Cucamonga Campus

Chaffey College, a two-year public Community College that offers various academic programs, moved to its current location in Rancho Cucamonga in 1960. The Chaffey Community College District has three campuses located in the cities of Chino, Fontana, and Rancho Cucamonga, all within IEUA's service area. The primary campus is the one located in the City of Rancho Cucamonga with at least 40 buildings.

Chaffey College - Rancho Cucamonga Campus



Based on IA's research, Chaffey College has added a total of **10 new buildings** and completed several renovations of existing buildings. The new buildings and modernization of existing buildings have resulted in new fixture units. See **Exhibit 1** for pictures of the new buildings added to the campus. The new buildings are listed on the following table.

New Buildings at Chaffey College – Rancho Cucamonga Campus

Name of the Building	Description	Building Size (square feet)	Year placed in Operation
Chemistry⁽¹⁾	Houses three general chemistry laboratories and an organic chemistry lab.	Unavailable	2007
Beeks Laboratory⁽¹⁾	Includes five laboratories and a herbarium.	Unavailable	2007
De Lauriers Labs⁽¹⁾	Includes three laboratories and space to house the zoological collections.	Unavailable	2007
Zimmerman Hall⁽¹⁾	Includes the Dean's office, faculty offices, two general purpose classrooms, and a science laboratory.	Unavailable	2007
Don Berz Excellence Center	Houses the Language Success Center, Multidisciplinary Success Center, Curriculum, and faculty offices.	8,770	2007
Marie Kane Center for Student Services & Administration	A two-story building that provides the following services: admissions, assessment center, cashier, counseling, financial aid, transfer center, and administrative offices.	26,000	2007
Center for the Arts – Visual and Performing Arts	A three-story building that includes digital & analog media labs, photo studio, dance studio, post production lab, art studio, interior design lab, lecture rooms, and faculty offices.	32,641	2010
Center for the Arts – Music and Choral	A one-story music rehearsal building that includes both instrumental and choral rooms.	5,500	2010
Sports Complex – Gymnasium	Includes locker rooms and a snack bar.	22,000	2010
Michael Alexander Campus Center	<p>A new, larger, and more modernized two-story Campus Center that includes a student cafeteria, faculty dining room, health services, career services resource center, extended opportunity programs and services, and student government offices.</p> <p>This project included demolition of the existing Campus Center West building along with renovation of approximately 1,700 square feet of the existing Campus Center East building.</p>	16,400	2011

(1) = These buildings are known as the four Science buildings or Science Complex.

CVWD's staff indicated they attempted to collect Connection Fees from Chaffey College for the new buildings; however, the Chaffey Community College District chose not to comply and did not pay any Connection Fees for the new buildings. CVWD staff indicated that they become aware of new construction or expansions by PSF's only if the customer comes through the plan check and permit process. Currently, CVWD does not have a process in place to identify PSF construction or expansions. Since the plan check and permitting process goes through the DSA and does not include the local jurisdiction, CVWD noted they have a difficult time assessing and collecting Connection Fees. Therefore, these result in **non-collection of Connection Fees and noncompliance with the Regional Contract.**

The Regional Contract has several clauses that require the Contracting Agency to collect from customers for new EDUs. See **Exhibit 2** for a summary of the most relevant clauses.

Aerial Photograph Observations of Chaffey College

IA obtained aerial photographs for Chaffey College from 2004 through 2012 and the most recent campus map. The purpose was to determine the nature of the site for the new buildings and examine whether any original buildings existed prior to the construction of the new buildings and gymnasium. Based on IA's review of the aerial photographs, it appears that sites for the nine new buildings were previously parking lots, landscaping, or tennis courts. For the tenth building, it appears that the existing building was demolished to make room for a new larger Campus Center; however, from the aerial photograph, it is not possible to determine the size of the building and the total number of previously existing fixture units, or type of building.

Aerial photographs of Chaffey College in 2004, 2008, 2012 and a most recent one taken from Chaffey College's website on January 15, 2015 are included as attachments, See **Exhibit 3**. IA obtained a current 2015 map of the campus that shows all the buildings have been completed and are being utilized for classroom lectures, science laboratories and experiments, and providing activities and services to students.

IA Physical Observation at Chaffey College

IA performed a physical observation of the Rancho Cucamonga Campus and noted that the 10 new buildings are operational. Auditors were not able to access all buildings to perform an accurate fixture count; therefore, **it is not possible to quantify the estimated Connection Fees that were not collected.**

Comparative Information:

Chaffey College has two other locations in IEUA's service area, one in the City of Chino and another in the City of Fontana, and each of those campuses had recent construction projects and noted the following:

Contracting Agency	Location	Year Place in Operation	Minimum Estimated Connection Fees	Connection Fees Collected
CVWD	Chaffey College Rancho Cucamonga Campus (10 buildings, see prior table for details and description)	Various since 2007	Unable to estimate	\$ 0
City of Chino	Chaffey College Chino Campus (3 Buildings: Main Instructional, Health Sciences, and Community Center)	2008	\$ 55,000	\$ 0
City of Fontana	Chaffey College Fontana Campus (Academic Center, two-story and approximately 30,000 square feet)	2011	N/A	\$ 52,845

IA Recommendation:

- 1. IEUA and CVWD should work with Chaffey College to determine the number of fixture units at the Chaffey College – Rancho Cucamonga Campus, any applicable credit can be applied for the previously existing Campus Center, and if any Connection Fees are due to IEUA as required by the Regional Contract.**
- 2. In connection with a renegotiation of the Regional Contract, IEUA and the Contracting Agencies should consider the impact of eliminating the requirement for collecting Connection Fees and monthly sewerage charges from Public Service Facilities. As documented under the audit report “Comparison of the Regional Sewerage Service Contract and Program with similar contracts and programs”, IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public schools and City governments from these charges.**

Quality Control Review Process

The District has established an internal review process as an additional check to determine the appropriate collection and remittance of Connection Fees to IEUA. The staff members that participate in the review process have knowledge of the regional sewer collection system and pretreatment standards and regulations. One staff member will perform the plan check and complete the “Sewer Drainage Fixture Count” worksheet. Then, another staff member performs the review process, which includes re-reviewing the plumbing plans to ensure all fixtures have been captured, verifying the correct sewage factor is selected in accordance with Exhibit J of the Regional Contract and the appropriate IEUA Board-approved rate is applied. This review process is performed before a final sign-off is provided on the “Sewer Drainage Fixture Count”

worksheet and collection of any fees. The intent of performing this process before any fees are collected is an additional quality control review process and services as a tool to provide greater oversight to ensure contract compliance and reporting requirements are met in accordance with Exhibit J of the Regional Contract.

Plumbing Plans – Fixture Unit Recount

IA reviewed the plumbing plans for a total of five of the originally selected 40 commercial businesses and eight PSF's to ascertain the accuracy of the fixture count and the application of the required fees. The recount was performed by the District's Development Services staff and witnessed/verified by IA. The results of the recount were agreed upon by both parties.

No issues were noted for four of the five plumbing plans. The only issue noted was for the lack of documentation of the credit provided to Evolution Fresh. See discussion earlier in the report.

Volumetric Sewerage Fees

The Regional Contract delegates the details of determining monthly sewerage billing to the Regional Technical Committee. The most recent information about monthly sewerage billing is from a memorandum entitled "Procedures for Establishing a Regional Sewer Billing Formula", which was adopted by the Regional Technical Committee for monthly/bimonthly billing processes in 1997. For IEUA sewerage billing purposes, EDUs are calculated in accordance with 1997 memorandum.

Reporting EDUs to IEUA

The Regional Contract requires that all Contracting Agencies report monthly Volumetric EDUs to IEUA. The Regional Contract does not provide specific guidelines on the methodology that should be applied to report Volumetric Fees; only to report them to IEUA. CVWD reports monthly EDUs based on **Sewer Services Fees (revenues) collected from customers**. The other Contracting Agencies reviewed to date (Montclair, Upland, Chino, and Fontana) report monthly EDUs to IEUA based on the amount billed. Because CVWD applies a different methodology to report IEUA's Sewer Service Fees, there is no consistency, among the Contracting Agencies, in reporting the Volumetric Sewerage Fees. *As part of renegotiating the Regional Contract, IEUA should determine the best methodology for reporting Volumetric Sewer Services fees.*

Billing Testwork

IA selected for further testing and review, the following items: 40 commercial businesses; eight PSF customers, and various City facilities. IA tested all items to determine whether sewer billing is occurring, and to ensure the appropriate business categories and rates from Exhibit J are applied.

Based on IAs review, it appears that in most instances, CVWD applies the correct categories and rates. However, this review identified several instances where sewer services are not billed or billed incorrectly therefore; CVWD does not report the correct EDUs nor remits the appropriate fees. IA noted the following:

1. For nine customers, Sewer billing information could not be identified. At the time of writing this report, IA did not receive confirmation from the CVWD's Finance Division to support the fees and EDUs related to the businesses in question are reported to IEUA. Therefore, without supporting information, it appears that the EDUs corresponding to the following entities are not reported to IEUA, nor are Sewer Service Fees paid for sewer services.

Red Ribbon Bakeshop	11098 Foothill Blvd #100
U.S. Milk Corp.	10633 Seventh
The Art of Shaving	7843 Kew Avenue
Hair A Juku Salon	12455 Victoria Gardens Ln # 140
Buffalo Wings & Rings	12375 Baseline Road
Sixty6 Sports Lounge and The Wine Tailor Tasting	8916 E. Foothill Blvd.
Brio Tuscan Grille	12370 South Main Street
DR Horton Pacific Trails Multifamily	8724 E. Foothill Blvd.

CVWD should review the Utility Billing system from time to time to verify that all the active sewer accounts have been captured and billing is in alignment with those receiving the sewer services. Additionally, the CVWD should ensure that any residential or commercial properties connected the Sewer System are included in the reporting of EDU's to IEUA as part of the Volumetric Sewerage Fees according to the requirements of the Regional Contract.

CVWD staff indicated they will research the instances noted and will implement corrective actions necessary and notify IA.

2. For six customers, IA identified other issues. The following issues were noted in connection with IEUA's Sewer Service fees:
 - a. Fees billed and collected were based on one EDU, instead of water usage as is the method applied by the other Contracting Agencies (see columns A and B),

CVWD's practice is to assess sewer service fees based on actual water usage. When water consumption results in less than one EDU, CVWD will bill for one full EDU per month (two EDUs per bimonthly billing cycle). CVWD's rationale is that no business should pay less than the equivalent amount billed to a residential customer.

- b. Rate used to bill and collect the fee is not in accordance with IEUA's approved volumetric rate, the rate applied was lower and appears to be an old rate (see columns C and E),

For the six commercial businesses listed below, CVWD assessed a rate of \$22.28 for bimonthly services on behalf of IEUA for the billing cycle reviewed, instead of \$26.78, creating an underpayment to IEUA of \$4.50 for each account.

CVWD confirmed the correct IEUA Volumetric Rate was updated and applied during the rate update and review process in Fiscal Year 2014/2015. IA is unable to determine the length of time or the number of accounts that had the incorrect Volumetric Rate applied; however, CVWD noted all fees collected are reported to IEUA and the most recent billed amounts support the correct IEUA Board-approved rate was billed and applied.

- c. EDUs are over-reported monthly because revenue collected by the District is converted to EDUs (see columns B, D. and F).

The differences impact total EDUs reported to IEUA on a monthly basis because CVWD calculates total EDUs based on the total revenue collected. Therefore, if the fees billed were based on one EDU per month instead of water usage, then the fees have been over-billed and over-collected. Sewer Service Fees and EDUs have also been over-reported to IEUA. See the table for further detail:

Business Name	Address	Methodology consistent with other Contracting Agencies		Erroneously billed and reported by CVWD		Audited Calculation based on IEUA Board approved rate	
		Estimated IEUA's Sewer Service fees based on water consumption (A)	Number of EDUs based on water consumption ⁽¹⁾ (B)	Fees billed and collected by CVWD (C)	Number of EDUs based on Fees billed and collected (D)	IEUA Volumetric Rate for FY 13/14 (E)	Number of EDUs based on EDU rate for FY 13/14 (F)
Foothill Fuel	8919 Foothill Blv.	\$ 15.35	0.57 EDU	\$ 22.28	0.83 EDU	\$ 26.78	1 EDU
Carbon Plus React Corp.	8740 White Oak	\$ 2.92	0.11 EDU	\$ 22.28	0.83 EDU	\$ 26.78	1 EDU
DCT Industrial	9089 Eighth St	\$ 21.45	0.80 EDU	\$ 22.28	0.83 EDU	\$ 26.78	1 EDU
Trident Cases	9076 Hyssop Dr	\$ 20.47	0.76 EDU	\$ 22.28	0.83 EDU	\$ 26.78	1 EDU
Total Wine & More	8201 Day Creek	\$ 20.47	0.76 EDU	\$ 22.28	0.83 EDU	\$ 26.78	1 EDU
CCIC North American Inc.	8835 Haven Ave	\$ 18.52	0.69 EDU	\$ 22.28	0.83 EDU	\$ 26.78	1 EDU
			3.69 EDUs		4.98 EDUs		6 EDUs

(1) = Calculated using IEUA's fees based on water consumption divided by the IEUA Volumetric rate in effect for FY 13/14. For example, \$15.35 / \$26.78 = 0.57s EDU for the bi-monthly billing cycle.

As an added control, CVWD should periodically review and verify the accounts in the Utility Billing System are being assessed the correct Sewer Service Fees and ensure the appropriate EDUs and fees are reported to IEUA.

3. The billing formulas are based on the memorandum entitled "Procedures for Establishing a Regional Sewer Billing Formula" that was apparently adopted by the Regional Technical Committee in 1997. The formulas are divided into Residential, Commercial and Industrial categories and the Commercial categories are further divided into 8 Commercial categories and an additional category for schools. Category 8 includes: "Restaurant – full service; Restaurant – Fast food; Market w/ grinder; and Bakery".

IA notes that the inclusion of both full service and fast food restaurants in the same classification contradicts the guidance provided for initial Connection Fees where full-service restaurants are charged a significantly higher sewage factor to connect than are fast food restaurants. In general, full service restaurant(s) would probably pay higher sewer service fees due to higher water consumption as part of their business operations even though the sewer rate factor is the same for both fast food and full service restaurants. As part of renegotiating the Regional Contract, IEUA and the Contracting Agencies should evaluate and consider the relationship between monthly Sewer Service Fees and Connection Fees and determine the need to create a correlation between the two.

IA notes that documentation approving and mandating the billing methodology is not available. Any revision should be presented to the IEUA Board of Directors and formally adopted, based upon the recommendation of the Regional Technical Committee.

Total Sewer Service Fee Billings/Revenue

IA compared the Sewer Billing Revenues recorded by IEUA for agreement to the CVWD's general ledger information to determine if all sewer related collections/billings by the District are paid to (or "passed-through") and reported to IEUA.

IA noted the following variances between the Contracting Agency's general ledger revenues and the revenues recognized by IEUA that are based upon Monthly Sewer Billing Reports submitted to IEUA:

IEUA Revenue compared to CVWD Revenue			
Fiscal Year	Sewer Utility Revenue ending balance from IEUA Financial System: CVWD	Sewer Utility Revenue ending balance from CVWD	Variance
2012/13	\$ 9,532,767	\$ 9,811,575	\$ 278,808
2013/14	\$ 10,288,244	\$ 10,617,398	\$ 329,154

Per CVWD staff, the Sewer Revenue in the District's general ledger is higher than amount reported to IEUA because revenues include sewer service fees that have been billed and not yet collected along with fees that have been accrued but not yet billed and collected from customers. Currently, CVWD is the only Contracting Agency that reports IEUA's sewer service fees based on the amount collected, not the amount billed. All other Contracting Agencies reviewed, report Sewer Revenue to IEUA based on the amount billed regardless of whether they collect the fees because the services have been rendered. This treatment creates a difference in the amount of revenue that has been recorded between CVWD and IEUA.

Additionally, IA noted the following variance between the Contracting Agency's general ledger expenses and the revenues recognized by IEUA that are based upon Monthly Sewer Billing Reports submitted to IEUA:

IEUA Revenue compared to CVWD Expense			
Fiscal Year	Sewer Utility Revenue ending balance from IEUA SAP for CVWD	Sewer Utility Expense ending balance per CVWD	Balance Variance over/(under) paid to IEUA
2012/13	\$ 9,532,767	\$ 9,583,680	\$ 50,913
2013/14	\$ 10,288,244	\$ 10,164,688	\$ 123,556

The variance identified above is due to the accrual of unbilled Sewer Utility Expense by IEUA and does not impact the fees paid to IEUA. According to CVWD, IEUA is always paid for Sewer Service Fees that have been collected.

Extra-Territorial Fees

CVWD does not have any Extra-Territorial (ET) areas, which are areas receiving sewer services and fall outside of IEUA's boundaries lines per the Regional Contract. The District has some unincorporated areas to the northern portion of the City of Rancho Cucamonga that are within the Contracting's Agency sphere of influence, which require approval into IEUA's service area.

CCRA Reconciliation

IA verified the CCRA account balance recorded in IEUA's records and its Comprehensive Annual Financial Report (CAFR) agree to the Contracting Agency's CAFR at June 30, 2013 and June 30, 2014.

Fiscal Year	CVWD CAFR	IEUA CAFR	Variance
2012/13	\$ 6,929,681	\$ 6,929,682	\$ 1
2013/14	\$ 8,831,382	\$ 8,831,383	\$ 1

Timeliness Testing

IA tested the timeliness for remittance of the Sewer Service fees (Monthly Volumetric EDU fees) collected by the Contracting Agency and due to IEUA's Fiscal Management and the Building Activity Reports submitted to IEUA's Planning and Environmental Compliance Department for 18 months, covering period July 2012 to December 2013 and noted that they are remitted to IEUA on a timely basis.

Internal Audit Recommendations

Through this evaluation, IA noted observations and recommendations to strengthen administrative, accounting, recording, and reporting controls to ensure the intent of the Regional Contract is achieved. The recommendations can be applied to all Contracting Agencies, as part of an amendment and/or as part of the Regional Contract review and renegotiation process in order to ensure all Regional Contracting Agencies apply and administer the Regional Contract in a similar and consistent manner. IA's recommendations are for IEUA's Executive Management to consider.

Recommendations relating to Connection Fees:

As part of the review and renegotiation of the Regional Contract, IEUA and the Contracting Agencies should consider:

- 1. In addition to the regular meetings of the Regional Technical and Regional Policy Committees, IEUA has already begun to provide ad-hoc meetings and training as needed for things such as the updated excel Building Activity Report and the Exhibit J subcommittee. IA noted that great variability and understanding of IEUA, the Regional Contract and Exhibit J exists amongst Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing. In order to develop greater consistency and uniformity throughout the region, IEUA should consider taking the lead in holding quarterly or more regular workshops, meetings, plant tours and similar activities as an avenue where Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing and/or others as well can discuss and ask questions about the application of the Regional Contract and Program. The workshops would provide a forum to discuss questions about category types to apply, definitions, other questionable items and individual situations, and foster cooperation and collaboration among all. One Contracting Agency may encounter certain questions or situations that could apply to other Contracting Agencies. Frequent and on-going dialogue about the application of the Regional Contract would benefit all Contracting Agencies and the Regional Program to ensure consistent application of the Regional Contract and that issues are addressed on a timely basis.***
- 2. The exclusion of Public Service Facilities from the charge for Connection Fees and Monthly Sewerage Charges. As documented under the audit***

report "Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs", IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public K – 14 schools and City governments from both Connection Fees and Monthly Sewerage Charges.

- 3. Adding language in the Regional Contract regarding recourse for non-collection and over/under collection of Initial Connection Fees.*
- 4. The inclusion of the initial connection calculation worksheets for all nonresidential entities with monthly Building Activity Reports as additional support for the connections reported and the Connection Fees collected. This would provide IEUA staff greater visibility and documented support for the application of the category types and the fixture counts, particularly in instances where credits are given (such as Evolution Fresh). IEUA staff would have the necessary information to contact the Contracting Agency if any questions or discrepancies are noted at the time that connections are reported rather than identifying these later on.*
- 5. Additional clarification and descriptive information for the various types of appliances, appurtenances and/or fixtures in the descriptions included in Exhibit J. Examples include: defining the nature of an emergency drain, and classification of a fire hub drain, and any other types of appliances, appurtenances and/or fixtures that may be unique in nature and structure. The review revealed differences in interpretation.*
- 6. IEUA and the Contracting Agencies agreeing to establish, as part of the permitting and plan check process, the requirement of having an IEUA representative provide a final sign-off and approval, prior to the Contracting Agency issuing a permit to a nonresidential entity and allowing a connection to the system. This added approval step would ensure that IEUA is in agreement with the interpretation of the Contract and that the appropriate category type and sewage factor have been applied so that the correct Connection Fees are assessed and collected.*
- 7. A two tier process of determining Connection Fees as part of Exhibit J that distinguishes between common features that are part of any commercial facility such as restroom toilets and sinks and those features that are unique to a specific site, such as a fire hub drain or various types of sinks and low flow items, etc. This would create consistency in the treatment of same-type and same-use fixture units.*
- 8. Clarifying language describing the criteria for being classified a "Floor Drain, Emergency" in Exhibit J. CVWD does not charge for a "Floor Drain" in restrooms because California State Plumbing code considers all drains*

as "Emergency" and charged zero Fixture Units whereas other Contracting Agencies charge two Fixture Units for floor drains under the general "Floor Drain" category.

IEUA sewerage revenue from the seven Regional Contracting Agencies totaled over \$39 million for the 2012/2013 fiscal year, yet IEUA relies entirely on one-page self-reported monthly EDU counts from the Contracting Agencies to generate invoices for these revenues with no significant oversight or reconciliation. Once these self-reported EDU totals are provided to IEUA (generally approximately 15 days after the end of the month), IEUA generates invoices that are mailed to each of the Contracting Agencies. The Contracting Agencies then have 45 days to remit their payments. The following recommendations are intended to improve and make this process more efficient:

Recommendations relating to Sewer Service Fees:

As part of the review and renegotiation of the Regional Contract IEUA and the Contracting Agencies should:

- 9. Establishing the collection of the monthly Sewer Service Fees (Volumetric Fees) directly for the entire region through the County's Property Tax Roll. Collection of the Sewer Service Fees through the property tax roll could result in a more efficient process and reduce the administrative resources used by Contracting Agencies in billing and collecting for these fees. Residential properties could be transferred initially until consideration is given to ways in which and whether to transition fees from commercial, industrial and other entities.***
- 10. Evaluate and consider the relationship between monthly Sewer Service Fees and Connection Fees and determine the need to create a correlation between the two. For example, fast-food restaurants and full-service restaurants are both included in Category 8 for monthly sewerage billing purposes and pay at the same rate. However, for purposes of Connection Fees fast-food restaurants are grouped with office, retail and similar uses (which are Category 1 for monthly sewerage billing). Therefore, fast-food restaurants incur lower Initial Connection Fees, but pay monthly Sewer Service Fees at the higher rates charged to full-service restaurants.***
- 11. Ensuring all current customers receiving sewer services are reported on the Monthly Volumetric report and the appropriate rates are paid to IEUA according to the Regional Contract. The review identified businesses that are not reported and fees not paid to IEUA for services provided by IEUA as well as commercial businesses assessed for fees based on one EDU that discharge or consume less than one EDU of water usage.***
- 12. Adding language to the Regional Contract regarding IEUA's inspection and verification rights as to the monthly sewerage fees and the recourse IEUA***

has when IEUA believes a Contracting Agency has under-collected and/or under-reported such fees.

- 13. Standardizing and providing automated and itemized listing of non-residential monthly sewerage charges would provide information that could be reviewed and researched for anomalies and reconciled on a regular basis.*
- 14. Consider and determine the most appropriate methodology for billing commercial businesses who do not consume or discharge a minimum of one EDU. Currently, two member agencies bill a minimum base of one EDU determined by water consumption under the rationale that no business should pay less than the amount charged to a single family residence; while all others bill based on actual consumption. Provide contracting agencies' clear guidance, in the Regional Contract, as to the most appropriate methodology to ensure all contracting agencies' bill commercial customers in a consistent and uniform method.*
- 15. Evaluating the current process used for invoicing each Contracting Agency for monthly sewer fees collected. By establishing a contract for monthly payment rather than relying on invoices, each Contracting Agency could provide the EDU information and remit the funds collected to IEUA directly within a reasonable period of time. This contrasts with the current approach whereby Contracting Agencies provide EDU information and then wait for an invoice from IEUA before payment thereby delaying payment for up to 45 days. By reengineering the process, IEUA would receive the monthly sewer fees in a more efficient and timely manner.*

Although this is not a financial audit, and IA makes no recommendations to the CVWD, the following are suggested recommendations for the CVWD's consideration.

IEUA and CVWD should work together:

- 16. With Evolution Fresh to determine if the pre-existing credit for the existing EDUs are warranted, or if any additional Connection Fees are due to IEUA as required by the Regional Contract.*
- 17. With the School Districts and Chaffey College to determine and collect any additional connection fees that are due to IEUA as required by the Regional Contract.*
- 18. Implement additional controls and review the Utility Billing system from time to time to ensure all utility accounts are captured, all business types are assessed the correct category and rates, and ensure the appropriate EDUs and fees are reported to IEUA.*

Acknowledgements

We would like to extend our appreciation to the CVWD and the IEUA Planning and Environmental Compliance Department for their cooperation and assistance during this review.

Discussions with the Cucamonga Valley Water District

During the course of the audit and prior to finalizing this report, IA discussed the observations and recommendations noted in this report with Mr. Shawn Perumean, Development Services Supervisor and Mr. Chad Brantley, Finance Officer of CVWD, their comments have been incorporated where provided.

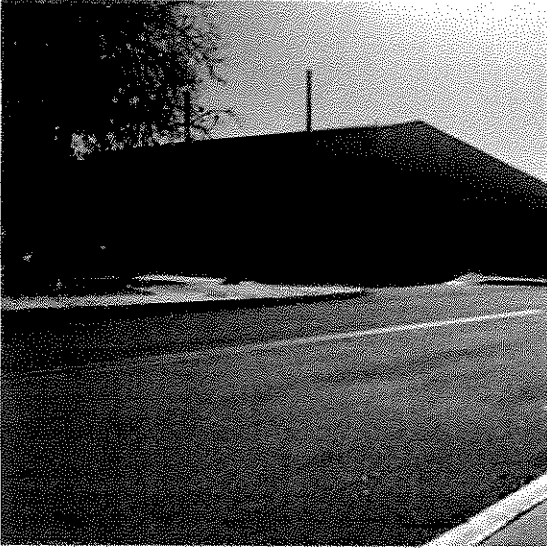
Discussions with IEUA's Planning and Environmental Compliance Department

IA has met with Planning to discuss the contents and provide a copy of this report to Chris Berch, Executive Manager of Engineering/Assistant General Manager, Sylvie Lee, Manager of Planning and Environmental Compliance, Andy Campbell, Deputy Manager of Planning and Environmental Compliance, Craig Proctor, Pretreatment and Source Control Supervisor, Pietro Cambiaso, Senior Engineer, and Kenneth Tam, Environmental Compliance Officer of the IEUA's Planning and Environmental Compliance Department prior to finalizing this report, for their review and comments.

Action Items

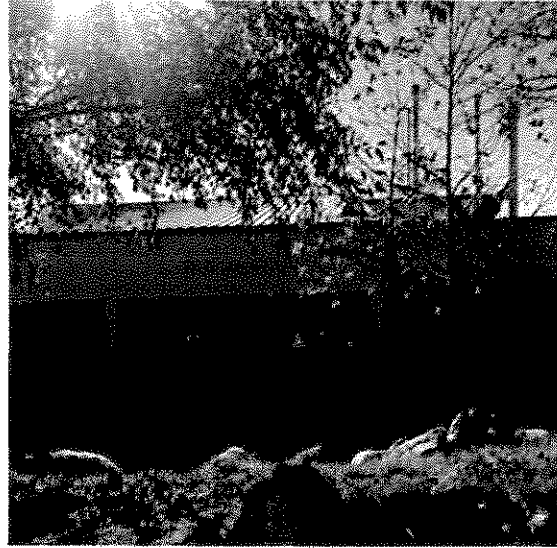
IA will submit a separate report for each of the seven Contracting Agencies as each review is completed. At the conclusion of the audit of all seven Contracting Agencies, IA will provide a comprehensive report summarizing all the identified observations and recommendations and any additional observations and recommendations identified throughout this process. IA anticipates finalizing the seven audit reports and the comprehensive report by June of 2015; in the meantime the recommendations provided in this report should be evaluated and considered at this time.

Exhibit 1
CHAFFEY COLLEGE
Science Buildings

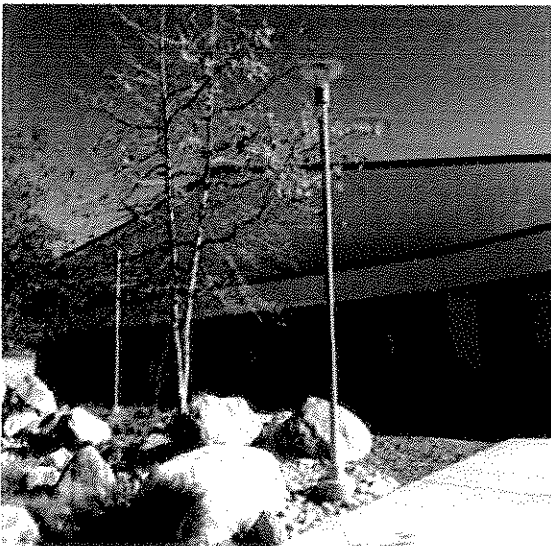


Chemistry Building

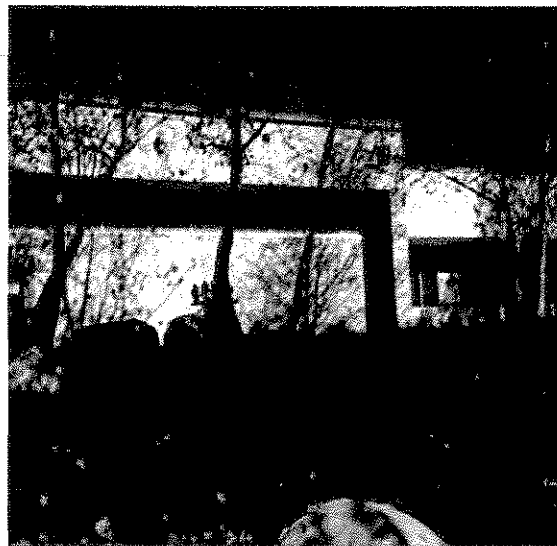
(Note: No restrooms in this building, only
Science laboratories)



Beeks Laboratory

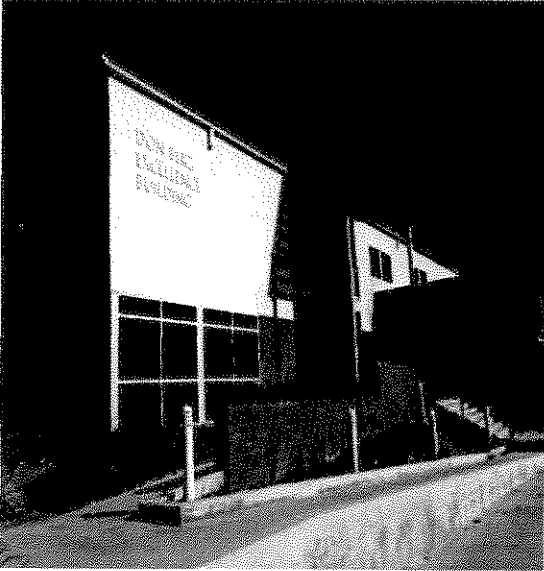


De Lauriers Labs

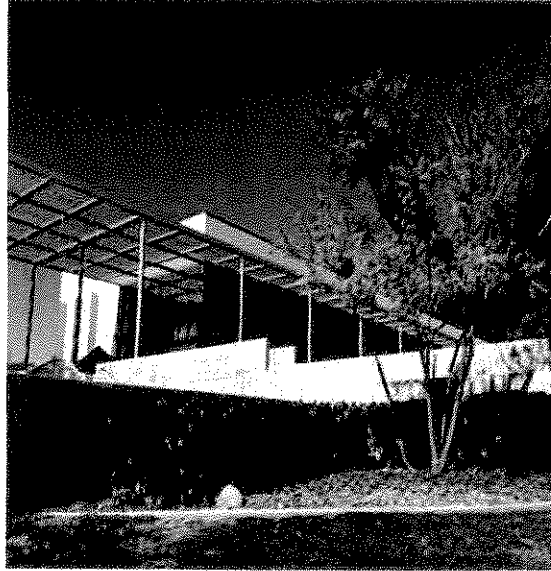


Zimmerman Hall

Exhibit 1 – continued
CHAFFEY COLLEGE
Additional Buildings



Don Berz Excellence building

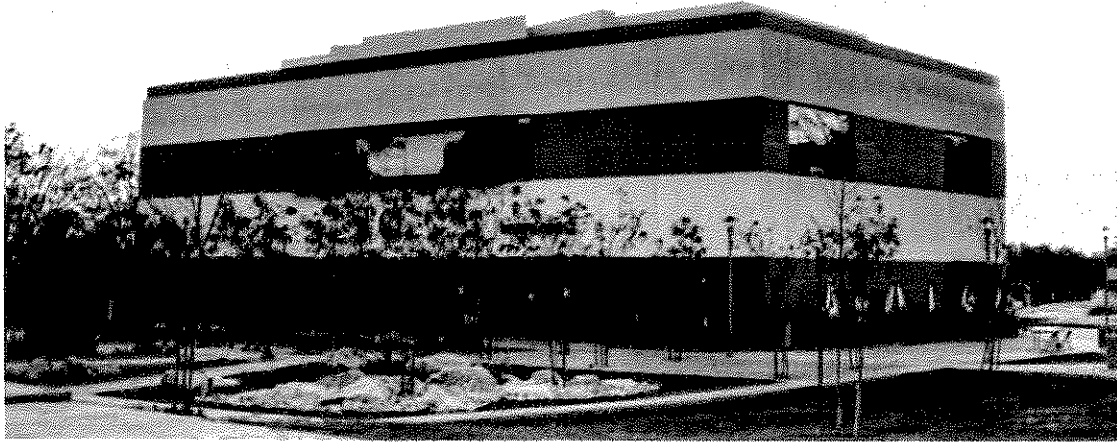


**Marie Kane Center for Student Services
& Administration building**

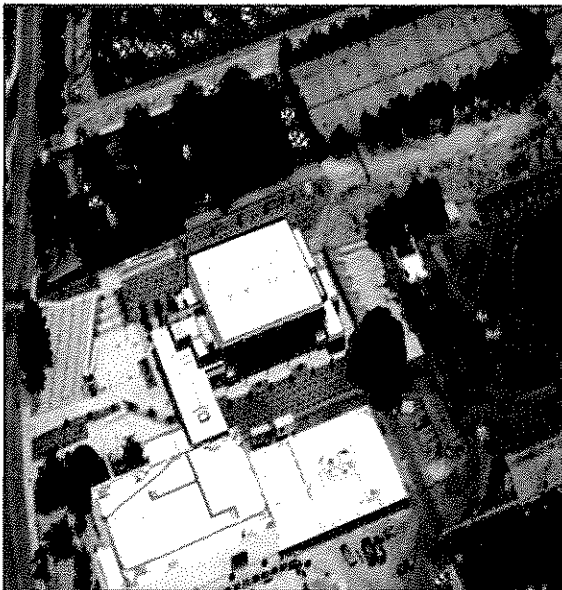


Center for the Arts – Visual and Performing Arts

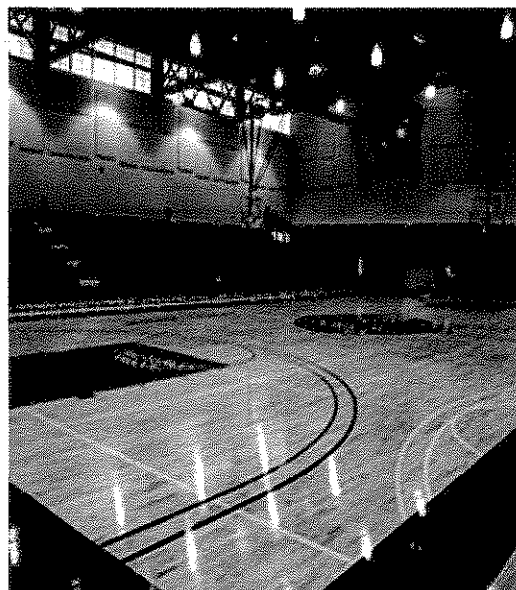
Exhibit 1 – continued
CHAFFEY COLLEGE
Additional Buildings



Michael Alexander Campus Center



Aerial Photo of the new Sports Complex



Interior view of the new Gymnasium

Exhibit 2
Relevant Regional Contract Clauses

Chino Basin Regional Sewage Service Contract and Exhibit J

The Chino Basin Regional Sewage Contract, Section 12.C (page 49) states:

"...the Contracting Agency shall deposit or credit its Capital Capacity Reimbursement Account a Capital Capacity reimbursement Payment for each new Residential Unit which was or is connected to its Community Sewer System within that territory subsequent to July 1, 1979 and for each newly constructed Commercial Unit or Industrial Unit which was or is connected to the Community Sewer System within that territory subsequent to January 1, 1980, the amount of which shall be determined as provided in subpart 2 of part E of Section 9 hereof."

Exhibit "J" of the Regional Contract, under Notes, Section B, Reimbursement Fees to be levied on Pre-1979 Structures Connecting to the Regional system, states:

"The CCRA fees will apply to all commercial and industrial development regardless of when the structure was constructed. When a non-residential use requests to connect to the regional system or modify its use if already connected, the CCRA fee should be based on the current fee in effect at the time the connection or modified use is made."

Exhibit "J" of the Regional Contract, under Notes, Section C, Reimbursement Fees to be Levied on Existing System Users Who Expand or Revise Use, states:

"In some situations existing commercial and industrial users will expand uses to meet increasing demands. As a result, additional fixture units will usually be included within the expanded facility. Under these situations the following criteria will apply:

- a. CCRA fees will only be levied on the fixture unit (FU) count difference between existing FU's and new FU's.
- b. The CCRA fee will be determined based on the fee in effect at the time of the building or sewer permit issuance for the expanding development.
- c. A change in use, placing a commercial development in a different Exhibit "J" category will not result in the recalculation of CCRA obligation for the existing FU's. Only the new added FU's will be levied CCRA fees based on the Exhibit "J" category which best defines the proposed use."

Exhibit 2 – continued
Relevant Regional Contract Clauses

Exhibit "J" of the Regional Contract, under Notes, Section E, Attachment of Sewer Use Rights; Tied to Property or Structure, states:

"Under certain situations an existing discharger may want to relocate or renovate a business. The issue may then arise as to ownership of certain existing discharge rights in the regional system.

All sewer capacity remains with the existing building and should be sold to the building owners rather than tenants.

In cases where an existing building is completely demolished, the transfer or reuse of capacity rights can be permitted provided that:

- a. Proof of building demolition can be documented;
- b. Payment for original system capacity can be documented;
- c. The demolition occurs simultaneously with the transfer; and
- d. The transfer occurs within the Contracting Agency who originally sold the capacity.

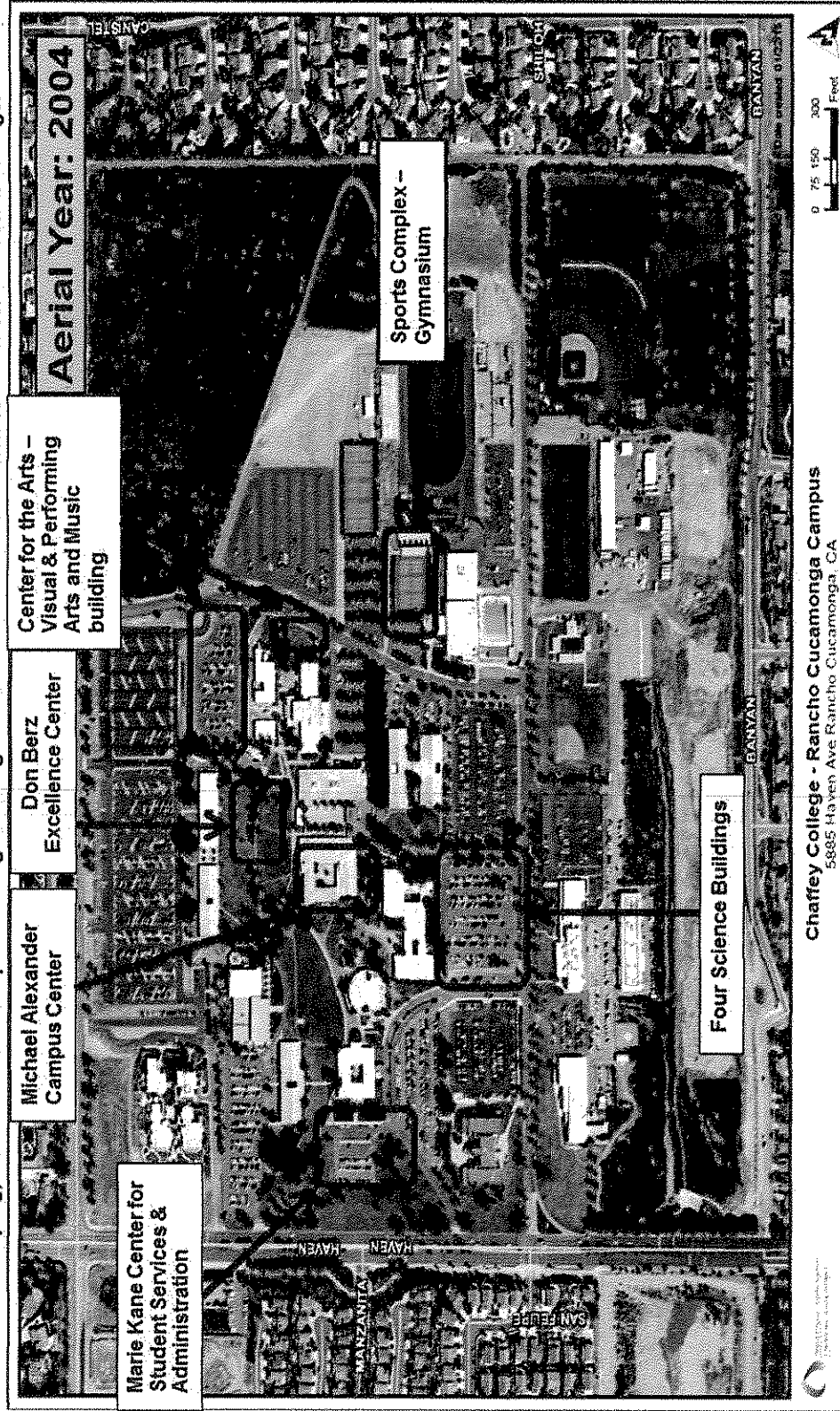
Capacity rights would be determined based on fixture unit counts and the Exhibit "J" use category of the demolished structure. Because local collection systems may also be impacted by a relocation, this exception shall be at the sole discretion of the contracting agency who is accepting the relocated capacity.

Any additional EDUs required shall be purchased per Note C of this Exhibit."

Exhibit 3

2004 Aerial Photograph of the Chaffey College – Rancho Cucamonga Campus

This is an aerial photograph before construction began. Proposed sites for the new buildings were previously parking lots, landscaping, tennis courts or a pre-existing building. Circled areas are the current location for the new buildings.



Chaffey College - Rancho Cucamonga Campus
5885 Haven Ave Rancho Cucamonga, CA

Exhibit 3 - continued

2008 Aerial Photograph of the Chaffey College – Rancho Cucamonga Campus

This aerial photograph shows the six buildings completed, two buildings in progress, and the future site for two buildings.

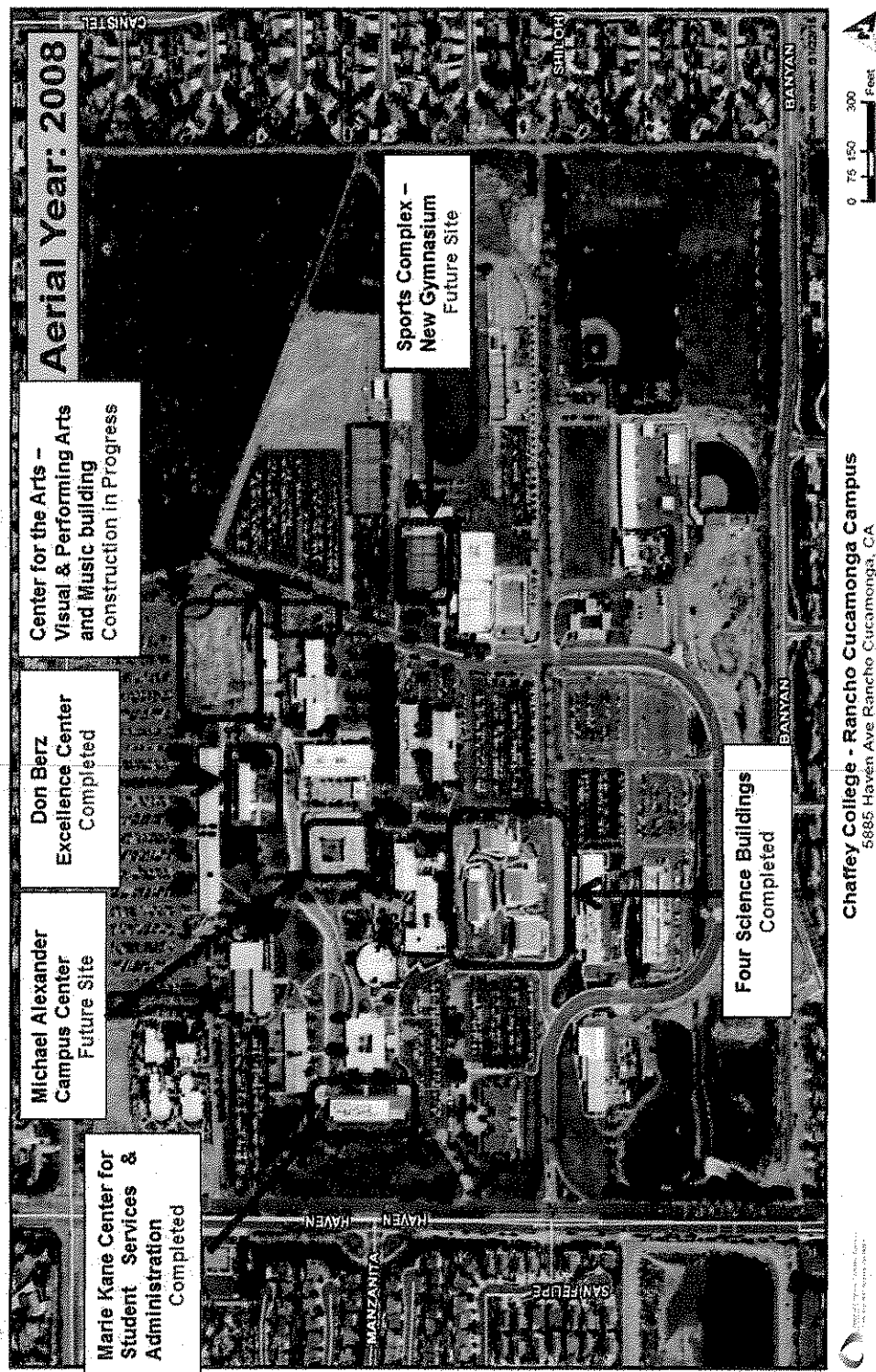


Exhibit 3 - continued
2012 Aerial Photograph of the Chaffey College – Rancho Cucamonga Campus
This aerial photograph shows that all ten new buildings are complete.

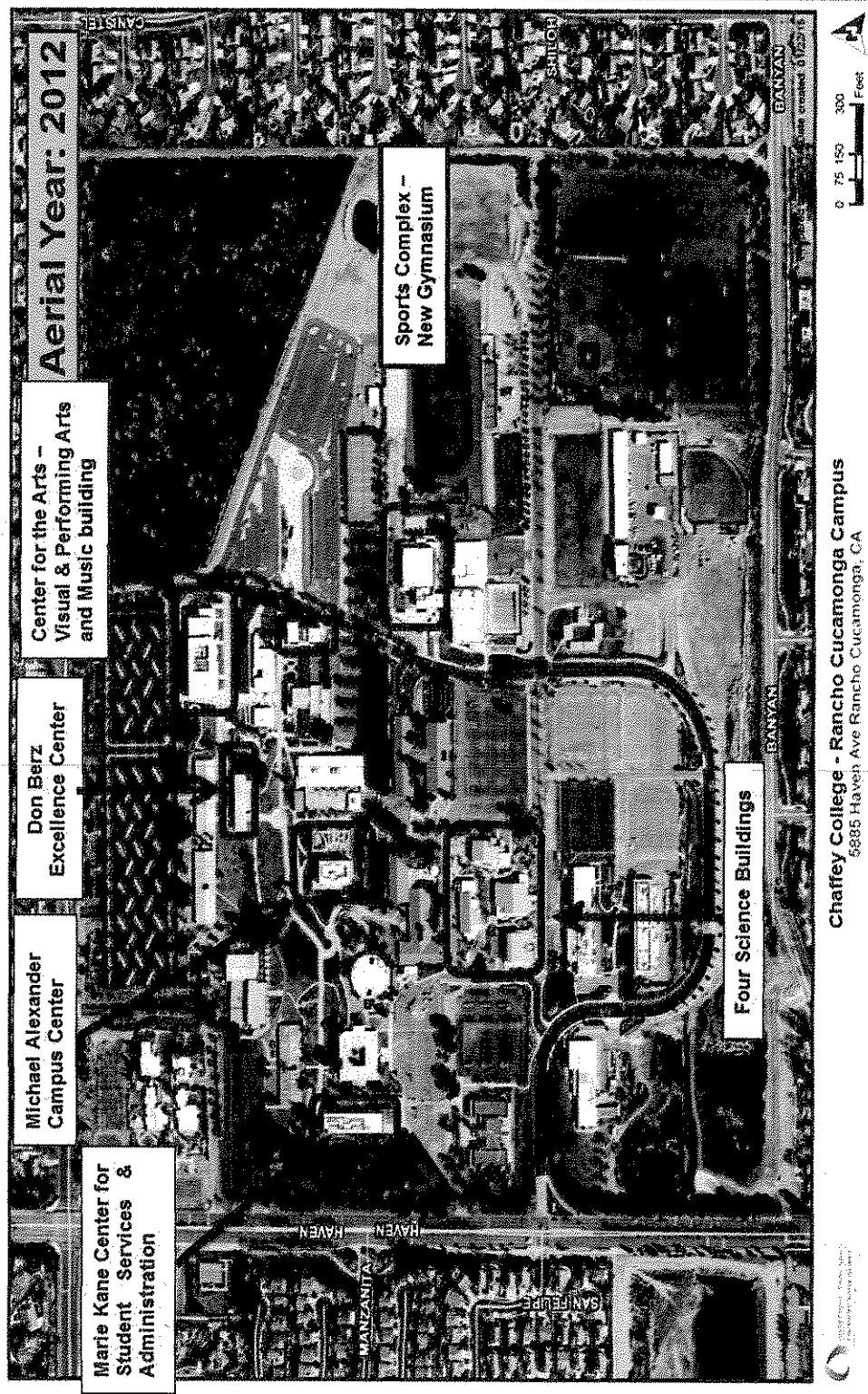
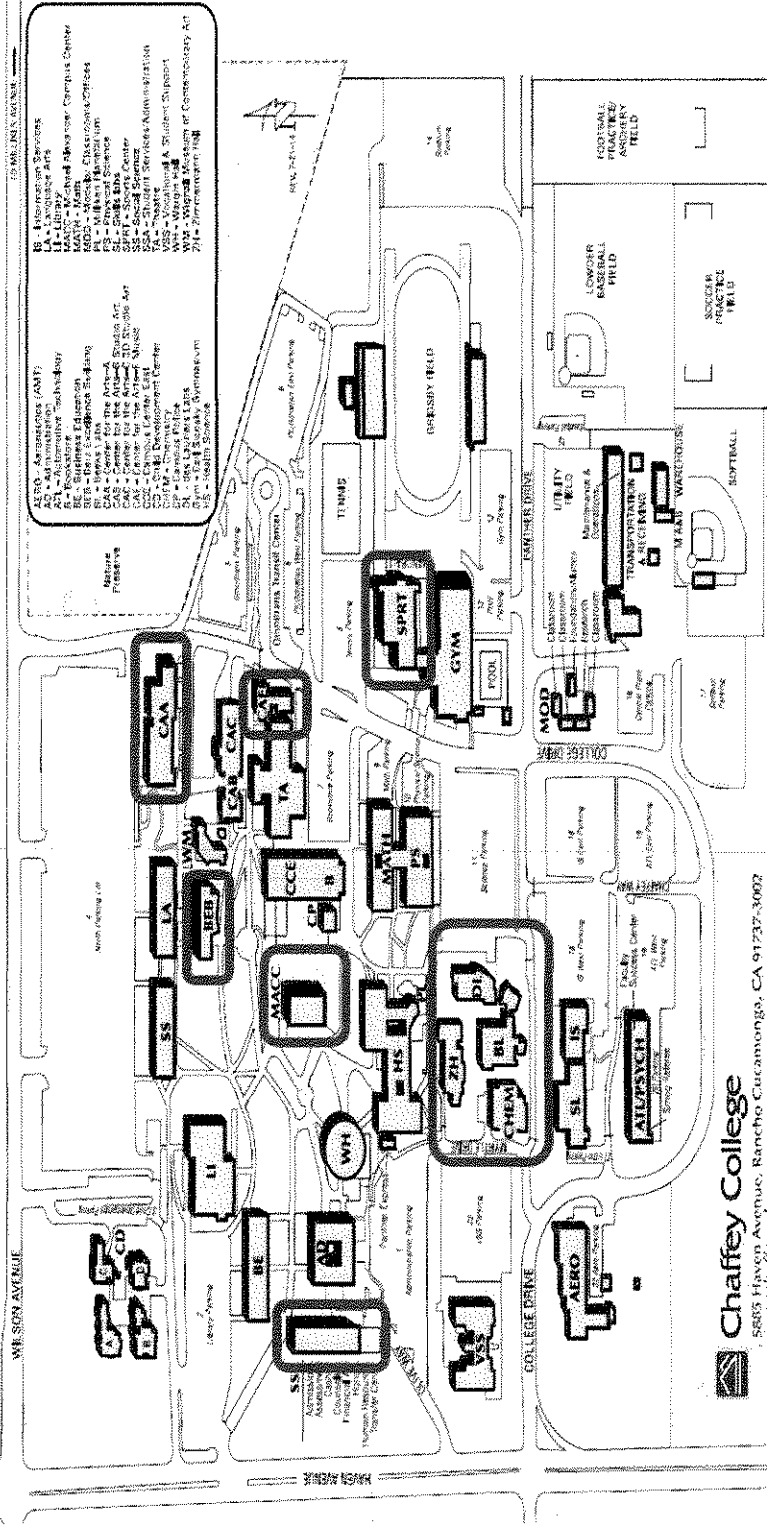


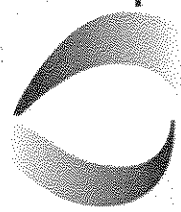
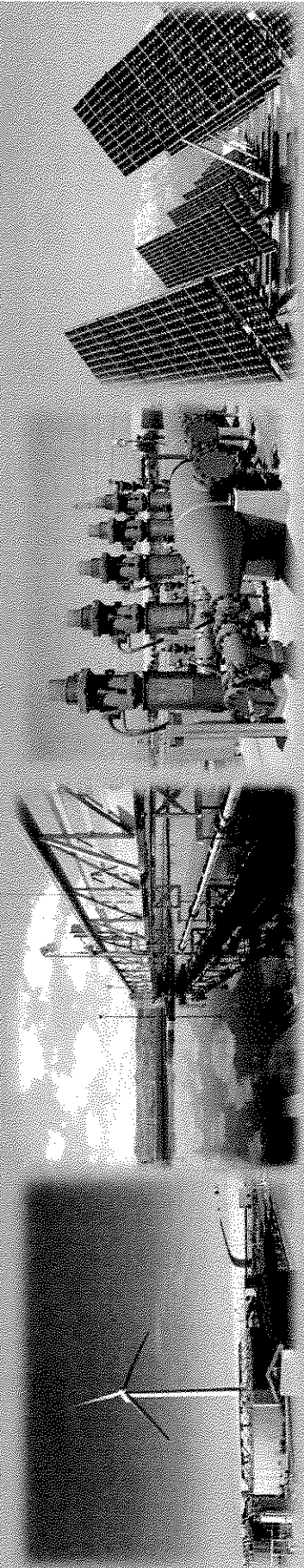
Exhibit 3 - continued

2015 (current) Map of the Chaffey College – Rancho Cucamonga Campus
 This map was obtained from the College's website and shows all the buildings and facilities at this campus, which is consistent with our review of the 2012 aerial photograph. Circled items identify the location of the new buildings.



Regional Contract Review Interim Audit Report

Cucamonga Valley Water District



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Internal Audit Department

Regional Contract Review Interim Audit Reports

Objective/Purpose:

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

Approach:

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

Regional Contract Review Interim Audit Reports

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

Cucamonga Valley Water District

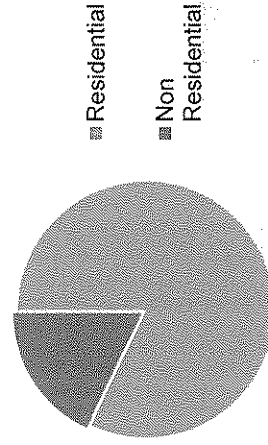
**Cucamonga Valley Water District
Connection Fees**

Fiscal Year	EDUs	Fees collected
2012/13	826,0299	\$ 4,054,981
2013/14	381,5635	\$ 1,901,701

**Cucamonga Valley Water District
Sewer Service Fees**

Fiscal Year	EDUs	Fees
2012/13	769,392.01	\$ 9,532,767
2013/14	768,352.79	\$ 10,288,244

Approximately 82% Residential
 Approximately 18% Non-residential



Regional Contract Review

PUBLIC SERVICE FACILITIES



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Regional Contract Review Summary of Public Service Facilities

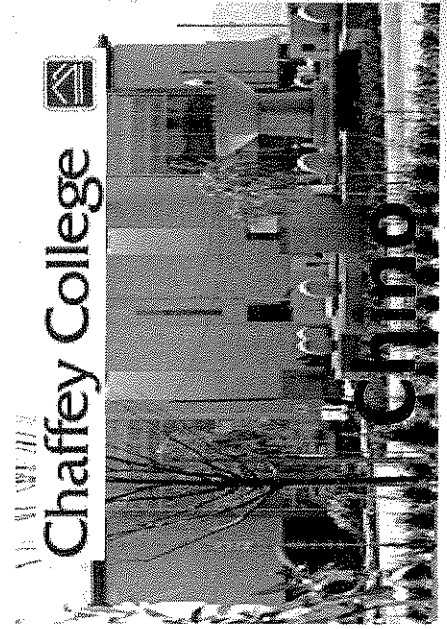
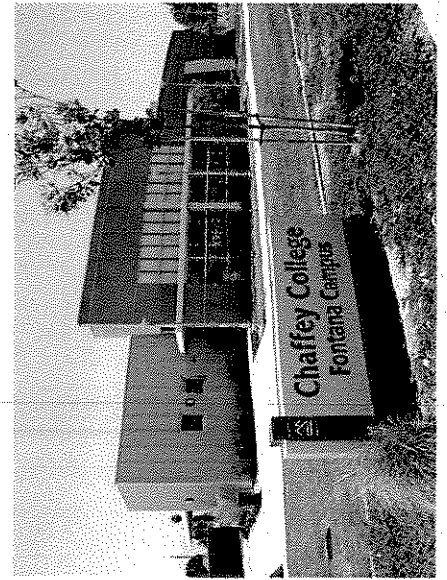
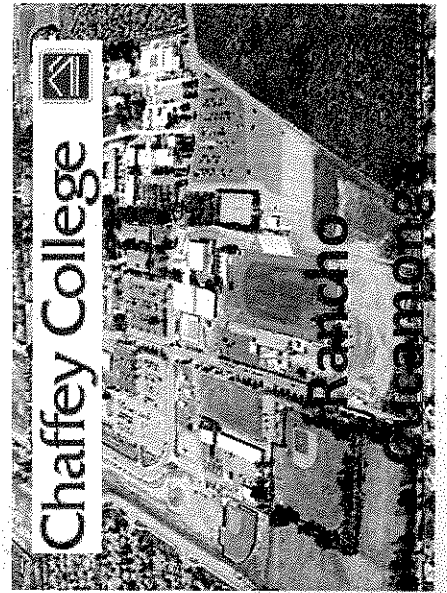
Public Schools

School Name	Type of Construction or Renovation	Date placed in operation	Estimated Connection Fees Not Paid
Los Amigos Elementary School	New 14-classroom building and bathroom	2013	Cannot be determined. A similar school paid \$67K in 2010 for similar construction.
Etiwanda High School	New Classroom wing/building (approximately 98,000 square feet), New Food Service building, New Performing Arts Auditorium (800 seats), and New Athletic Field Complex	In progress	Unable to estimate without a full physical observation and count of fixture units.
Rancho Cucamonga High School	New Auditorium Building (approximately 22,500 square feet, 800 seats) and New Athletic Field Complex	In progress	Unable to estimate without a full physical observation and count of fixture units. A nearby High School
Chaffey College -- Rancho Cucamonga Campus	10 new buildings and several renovations of existing buildings, including Science buildings, Sports complex and Student cafeteria. Combined square footage of over 110,000 sq. ft.	2007 - 2011	Unable to estimate without a full physical observation and count of fixture units. City of Fontana collected over \$50K for 1 building at Chaffey College in Fontana.

Regional Contract Review

Chaffey College

Contracting Agency	College	Year placed in Operation	Connection Fees
Cucamonga Valley Water District	Chaffey College Rancho Cucamonga Campus	2007 through 2011 10 buildings	\$ 0
City of Chino	Chaffey College Chino Campus	2008	\$ 0
City of Fontana	Chaffey College Fontana Campus	2011	\$ 52,845



Public Service Facilities Recommendations

- Additional language should be added to the Regional Contract regarding IEUA's inspection and verification rights for Public Service Facilities and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported Connection Fees and/or Monthly Sewerage Charges.
- The District should consider adopting a **collaborative** approach and **foster** a relationship with the **various School Districts** to ensure Connection Fees are charged and collected for any future planned projects with new construction or expansion.

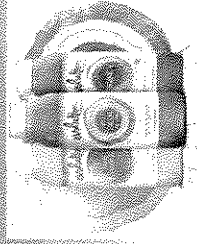


Regional Contract Review

Connection Fees

Regional Contract Review

Evolution Fresh



- Uncollected/Unsupported Connection Fees total \$586,867.32

- **IA discussed with Evolution Fresh:**

- EDUs were acquired from a 3rd Party as a "Intra-District" transfer.
- EDUs were not previously at the current location.

Per CVWD:	
Calculation per Cost Sheet:	EDUs
Total EDUs required (Commercial and Industrial)	233.96005
Capital Capacity Credit	(119.54926)
Total EDUs assessed	114.41079
Total Connection fees collected	\$ 561,642.57

Per Evolution Fresh:	
EDU purchase breakdown:	EDUs
Total EDUs required	233.96005
(-) Minus Existing Credits	-11.93
(-) Minus 3 rd Party Purchase	<u>-107.61926</u>
Total Existing EDUs and 3 rd party purchase	119.54926
(-) Minus purchase from CVWD	-114.41079
Fees paid to CVWD	\$561,642.57

Connection Fees Recommendations

- IEUA and CWWD should work together to determine the correct number of EDUs at Evolution Fresh and determine if any Connection Fees are due to IEUA as required by the Regional Contract. (added)
- IEUA provide final approval of nonresidential plumbing permits to verify connection count, categorization and fees.
- IEUA inspection, verification and recourse rights for under-collected and/or under-reported Connection fees.
- IEUA require all calculation worksheets are submitted as support to the BAR.
- IEUA leadership to hold regular workshops, meetings, plant tours and similar activities with Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing.



Regional Contract Review

Monthly Sewer Service Fees

Regional Contract Review

Monthly Sewer Service Fees

- Unable to identify 9 businesses in the Utility Billing system.
- Sewer Service Fees are applied based on water consumption, unless usage results in than one EDU. Then, CVWD will bill for a minimum one full EDU per month (two EDUs per bimonthly billing cycle)
- IEUA's Volumetric Rate for a minimum of one EDU was incorrect applied. CVWD noted the Volumetric rate was corrected during the rate update and review process in FY 2014/15.
- Fast-Food vs. Full-Service Restaurant – Included in the same category for monthly sewerage billing, but for initial connection fees, fast food pays fees at the time of connection.



Regional Contract Review Monthly Sewer Service Fees Recommendations

- IEUA should standardize the monthly sewer fee report and require more detail and/or itemized information for non-residential charges.
- IEUA and the Contracting Agencies should consider establishing the collection of monthly sewerage fees directly for the entire region through the County's property tax roll. (I think this is more for the region as a whole, not specifically CVWD)
- The cities should perform periodic reconciliations to ensure all accounts are reported and accounted for and paid utilizing the correct rates.
- IEUA and Contracting Agencies should evaluate and consider the relationship between monthly Sewer Service Fees and Connection Fees and determine the need to create a correlation between the two components.

Regional Contract Review Interim Audit Reports

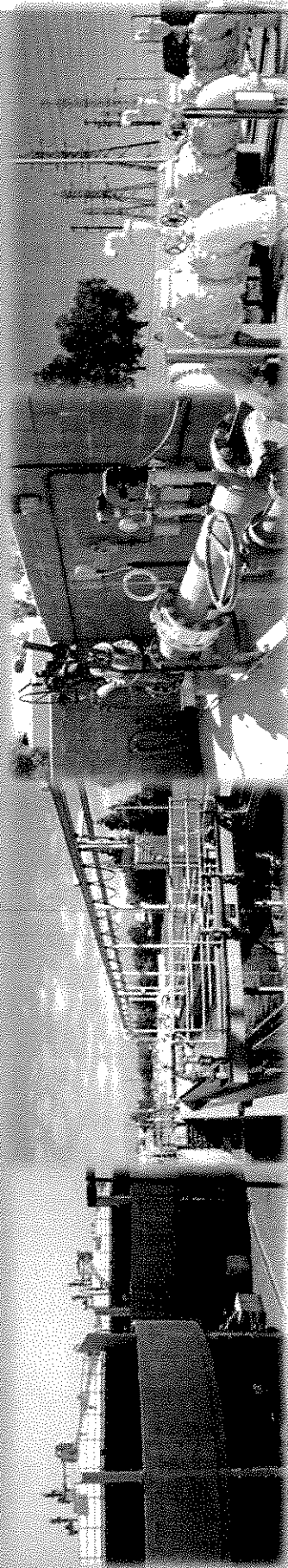
To-date, through the Audit Committee, IA has submitted as an information item the following audit reports:

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



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

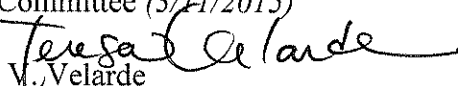
Questions?



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

INFORMATION
ITEM
2B



Date: March 18, 2015
To: The Honorable Board of Directors
Through: Audit Committee (3/11/2015)
From: 
Teresa Velarde
Manager of Internal Audit
Subject: Internal Audit Department Status Report for March 2015

RECOMMENDATION

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

BACKGROUND

The Audit Committee Charter requires that a written status report be prepared and submitted each quarter. The Internal Audit Department Status Report includes a summary of significant internal and external audit activities for the reporting period. Attached is the Status Report for March 2015.

PRIOR BOARD ACTION

On September 17, 2014 the Board of Directors approved the Annual Audit Plan for Fiscal Year 2014/15.

On March 20, 2013, the Board of Directors reconfirmed the approved Audit Committee Charter.

IMPACT ON BUDGET

None.

**Internal Audit Department
Status Report for March 2015**

Projects Completed and in Progress This Period

Audit: Regional Contract Review

Scope:

The objectives of the Regional Contract review include:

- Evaluation of how the seven agencies apply the Regional Contract provisions
- Determine if comply with the Regional Contract requirements
- Determine opportunities to improve processes and procedures
- Identify opportunities and make recommendations for consideration as part of the Regional Contract renegotiation

The review covers the period from July 1, 2012 through December 31, 2013 and where possible considers events subsequent to that period. IA performed a variety of audit procedures to evaluate:

- Initial Connection Fees
- Public Service Facilities Connection Fees
- Monthly Volumetric Sewerage Charges
- Extra-Territorial Fees
- Reconciliations of fees collected and paid to IEUA
- Overall recordkeeping

The results of the overall Regional Contract review are being documented in three separate sections to segregate the observations and recommendations by subject. The following provides a status on each of the seven Contracting Agencies review/evaluation.

Cucamonga Valley Water District

COMPLETED

March 2015

Refer to the final report under separate cover for a complete report of the observations and recommendations. IA noted the following:

- Connection fees: In most cases the calculations made by the District were materially accurate. IA has included multiple recommendations to improve the Connection Fees calculation and collection processes.
- Public Service Facilities: The District does not always collect connection fees from construction at schools in the community. Recent construction information was obtained from a variety of public records for testing. IA noted an addition of a new classroom building at an elementary school and on-going/future expansions at two high schools with no record of fees being collected. Additionally, the Chaffey Community College District added 10 buildings to the Rancho Cucamonga Campus between 2007 through 2010 and there is no record of fees being paid. IA has included recommendations suggesting enhanced communication and collaboration with the School District and the Community College District in the community as a means of encouraging connection fee payments.
- Commercial Volumetric Sewerage Accounts: IA was not able to validate the sewer billing for a number of addresses and was unable to determine if the District pays IEUA for these sewer services. IA also noted for a number of addresses fees were billed for a

Internal Audit Department Status Report for March 2015

minimum of one EDU per month, instead of being billed on actual consumption, and the incorrect IEUA Volumetric Rate was applied for the bi-monthly billing cycle reviewed. CVWD noted the IEUA Volumetric Rate was corrected through the rate update and review process, prior to IA's on-site visit in January 2015, and the current IEUA Board-approved rate is applied and collected. IA has included multiple recommendations about standardizing and providing additional information as part of the monthly reporting to IEUA, as well as potential process enhancements at the District. Potentially reengineering the billing process between the District and IEUA is also described.

- In 2013, Evolution Fresh (Industrial User) purchased EDUs from a third party and CVWD. IA confirmed with the Program Director at Evolution Fresh, this third party purchase was an "intra-district" transfer from a different industrial user and the EDUs were not previously at the current location. There is no clear supporting documentation that CVWD had knowledge of the transfer and/or reduce purchase of EDUs, however, CVWD signed the cost sheet that shows approval of the credit for the EDUs and issued the plumbing release. It is IA's audit opinion that the intra-district" transfer does not follow the guidelines and provisions of Exhibit J of the Regional Contract. CVWD noted further research will be performed and plans to report back to IA on this observation.

City of Chino

COMPLETED

December 2014

Refer to the final report under separate cover for a complete report of the observations and recommendations. IA noted the following:

- **Connection Fees:** In most cases the calculations made by the City were materially accurate. Prior to the June 19, 2013 revision of Exhibit J guidance about fixture unit counts was limited to the California Plumbing Code. As a result, the City (like all Contracting Agencies) had improvised their own calculation worksheets resulting in fewer categories and varying fixture unit amounts than that shown in the revision to Exhibit J. Even with the guidance of the Exhibit J revision, with changing trends, some types of enterprises have been difficult to categorize, such as fast-casual sit-down restaurants and community centers/swimming pool facilities in private residential communities.
- **Public Service Facilities:** The City does not generally collect connection fees from construction at schools in the community. Recent construction information was obtained from a variety of public records for testing. Per City of Chino staff there is no record of fees being paid for a new classroom wing with restrooms that was recently completed at Howard Cattle Elementary School. There is also no record of fees being paid for the new Chaffey College – Chino Campus that opened in 2008. IA performed a physical observation and determined that connection fees for the college campus would have exceeded \$55,000. IA has included recommendations suggesting enhanced communication and collaboration with the School and Community College Districts in the community as a means of encouraging connection fee payments.
- **Commercial Volumetric Sewerage Accounts:** Several addresses were found that either utilized an inaccurate billing formula or were not being billed for monthly sewerage fees by the City. IA has included multiple recommendations about standardizing and providing additional information as part of the monthly reporting to IEUA, as well as potential process enhancements at the City and potential contract provisions about

**Internal Audit Department
Status Report for March 2015**

recourse for under-collection. Potentially reengineering the billing process between the City and IEUA is also described.

City of Fontana**COMPLETED****December 2014**

Refer to the final report under separate cover for a complete report of the observations and recommendations. IA noted the following:

- **Connection Fees:** In most cases the calculations made by the City were materially accurate. IA has included multiple recommendations to improve the Connection Fees calculation and collection processes.
- **Public Service Facilities:** The City generally does collect initial connection fees for Public Service Facilities. IA has included a recommendation about the City's process that may be applicable to other Contracting Agencies, as well as a recommendation regarding classification differences used in calculating initial connection fees.
- **Commercial Volumetric Sewerage Accounts:** The City is the only Contracting Agency that bills monthly sewerage based on EDUs purchased through Connection fees rather than through volumetric water usage, since the City does not have access to water usage information from the City's water service providers. The City is also the only Contracting Agency that has contracted with the County of San Bernardino to collect residential sewerage fees through the property tax roll. IA has included multiple recommendations about considering these and other alternatives. Potentially reengineering the billing process between the City and IEUA is also described.
- In 2013 Kaiser Fontana completed construction of a new seven story hospital and inpatient tower that was originally planned and permitted in 2009. The original hospital building does not appear to be used for hospital beds but is still open as clinics, laboratories, pharmacies and operating rooms. The City of Fontana believes that no Connection fees are due because they view the facility as a declassified significant industrial user (declassified in 2007) with billing and capacity based on flow whereas IEUA believes the provisions of Exhibit J should be applied. No Connection fees have been charged or collected in connection with this hospital tower.

City of Montclair**COMPLETED****September 2014**

This report was completed and presented to the Audit Committee and the Board of Directors in September 2014. IA was able to evaluate each of the areas planned. Following is a summary of observations noted:

- **Initial Connection Fees:** In most cases the calculations made by the City were materially accurate. IA included multiple recommendations to improve the Initial Connection Fees calculation and collection processes, including recommendations about fixture unit values and categorization.
- **Public Service Facilities:** The City does not always collect connection fees from construction at schools in the community. IA has included recommendations suggesting enhanced communication and collaboration with the School Districts in the community as a means of encouraging connection fee payments.

Internal Audit Department Status Report for March 2015

- Commercial Volumetric Sewerage Accounts: IA was not able to validate the sewer billing for a number of addresses and was unable to determine if the City pays IEUA for these sewer services. IA has included multiple recommendations about standardizing and providing additional information as part of the monthly reporting to IEUA, as well as potential process enhancements at the City. Potentially reengineering the billing process between the City and IEUA is also described.

City of Upland

COMPLETED

September 2014

This report was completed and presented to the Audit Committee and the Board of Directors in September 2014. IA was able to evaluate each of the areas planned. Following is a summary of observations noted:

- Connection Fees: In most cases the calculations made by the City were materially accurate. IA has included multiple recommendations to improve the Connection Fees calculation and collection processes.
- Public Service Facilities: The City generally does collect initial connection fees for Public Service Facilities. IA has included a recommendation about the City's process that may be applicable to other Contracting Agencies, as well as a recommendation regarding classification differences used in calculating initial connection fees.
- Commercial Volumetric Sewerage Accounts: Several addresses were found that either utilized an inaccurate billing formula or were not being billed for monthly sewerage fees by the City. IA has included multiple recommendations about standardizing and providing additional information as part of the monthly reporting to IEUA, as well as potential process enhancements at the City. Potentially reengineering the billing process between the City and IEUA is also described.

City of Ontario

IN PROGRESS

IA is in the testing phase of the review. IA has met and discussed all areas with the assigned representatives. IA has made selections of the items needed for additional testing and is in the process of obtaining information requested. In summary:

- Connection Fees: Testing of Connection Fees has been substantially completed. The fixture unit values used by the City of Ontario vary from those provided in Exhibit J, in most cases leading to calculations made by the City that understated Connection Fees. IA has provided Ontario a list of open questions and/or requests for more information.
- Public Service Facilities: Recent construction information was obtained from a variety of public records for testing. No record of fees being paid has been provided for several schools. Fees are reported as having been paid for Kaiser Permanente's Ontario Medical Center.
- Commercial Volumetric Sewerage Accounts: IA has requested information to perform detailed testing of items from the Connection Fees testing to their inclusion in the regular sewer billing system and ultimately the total EDU amounts provided to IEUA. The City has recently lost several staff members and this short-staffing has led to delays in receiving information.

**Internal Audit Department
Status Report for March 2015**

City of Chino Hills**IN PROGRESS**

IA is in the beginning of the testing phase of the review. IA has met and discussed all areas with the assigned representatives. Some of the initially requested documents and information have been received. Additional meetings will be scheduled to begin additional detailed testing procedures.

- Connection fees and Public Service Facilities: Testing of Connection Fees is currently in process.
- Commercial Volumetric Sewerage Accounts: IA will be requesting information to perform detailed testing of items from the Connection Fees testing to their inclusion in the regular sewer billing system and ultimately the total EDU amounts provided to IEUA. IA has also been provided some financial information; however, IA is currently waiting for other requested information.

IA also submitted the following audit reports related to the Regional Contract Review:

- The report titled "Regional Contract Review – Review of the Ten Year Forecast" was completed in June 2014. The scope of the Ten Year Capacity Demand Forecast (TYCDF) review was to evaluate the TYCDF prepared by each of the seven Contracting Agencies and how that information is subsequently compiled and utilized by IEUA to prepare the IEUA Ten Year Capital Improvement Plan (TYCIP). The review considered the requirements of the Regional Contract and how those requirements are met through the TYCDFs prepared by the Contracting Agencies and the TYCIP prepared by IEUA.
- The report titled "Regional Contract Review – Survey of Comparable Agencies" was completed in June 2014. The report compared IEUA's Regional Contract and program with four similar agencies/programs in California. The review evaluated the structure used to bill and collect Connection fees and Sewer Service fees from residential, commercial, industrial and public service users. The review considered whether greater efficiencies could be gained from adopting different applications and methodologies in administering the contract and collecting fees as applied at other agencies.
- The "Survey of Comparative Information" was completed in September 2014. This report provided a comprehensive side-by-side comparison of the preliminary responses received from each Contracting Agency about how the Regional Contract provisions are applied.
- The first "Internal Audit Recommendations" report was completed in September 2014. This report provided a comprehensive list of recommendations and the related relevant Contracting Agency. This report was limited to the two Contracting Agencies that had been completed: Upland and Montclair.
- A second "Internal Audit Recommendations" report has now been completed. This report has been updated to include the five completed Contracting Agencies: CVWD,

Internal Audit Department Status Report for March 2015

Upland, Montclair, Fontana and Chino. This report is complete and is presented under separate cover for this agenda. There are three sections of recommendations:

- Connection Fees Recommendations
- Public Service Facilities Recommendations
- Monthly Sewerage Billing Recommendations

Project: **Filing of FY 2013/14 CAFR**

Scope: File as required the final, approved, audited financial statements.

During the preparation of the Comprehensive Annual Financial Report, IA assisted Finance and Accounting in performing a quality control review of the financial statements including the Trial Balances for each fund, individual fund statements and consolidated statements of the Agency's FY 2013/14 CAFR. IA reviews for math accuracy, consistency in totals among the narratives and the statements, and professional presentation.

IA's quality control 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 audit work of the external auditors as to the reliability of the financial information reported. IA's review is one of additional quality control to ensure a professional presentation of the financial statements.

A CAFR is submitted by the Finance and Accounting Department under separate cover.

IA coordinated with the external auditors, White Nelson Diehl Evans (WNDE), as required. IA completed the required filing of the audited financial statements and CAFR with:

- State Water Resources Control Board; and
- the Federal Audit Clearing House.

IA will also be filing with the following entities:

- The State Controller's Office;
- County of San Bernardino'

Project: **Review of Internal Audit Department and Audit Committee Charters**

Scope:

The IAD and the Audit Committee Charters require that annually, IA review and ensure the Charters are updated as necessary.

Status: **IN PROGRESS**

The Manager of IA and the Audit has reviewed both Charters to ensure these are in agreement with the leading practices such as the Institute of Internal Auditors (IIA), and the American Institute of Certified Public Accountants for similar committees. At this time no changes or amendments appear necessary. At this time, the Manager of IA seeks any requests or requirements from the Audit Committee and/or the Audit Committee Advisor regarding any necessary updates. If none are required, the Charters will be submitted for re-confirmation by the Audit Committee and the Board. Attached are both Charters for review.

Internal Audit Department Status Report for March 2015

Project: Review of Internal Audit Department SOP's

Scope: As required by the Internal Audit Department Charter and the IIA Standards, the Manager of IA is responsible for documenting procedures and review/update procedures periodically to ensure these are aligned with current department practices/procedures, leading practices or new requirements.

Status: IN PROGRESS

IA has formally documented seven SOPs. SOPs serve various objectives: provide consistency in the audit methods applied, are a useful training/reference tool, establish ground rules of professional conduct and responsibilities, and provide continuity during staff changes. No major changes will be proposed in the seven SOPs and there does not appear to be a need for additional or new SOPs. The SOPs are being updated for minor changes (ie. PIPES, the Agency's intranet is now called AIM, etc). The SOPs will be provided for discussion under separate cover during the next Audit Committee Meeting.

On-Going Projects

Project: Management Requests

Scope:

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

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

During this quarter, IA included information in the CVWD report based upon requests from the Planning and Environmental Compliance Department about Connection Fees. These are included in the body of the report and related to the Regional Contract Review and expanded scope of work. Additionally, IA has been requested to serve on the Agency's Steering Committee for Managing Records and Information. Additional requests related to IA's interpretation or recommendations have been responded to and IA participates in various Agency-wide meetings and training sessions.

Internal Audit Department Status Report for March 2015

Planned/Future/Additional Projects

Audit: **Master and Rotating Contracts Audit**

Scope: To evaluate the Agency's Mater and Rotating Contracts to ensure these follow the required Agency policies and procedures and ensure controls that enforce proper contracting, procurement transactions are in place.

Status: Projected start date: March 2015

IA will coordinate an audit kick-off meeting by April with all the responsible managers/supervisors. IA will perform preliminary surveys, planning, interviewing and inquires of Agency personal in relation to the areas of the audit above. It is anticipated fieldwork will begin approximately in April 2015. A status report of the progress of the Master and Rotating Contracts Audit will be provided at the next Audit Committee Meeting.

Internal Audit Department

Internal Audit Department Staffing:

The Internal Audit Department is staffed as follows:

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

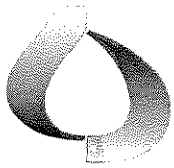
Internal Audit Staff Professional Development Activities:

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

During the past quarter, IA staff continues to stay abreast of industry developments through review of industry periodicals. One senior auditor attended a half-day seminar on Contract Compliance and Fraud (Forensic Accounting). Two IA members continue to prepare for the 3-part Certified Internal Audit certification, the only globally-recognized certification for internal audit professionals. One Senior Auditor is a Certified Public Accountant. Additional professional development education will be scheduled in the near future.

Future Audit Committee Meetings:

- Wednesday, June 10, 2015 – Regularly Scheduled Audit Committee Meeting
- Wednesday, September 9, 2015 – Regularly Scheduled Audit Committee Meeting
- Wednesday, December 9, 2015 – Regularly Scheduled Audit Committee Meeting



INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Amended on December 18, 2013

PURPOSE

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

The purpose of the Internal Audit Department (Internal Audit or IA) is to assist the Board of Directors (Board) and the Audit Committee (Committee) in fulfilling their oversight responsibilities for financial reporting, internal controls, 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 their operations.

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

MISSION

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

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



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VALUES

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

Independence

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

Integrity

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

Professionalism

The Internal Audit Department will perform its work with professionalism at all times.

Collaboration

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

ACCOUNTABILITY

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

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

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

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



INLAND EMPIRE UTILITIES AGENCY
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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 management.
- Obtain the necessary assistance of Agency staff where they perform audits, as well as other specialized services from within or outside the organization.
- Obtain regular updates from management and Agency legal counsel regarding compliance matters affecting operations.



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- Establish procedures for the receipt, retention, and treatment of comments or complaints received regarding Agency accounting, operations, or internal controls, including those matters received through Ethics Point or other channels.
- Investigate and handle accordingly reported instances of inappropriate activities, misappropriation of funds or fraud, including those matters received through Ethics Point or other channels.
- When the Internal Audit Department does not possess all the necessary skills or experience to complete an audit or review, additional internal or external resources may be used, subject to the approval of the Audit Committee and when necessary from the Board.

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

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

RESPONSIBILITIES

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

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

Internal Controls

- Assess the adequacy of internal controls in place and determine if they are operating effectively.

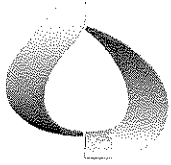


INLAND EMPIRE UTILITIES AGENCY
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- Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Review compliance with Agency policies and procedures, and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

Audit

- Develop a comprehensive and flexible annual audit plan using an appropriate risk-based methodology, including 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.



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- 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.
- 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).
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Maintain technical competence through continuing education supported by Department goals and budgets.
- Maintain a quality assurance program whereby the Internal Auditor assures the operations of the Internal Audit Department.
- Perform a periodic review of the Internal Audit Department Charter and the Audit Committee Charter. Additions, deletions, or other changes to the Charters are subject to the approval of the Board of Directors.

Reporting

- Issue quarterly reports to and meet with the Audit Committee and management to summarize results of audit activities and status of findings and recommendations.
- Written status reports of Audit Committee activity will be produced quarterly by the Internal Audit Department. The Quarterly Audit Committee Status Report will include a summary of significant internal and external audit activities for the reporting period. The Status Report will be submitted for approval by the Committee and the approved Status Report will be presented at the next regularly scheduled IEUA Board of Directors meeting.
- Annually, the Internal Audit Department will provide a report listing all outstanding recommendations with expected resolution dates. 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,



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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 a final report of results and recommendations, including the responsible management's responses to the Audit Committee, Executive management and responsible management. All final reports with the response go through Committee to the Board. 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:

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



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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.
- Providing the Internal Audit Department with adequate budget, staffing, assistance from staff of audited Departments, and tools needed to execute their duties as defined in this Charter.



INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Amended on December 18, 2013

PURPOSE

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

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

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

COMPOSITION, COMPENSATION & TERM OF SERVICE

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

The Audit Committee shall also 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, management and its designees.

All members of the Audit Committee shall possess or obtain a basic understanding of governmental financial reporting 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

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for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of Audit Committee functions.

The members of the Board serving on the Audit Committee shall be compensated in accordance with the guidelines established for the IEUA Board of Directors in Ordinance No. 73 adopted February 7, 2001, and as amended from time to time, entitled:

"Ordinance of the Board of Directors of Inland Empire Utilities Agency, San Bernardino County, California, establishing compensation 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."

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.

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

RESPONSIBILITIES

The Audit Committee is chartered with significant duties while performing oversight for the Board of Directors. In addition to reviewing this Charter annually and updating it as needed, the Committee has several responsibilities in the areas of Financial Reporting, Internal Controls, Internal Audit Department, the External Audit and external auditors, Compliance requirements, and Other Matters as provided in the bullets in the following sections. The Committee has the overall responsibility to ensure the general requirement 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.

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- Inquire of 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.

Internal Controls:

- Discuss with 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 management, the effectiveness of the Agency's process for identifying and assessing significant risks and exposures, and the steps management has taken to communicate, monitor and mitigate these risks.
- Understand the scope of the internal and external auditors' review of internal controls, and obtain and review reports of significant findings, recommendations, and management's action plans to mitigate risks.
- Review all significant accounting policy changes submitted by Agency management, the Internal Audit Department, and the external auditors, and provide recommendations to the Board and 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 management as appropriate.
- Discuss with management, 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 management, Internal Audit, and external auditors whether significant legislative or regulatory issues impacting Agency operations are identified, recognized, communicated and appropriately addressed.
- Review with the external auditor, management, and the Manager of Internal Audit, the audit scope and plan of the Internal Auditors 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 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.

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- 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.
- Review with the Manager of Internal Audit and the Agency's general counsel the results of their review 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, 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 management, the Internal Auditor, 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 external auditors and the Internal Audit Department:
 - The adequacy of the Agency's internal controls including computerized information system controls and security.
 - Any related significant findings and recommendations of the external auditors and Internal Audit Department 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.

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- 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.
- 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 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.

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- 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.
 - Review with management and the external auditors:
 - The Agency's annual financial statements, related footnotes, 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 Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits.
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- For any extra work or special projects requested of the Agency's external audit firm, evaluate whether or not the performance of that work violates the independence standards of the GAO.
 - The Audit Committee shall recommend that the Board of Directors approve the Agency's annual financial report, if it believes that they are fairly presented, to the extent such a determination can be made solely on the basis of 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 for 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.

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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' Audit Committee Charter annually in order to advise the Audit Committee as to needed or recommended changes.
- 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 the 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 of which will be in accordance with the Brown Act rules.

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.