



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

**WEDNESDAY, JUNE 8, 2016  
9:00 A.M.**

**CALL TO ORDER**

**PUBLIC COMMENT**

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

**ADDITIONS TO THE AGENDA**

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

**1. ACTION ITEMS**

**A. MINUTES**

The Committee will be asked to approve the Audit Committee meeting minutes from March 9, 2016.

**B. FY 2016/17 ANNUAL AUDIT PLAN**

It is recommended that the Committee/Board:

1. Approve the FY 2016/17 IA Annual Audit Plan; and
2. Direct the Manager of Internal Audit to finalize the FY 2016/17 Annual Audit Plan.

**2. INFORMATION ITEMS**

**A. REPORT OF OPEN AUDIT RECOMMENDATIONS (WRITTEN)**

**B. PREQUALIFICATION PROCESS REVIEW (WRITTEN)**

C. AUDIT PLANNING COMMUNICATION AS REQUIRED BY SAS 114 (WRITTEN)

D. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR JUNE 2016 (WRITTEN)

3. COMMITTEE MEMBER COMMENTS

4. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

5. ADJOURN

\*A Municipal Water District

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

Proofed by: SR

**DECLARATION OF POSTING**

I, Stephanie Riley, Executive Assistant of the Inland Empire Utilities Agency, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. in the foyer at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, June 2, 2016.

Stephanie Riley  
Stephanie Riley

**ACTION  
ITEM**

**1A**



**MINUTES  
AUDIT COMMITTEE MEETING  
INLAND EMPIRE UTILITIES AGENCY\*  
AGENCY HEADQUARTERS, CHINO, CA  
WEDNESDAY, MARCH 9, 2016  
9:00 A.M.**

**COMMITTEE MEMBERS PRESENT**

Terry Catlin, Chair  
Jasmin A. Hall

**COMMITTEE MEMBERS ABSENT**

None.

**STAFF PRESENT**

Christina Valencia, Chief Financial Officer/AGM  
David Malm, Deputy Manager of Integrated Systems Services  
Sapna Nangia, Senior Internal Auditor  
Stephanie Riley, Executive Assistant  
Peter Soelter, Senior Internal Auditor  
Kenneth Tuliau, Manager of Maintenance  
Teresa Velarde, Manager of Internal Audit

**OTHERS PRESENT**

Travis Hickey, Audit Committee Advisor

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

**ACTION ITEMS**

The Committee:

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

**INFORMATION ITEMS**

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

- ◆ Information Technology Follow Up Audit
- ◆ Internal Audit Department Quarterly Status Report for December 2015

**GENERAL MANAGER'S COMMENTS**

None.

**COMMITTEE MEMBER COMMENTS**

President Catlin and Director Hall thanked Mr. Malm for his proactive approach with the technical audit.

**COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS**

None.

Audit Committee  
March 9, 2016  
Page 2

With no further business, the meeting adjourned at 9:58 a.m.

Respectfully submitted,

Stephanie Riley  
Executive Assistant

\*A Municipal Water District

**APPROVED: June 8, 2016**

**ACTION  
ITEM**

**1B**



Date: June 15, 2016  
To: The Honorable Board of Directors  
Through: Audit Committee (06/08/16)  
From: Teresa V. Velarde  
Manager of Internal Audit  
Subject: FY 2016/17 Annual Audit Plan

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### **RECOMMENDATION**

It is recommended that the Board of Directors:

1. Approve the FY 2016/17 IA Annual Audit Plan; and
2. Direct the Manager of Internal Audit to finalize the FY 2016/17 Annual Audit Plan.

### **BACKGROUND**

The Agency's Board approved Audit Committee Charter, authorizes the Audit Committee to:

- Approve a flexible Annual Audit Plan using an appropriate risk-based methodology, and submit that plan, as well as any periodic updates, to the Audit Committee for review and approval.
- Implement the approved Annual Audit Plan, including any special tasks or projects requested by Management, the Audit Committee or the Board.

The Audit Plan and Risk Assessment are based on Section 2010 Planning and 2010.A1 of the Institute of Internal Auditors (IIA) *International Standards for the Professional Practices of Internal Auditing (Standards)* which requires:

- The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.
- The internal audit activity's plan of engagements must be based on a risk assessment, undertaken at least annually. The input of Agency management and the Board must be considered in this process.

The IIA *Standards* define Risk and Residual Risk as follows:

- **Risk** – As the possibility of an event occurring that will have an **impact on the achievement of objectives**. Risk is measured in terms of impact and likelihood and:
- **Residual Risks** – As the risk remaining **after management takes action to reduce the impact** and likelihood of an adverse event, including control activities in responding to a risk.

FY 2016/17 Annual Audit Plan

In addition to several on-going projects, the major audit projects scheduled for FY 2016/17 are the following, details of which are included in the attached Annual Audit Plan:

- Master and Rotating Contracts Audit
- IT Equipment Audit Follow-up
- Water Conservation Programs
- Wire Transfers and Electronic Disbursements

The Annual Audit Plan also identifies additional audit areas. If the risk in any of the identified auditable areas increases, or the need to reprioritize audit projects arises, IA will perform an audit from the following list:

- Payroll and Time System
- Accounts Payable – Credit Cards and P-Cards
- Telephone Expense
- Contractual Actions
- Recycled Water Program & Revenue
- Inter-Fund Transfers and Reserve Requirements
- Capital Projects
- Agency Contracts/Agreements & Special Agreements
- Duplicate Payments/Late Payments/Fees and Penalties
- Bid and Selection Process for Construction Contracts
- Special Agreements
- Asset Management
- Operations

Additionally, the IA Charter requires follow-up audit work be performed on previous audit observations and recommendations to ensure that effective corrective action was implemented or alternate controls have been incorporated to mitigate the risks identified. Follow-up audit work includes detailed testing and verification by Internal Audit staff. Currently, IA staff is evaluating the implementation progress of 28 recommendations. A separate report will be issued once a status is determined. There are 39 additional outstanding audit recommendations that relate to 9 different audits, requiring follow-up verification. These will be planned according to the Annual Audit Plan. Internal Audit continues to work with Agency staff and review the recommendations and will report on the results through the status reports. A list of the outstanding recommendations



was submitted in June. The attached Audit Plan provides a current list by the name of the audit, the number of outstanding recommendations.

The FY 2016/17 Annual Audit Plan was developed using a general assessment, best practice recommendations, best auditor judgment, feedback from Agency management and the Audit Committee, as well as accounting for the impact on the Agency's operations if the targeted units fail to function in the most effective and efficient manner or neglect to comply with required policies and procedures.

In planning for the FY 2016/17 Annual Audit Plan and Internal Audit Department (IA) projects, the following were considered:

- The IA Charter
- The Audit Committee Charter
- Communications with the Audit Committee and the Board of Directors
- Communications with Executive Management and key Agency personnel
- Communications with the External Financial Auditors
- Communications with the Audit Committee Independent Advisor
- Prior audit findings and recommendations
- Assessed risks in operations
- Agency's goals and objectives, including activities, developments and changes
- Agency policies & procedures
- Key areas that affect revenue and expenses
- Identified opportunities to improve operations and add value to services
- IA resources
- New audit requirements and best practices

This Annual Audit Plan is a *flexible plan* with the goal of targeting significant Agency auditable areas and business units at some point or another, depending on priorities, risks and/or requests by the Board, Audit Committee and/or management. The plan will be used as a *guide* in selecting the audits. The Audit Plan is not a concrete plan. The IIA *Standards* recommend that periodic risk assessments be performed to ensure information captured is relevant, timely, and aligned with the Agency's changing environment, objectives, and direction. For this reason IA prepares an Annual Audit Plan and submits amendments when required.

The Annual Audit Plan is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by providing a plan for the independent evaluations of Agency financial and operational activities and suggesting recommendations for improvements.

### **PRIOR BOARD ACTION**

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

**IMPACT ON BUDGET**

When and if additional outside auditing or consulting services are required to provide assistance to IA or fulfill the responsibilities of the Audit Committee, a proposal with proposed fees will be submitted through the Audit Committee for appropriate action.



*Inland Empire Utilities Agency*

A MUNICIPAL WATER DISTRICT

***Fiscal Year  
2016-2017***

***Internal Audit Department  
Annual Audit Plan***

Submitted by:  
Teresa V. Velarde  
Manager of Internal Audit Department  
June 2016

## **Annual Audit Plan Contents**

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## ***Purpose of the Internal Audit Department***

As stated in the Board approved Charter, the purpose of the Internal Audit Department (Internal Audit) is to assist the Board of Directors and the Audit Committee in fulfilling their oversight responsibilities for reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations, and to provide objective assurance about the Agency's operations.

The purpose of the Internal Audit Department is also to provide consulting services, analyses, recommendations and information concerning the operations of the Agency as a service to management and as a way of adding value to improve the operations of the Agency. Internal Audit assists management and staff in achieving organizational goals and objectives by providing recommendations and advisory services based on results of analysis of the Agency's processes, procedures, governance, internal controls, financial reporting, and compliance with applicable laws and regulations.

The Internal Audit Department follows the guidance of the globally accepted *International Standards for the Professional Practice of Internal Auditing (Standards)* as documented in the International Professional Practices Framework (IPPF) and the Code of Ethics issued by the Institute of Internal Auditors (IIA). This guidance is documented in the Internal Audit Department Charter.

The Internal Audit Department reports directly to the Board of Directors through the Audit Committee. The Internal Audit Department has a dotted line reporting relationship to the General Manager and works in cooperation with the Executive Management Team but, as described in the Charter and according to the IIA *Standards* and best practices, is an independent function from Agency management, to provide objective analysis and recommendations. Independence is essential to the effectiveness of internal auditing and is emphasized by the Institute of Internal Auditors (IIA). The authority and responsibilities of the Internal Audit Department are specifically defined in the Internal Audit Department Charter approved by the Board of Directors.

### **Mission Statement**

*The Internal Audit Department seeks to improve the operations of the Agency by providing unbiased and objective assessments 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 accountability and integrity, improve operations and instill confidence among its employees and the citizens it serves by:*

- *Promoting a sound control environment.*
- *Providing independent, objective assurance and consulting services.*
- *Improving Agency risk management, control and governance.*
- *Promoting the Agency's vision and mission with a high degree of professionalism.*

### **Internal Audit Department Values**

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

#### **Independence**

*As documented in the 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.*

### *Purpose of the Annual Audit Plan*

The Annual Audit Plan (Audit Plan) has been prepared in accordance with recommendations and best practices provided by the Institute of Internal Auditors (IIA). The Audit Plan allows the Manager of Internal Audit to carry out the responsibilities of the Internal Audit Department by prioritizing projects and allocating necessary resources where audit efforts are deemed appropriate and necessary. The Audit Plan is created to assist management and the Board in achieving organization goals and objectives.

The Audit Plan is a flexible plan of internal audit activities and was developed using an appropriate risk-based methodology, including any risks or control concerns identified or communicated by Management, the Internal Audit Department, External Auditors, the Audit Committee or Board. The overall objective is to develop a plan consistent with the Agency's goals and objectives, to address the highest risk areas within the Agency and to evaluate and contribute to the improvement of risk management, control and governance processes, additionally to add value by recommending opportunities for improvements to increase effectiveness and efficiency of operations.

In order to provide practical guidance and an authoritative framework for the development of the Annual Audit Plan, the Internal Audit Department recognizes the following items: Achieving one hundred percent audit coverage each year is not practical or achievable. It should be noted that audit resources are limited; therefore, a system for prioritizing audits has been employed. The Annual Audit Plan must be a flexible plan and should be amended periodically as deemed necessary to reprioritize areas that require attention. In preparing the Annual Audit Plan, consideration is given to the work performed by other auditors, regulatory authorities, established rules, laws and ordinances and the Agency's system of controls. Auditable areas are ranked by knowledge of known or perceived areas of risk and understanding of the systems of internal controls. It should be noted that there are inherent risks, residual risks and limitations with any methodology applied when prioritizing risks and ranking audit projects, risk factors exist with any system of controls.

As stated in the Internal Audit Department Charter, the Manager of Internal Audit will set audit frequencies, select the subjects and set objectives, determine the scope of work and apply the techniques required to accomplish the audit objectives. The Manager of Internal Audit has the authority to deviate from the approved annual Audit Plan, when necessary, and if warranted by unforeseen issues that require immediate attention. The Manager of Internal Audit will use professional discretion and judgment in response to such unforeseen issues and resolve handle them according to the requirements of the Charter. Significant changes to or deviations from the approved Annual Audit Plan shall be reported to the Audit Committee and to the Board at the next regularly scheduled Audit Committee meeting.

Both the IAD Charter and the IIA's Code of Ethics have strict standards of ethical conduct for internal auditors. The auditors have a responsibility to maintain independence, ensure integrity, objectivity, confidentiality and competency in work performed.

## *Annual Audit Plan Methodology*

In planning for the Internal Audit projects the following were also considered:

- The Internal Audit Department Charter
- The Audit Committee Charter
- Communications with the Audit Committee and the Board of Directors
- Communications with Executive Management and key Agency personnel
- Communications with the External Financial Auditors
- Communications with the Audit Committee Independent Advisor
- Prior audit findings and recommendations
- Assessed risks in business practices and operations
- Agency's goals and objectives, including activities, developments and changes
- Agency policies & procedures
- Key areas that affect revenue and expenses
- Identified opportunities to improve operations and add value to services
- New audit requirements, audit trends and leading practices
- Audit Department resources

For the Fiscal Year 2016/17 Audit Plan, the audits were selected based on the previous year's risk assessment and results of audits previously scheduled and deferred due to other priority projects. Significant deviations and changes to the Audit Plan will be communicated to the Audit Committee through an Amended Audit Plan and progress information is provided through quarterly Status Reports.



*FY 2016/17 Annual Audit Plan:*

*Complete the following audits during FY 2016/17:*

**Master Service Contracts Audit – Analysis of Task Orders**

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The Agency has several master contracts for various services such as engineering services or construction services. An audit of this area would review procedures for updating the lists, opportunities for new companies to be considered for a master or rotating contract, and would review compliance with applicable laws and regulations. Additionally, the audit would evaluate the process to award contracts and projects to pre-qualified contractors and ensure processes conform to legal and Board-approved guidelines. Audit areas include:

- Evaluate the pre-qualification process
- Determine what procedures are in place to use the contractors on the master list
- Evaluate the manner in which task orders are issued
- Evaluate controls in place to administer the contracts
- Evaluate response time, and customer satisfaction of work completed

**Information Technology Equipment Audit Follow-Up Review**

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The follow-up review focuses on the implementation progress of the 7 outstanding recommendations that are the primary responsibility of the Finance and Accounting Department. The recommendations related to IT equipment accountability, recording, and capitalization.

*Schedule and begin the following audits during FY 2016/17:*

**Water Conservation Programs**

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Due to the Governor's Drought declaration, a key measure was included directing the California Department of Water Resources and the State board to accelerate funding for projects that enhance water supplies. Such funding is mostly in the form of grants; some received by IEUA. IEUA is the intermediary between state/Federal and Metropolitan Water District programs and member agencies. In partnership with other water agencies, IEUA has been at the forefront of various conservation projects working with member agencies to increase awareness about the drought and the need for conservation. Projects administered by IEUA must be carried out in accordance with the requirements of the grants, etc. This evaluation will review internal controls with contract administration/execution and proper distribution of funding.

**Wire Transfers and Electronic Disbursements**

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To evaluate that adequate segregation of duties exists for electronic disbursements to ensure not one person has the ability to initiate, approve, and process electronic transfers, also to ensure payees are authorized, approved Agency payees and sufficient oversight exists to prevent unauthorized electronic disbursements or payments.

### *On-Going Projects for FY 2016/17*

- ❖ Internal Audit Department Quality Assurance and Improvement Program
- ❖ Assist with annual CAFR Review and Filing
- ❖ Review and update IA Department and Committee Charters
- ❖ Continue to assist with SAP internal control inquiries
- ❖ Provide needed support related to audit topics, internal controls, Agency policy, procedure and compliance items
- ❖ Further utilize capabilities of SAP to enhance IA functions
- ❖ On-going required administrative reporting, such as, budget, goals/objectives, staff appraisals, and other administrative items.
- ❖ Conduct special requests and/or unforeseen projects
- ❖ Provide recommendations to strengthen/streamline policies and procedures
- ❖ Update IA Annual Audit Plan and corresponding Risk Assessment
- ❖ Continue to work with auditees to resolve outstanding recommendations
- ❖ Assist with requests for internal controls questions, discussions and evaluations
- ❖ Continue to review, update and document IA Policies and Procedures
- ❖ Continuous Professional Development of all auditors
- ❖ Plan, prepare and coordinate Audit Committee Meetings
- ❖ Utilize the IA site on PIPES as an Agency-wide communication tool
- ❖ Unannounced Petty Cash Audits
- ❖ Provide "audit approach" presentations to requesting departments and/or for/within professional associations as a guest speaker

### *Long Range Audit Planning - Additional / Possible Audit Areas*

Internal Audit has identified additional audit areas. This list has been compiled as a preliminary list of future potential audits and as a list of additional, important audit areas where audit resources and efforts could be utilized. This is not a comprehensive/complete list. These audit areas have been selected based on identified risks at the time of completing this Audit Plan. If the risk/priority in any of the identified auditable areas increases, IA would perform the required audit/evaluation.

#### **Payroll and Time System**

To evaluate adequate internal controls and authorizations are in place in the new Payroll and Time System (myPT). With the implementation of the new Payroll and Time system (which is replacing the existing IFAS system) to streamline the current time, payroll and leave processes, there will be a need for auditors to check that adequate internal controls and authorizations are in place and working effectively and identify any areas for improvement. The departments that will be primarily involved are the Finance and Accounting, the Human Resources and the Business Information Systems departments.

#### **Accounts Payable Audit – Review of Credit Cards and P-Cards**

Select a specific vendor or types of payments, for example credit cards and p-cards to ensure the transactions do not bypass the required procurement processes.

- Review financial transactions and supporting documents
- Evaluate internal controls
- Compliance with policies and procedures

The Finance and Accounting Department will be the primarily point of review.

#### **Contractual Actions**

For the purpose of selecting several significant construction contracts and to perform tests from before contract award through final payment and close-out, including evaluating the process to award contracts and projects to pre-qualified contractors/vendors. Audit procedures will include: a review of internal controls; compliance with laws and regulations; compliance with Agency policies and procedures; and the effectiveness and efficiency of operations. Audit areas to include are: bidding process, contract award, invoicing, change orders, bonds, and warranties. The departments with the primary responsibility are the Construction Management, Contracts and Facilities Management and Finance and Accounting.

#### **Recycled Water Program – Revenue**

Recycled water revenue in FY 2011/12 is almost \$10 million. An audit of this area would determine the accuracy of revenues and identify any additional revenue due the Agency. The Finance and Accounting and the Planning departments will be the primary contact departments.

#### **Duplicate Payments/Late Payments/Fees and Penalties**

This area was covered during the Accounts Payable audit. The goal for this audit is to make this a recurring evaluation to check for the three types of payments (duplicates, late payments or preventable fees and penalties). This audit would cover a greater sample and would implement an audit program to periodically check for these types of payments.

**Inter-Fund Transfers and Reserve Requirements**

An audit of this area would determine if the Agency complies with all legal and regulatory requirements on maintaining reserves and on inter-fund transfers.

**Capital Projects**

The external financial auditors noted deficiencies with the process for closing completed capital projects. Projects were left open long after the project had been completed, therefore, impacting the accounting value of capital assets. This audit would focus on evaluating when open capital projects have been completed and examining when the construction in progress balances are closed to capital assets. The departments primarily engaged are the Finance and Accounting and the Engineering departments.

**Telephone Expense**

The Agency pays over \$85,000 annually for telephone service. Service is provided for landline phones, smartphones, and for data connections. Audit areas include the following:

- Determine efficiencies that could be achieved through consolidating billings
- Identify ways to streamline billing processes
- Comparison of charges on different bills to ensure consistency and accuracy
- Identify opportunities for savings
- Evaluating if phones issued to employees are used for the intended purpose according to Agency policies

**Bid and Selection Process for Construction Contracts**

To review the bid and selection process to ensure all legal and regulatory requirements are considered in the process, including grant requirements, where applicable, and that all contracts include required language. Additionally, to evaluate the process to award contracts and projects to pre-qualified contractors/vendors and ensure processes conform to legal and Board-approved requirements and are documented in formal operating procedures.

**Special Agreements**

The Agency has some "special agreements" with other agencies that may or may not be formalized under an official contract. This audit would also evaluate whether the special agreements provide preferential treatment or significant discounts/credits when compared to similar agencies for similar services.

**Asset Management**

The Agency currently has \$1.1 billion in total assets. An audit of this area would evaluate the accountability and controls to ensure assets are properly recorded in the Agency's financial records. Additionally, to determine if periodic inventories or other valuation processes are performed to validate the amount of assets reported in accounting records.

**Operations**

Facility Operations, Groundwater Recharge and Organics Management are programs under Operations Administration. The audit scope of any of these areas would focus on required permit compliance requirements, preventive maintenance of plants, staff training and staff certifications to operate plants/facilities, chemical and equipment use, and customer service to the service area, where applicable.

### *Outstanding Recommendations*

The Internal Audit Department Charter requires follow-up action be taken to ensure that management has effectively implemented recommendations or alternate controls have been incorporated to mitigate the risks identified. Follow-up audit work includes detailed testing and verification by Internal Audit staff.

During FY 2015/16, IA reviewed and verified the implementation status of 13 open recommendations related to 4 different audits. This list reports there are 73 open recommendations, the majority or 31 of the recommendations relate to the Regional Contract Review which was the primary objective of IA's projects during FY 2015/16 where 10 audit reports were issued in less than 18 months. Because all audit resources were utilized primary for this effort, follow-up activities were temporarily on hold. Audit guidelines suggest that an adequate amount of time be granted in order to provide auditees with sufficient time to implement corrective action plans. Follow-up audit work will be incorporated and completed along with the proposed projects for some of the open recommendations. Required follow-up audit work will include a desk review of supporting documentation, follow-up discussions with the auditee, and/or the application of testing procedures to verify implementation.

Area Audited	Report Issued Date	Follow-up review in progress by IA	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Payroll Audit	August 24, 2010		1	FY2017
Intercompany Receivables - Watermaster	August 30, 2011		1	FY2017
Human Resources Follow-Up	June 20, 2012		1	FY2017
IT Equipment	August 21, 2012	6	1	FY 2018
Contracts and Procurement Follow-Up	August 29, 2012		2	FY2017
IT Equipment Follow-Up	November 14, 2012	1	1	FY 2018
2013 Petty Cash	May 31, 2013		5	FY2017
SCE Utility Payments	August 28, 2013		3	FY2017
Accounts Payable Follow-Up	August 29, 2013		9	FY2018
Automobile Insurance Requirements	March 3, 2014		2	FY2018
Vehicle Security Procedures	March 3, 2014		3	FY2018
Vehicle Inventory Procedures	March 12, 2014		13	FY2018
Regional Contract Review – Final Audit Report	December 16, 2015		31	Pending – Renegotiation of the Regional Contract
<b>Total</b>		<b>7</b>	<b>73</b>	

\*See the Report of Open Recommendations under separate cover submitted June 2016.

In addition to the outstanding recommendations from the various audits noted above, to-date, IA has completed nine different audit reports related to the Regional Contract Review and provided 31 recommendations for IEUA to consider in moving forward with renegotiating the Regional Contract.

### *Risk Assessment Strategy*

The IIA IPPFS standard 2120 states that Internal Audit must evaluate the effectiveness and contribute to the improvement of risk management processes.

The risk assessment is a general assessment performed using best practice guidance, professional judgment and consideration for the impact on the Agency's operations if the targeted units fail to function in the most effective and efficient manner or neglect to comply with required policies. In performing the Risk Assessment for this FY 2013/14 Annual Audit Plan, the following were considered:

- Agency Policies and Procedures
- Communication with the External Auditors
- Communication with the Audit Committee and Board
- Communications with key Agency personnel
- Assessing risks and exposures that may affect the organization
- New Agency activities, developments and major changes
- Key areas that affect revenue and expenses
- Observations resulting from previous audits and reviews
- New audit requirements and trends
- Opportunities to improve operations

The IIA PPF defines Risk as follows:

- **Risk** – The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood and;
- **Residual Risks** – As the risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in response to a risk.

### *Audit Universe*

The IIA PPF defines Universe as all possible auditable areas. For the purposes of this Annual Audit Plan, the universe includes all Agency Departments, operations, contracts, transactions, processes, and activities.

### ***Internal Audit Department Quality Assurance and Improvement Program***

The Institute of Internal Auditing (IIA), International Professional Practices Framework (IPPF) defines a Quality Assurance and Improvement Program: “A quality assurance and improvement Program is designed to enable an evaluation of internal audit activity’s conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.”

Standard 1311 of the IPPF requires that internal assessments include ongoing monitoring of the performance of internal audit activity; and periodic reviews performed through self-assessments.

Standard 1312 of the IPPF requires that external assessments be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

As part of IA’s commitment for continued quality audit services, beginning FY 2016/17, IAD will perform internal assessments of the IAD. An external assessment by an independent reviewer is planned for FY 2017/18. Results will be presented and discussed at the regularly scheduled Audit Committee meetings.

**INFORMATION  
ITEM  
2A**






*Inland Empire Utilities Agency*

A MUNICIPAL WATER DISTRICT

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Date: June 15, 2016  
To: The Honorable Board of Directors  
Through: Audit Committee (06/08/16)  
From:   
Teresa V. Velarde  
Manager of Internal Audit  
Subject: Report of Open Audit Recommendations

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### **RECOMMENDATION**

This is an informational item for the Board of Directors.

### **BACKGROUND**

The Internal Audit Department Charter and professional standards require the Internal Audit Department (IA) staff to follow-up on the status of open audit recommendations to determine if corrective action efforts have been made. The Charter also requires IA to annually provide, to the Audit Committee and the Board, a report listing all outstanding recommendations with action plans and expected resolution dates. Additionally, incorporated in the Board-approved Annual Audit Plan for FY 2016/17, IA staff is to follow-up on the status of 13 open recommendations.

Of the 73 open recommendations reported in FY 2015/16 Annual Audit Plan, 60 do not require a follow-up review at this time because they relate to audits completed recently. Audit guidelines state that an adequate amount of time be granted in order to provide the auditees with sufficient time to fully implement corrective action plans. IA will continue to evaluate the status of the open recommendations until full implementation has been achieved. Follow-up reviews will be scheduled according to the proposed Annual Audit Plan. Below is a list summarizing the outstanding recommendations, noting the audited area and the date the original audit report was completed. Attached is a detailed report showing what the recommendations are and the current status of each recommendation.

Report of Open Audit Recommendations

June 15, 2016

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Area Audited	Report Issued Date	Follow-up review in progress by IA	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Payroll Audit	August 24, 2010		1	FY2017
Intercompany Receivables - Watermaster	August 30, 2011		1	FY2017
Human Resources Follow-Up	June 20, 2012		1	FY2017
IT Equipment	August 21, 2012	6	1	FY 2018
Contracts and Procurement Follow-Up	August 29, 2012		2	FY2017
IT Equipment Follow-Up	November 14, 2012	1	1	FY 2018
2013 Petty Cash	May 31, 2013		5	FY2017
SCE Utility Payments	August 28, 2013		3	FY2017
Accounts Payable Follow-Up	August 29, 2013		9	FY2018
Automobile Insurance Requirements	March 3, 2014		2	FY2018
Vehicle Security Procedures	March 3, 2014		3	FY2018
Vehicle Inventory Procedures	March 12, 2014		13	FY2018
Regional Contract Review – Final Audit Report	December 16, 2015		31	Pending – Renegotiation of the Regional Contract
<b>Total</b>		<b>7</b>	<b>73</b>	

Required follow-up audit work will include a desk review of supporting documentation, follow-up discussions with the auditee, and/or the application of testing procedures to verify implementation.

As documented in the FY 2016/17 Annual Audit Plan, which is provided under separate cover, IA plans to begin follow-up procedures in June 2016. When IA follows-up on the open recommendations a separate report with the status will be issued and reported through the Quarterly Status Reports. If IA staff determines that a recommendation has not been implemented, IA will request a time-phased corrective action plan from the auditee. If the auditee believes the recommendation is no longer applicable, IA will work with the department manager to reach consensus, and, if necessary, coordinate with Executive Management and/or the Audit Committee.

Final audit reports request a corrective action plan be submitted to IA by the department manager of the audited business unit. Additionally, upon completion of the audits and during exit meetings, follow-up audit action is discussed with the respective auditees. The IA website on AIM, available to all Agency employees, also provides information on the audit approach and describes the purpose and process of an internal audit and the follow-up action requirements. During audits, including follow-up audits, IA coordinate and work in collaboration with the auditees to make the follow-up process efficient.

**PRIOR BOARD ACTION**

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

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

**IMPACT ON BUDGET**

None.

**Outstanding Audit Recommendations**  
June 2016

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Payroll Audit August 24, 2010	4	HR and FMD should work together to revise and update the Agency's Resolution No. 2005-2-9 and clarify which employees are required to sign a Confidentiality Agreement, based on their job duties and responsibilities, specifically those whose roles involve handling sensitive and confidential information. Having employees sign a Confidentiality Agreement reinforces that confidential and sensitive information is being handled, the Confidentiality Agreement also provides the expectations and consequences for sharing or misusing confidential information.	No edits to Resolution as of June 2016.
Intercompany Receivables - Watermaster August 30, 2011	1	Fiscal Management Department should establish procedures to prepare and submit invoices to Watermaster prior to the beginning of the quarter to allow payment by Watermaster before the quarter begins.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
Human Resources Follow-Up June 20, 2012	1	Document standard operating procedures to address the many administrative practices of the department.	IA will verify during follow-up evaluation.
IT Equipment August 21, 2012	3	ISS implement appropriate tracking systems that include relevant information on IT purchases (i.e., serial numbers, etc.), are updated timely and are complete and accurate. ISS should establish procedures to enter, modify, and delete information in the tracking systems that address areas such as timeliness for updates, responsibilities for maintaining the systems, and the types of items included in the tracking system.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
Contracts and Procurement Follow-Up August 29, 2012	1	The Contracts and Procurement Department should ensure adequate separation of duties exist in procurement transactions. Specifically the functions of creating and approving the Purchase Request, creating the Purchase Order and having the ability to receive should involve a second knowledgeable individual.	IA will verify during follow-up evaluation.
Contracts and Procurement Follow-Up August 29, 2012	2	For all grant-related procurements, the Contracts and Procurement Department should print the confirmations from the debarment website at the time the vendor debarment is verified. The confirmation should be filed as evidence of verification, to show whether a vendor was debarred or not at the time of the procurement.	IA will verify during follow-up evaluation.
IT Equipment Follow-Up Audit November 14, 2012	1	ISS should ensure that any services procured with P-cards are expressly authorized by the Manager of CAP, CFO, AGM, or GM prior to committing to services.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
2013 Petty Cash May 31, 2013	1	IA recommends that Accounting and Fiscal Management Department personnel should take the lead in working with the responsible Agency personnel in making revisions and updates to the following Agency policies: A-02, A-75, A-68 and A-34.	IA to verify during follow-up evaluation.
2013 Petty Cash May 31, 2013	3	IA recommends that monthly fund reconciliations be performed by personnel independent of the petty cash reimbursement processes and that the fund reconciliation subsequently be reviewed and signed by the Petty Cash Custodian's supervisor or manager as required by SOP CM PR-13, "Cash Management Procedures-Petty Cash", further ensure all Petty Cash Custodians understand the requirements of the SOP.	IA to verify during follow-up evaluation.

Audit Performed	Internal Audit Recommendation	Target Date for Implementation & Comment
Reco #		
2013 Petty Cash May 31, 2013	IA recommends that either a new SOP be developed or the current SOP CM PR-13, "Cash Management Procedures-Petty Cash" be updated to include detailed procedures over the entire petty cash reimbursement processes.	IA to verify during follow-up evaluation.
2013 Petty Cash May 31, 2013	IA recommends that Accounting and Fiscal Management review current petty cash reimbursable budget codes within SAP and develop a "Master Listing" of budget codes or "roles" within SAP for all Petty Cash Custodians to have access to and utilize them when coding expenditures.	IA to verify during follow-up evaluation.
2013 Petty Cash May 31, 2013	IA recommends that Accounting and Fiscal Management evaluate the petty cash needs of each location throughout the Agency and make any necessary adjustments to the petty cash assignments.	IA to verify during follow-up evaluation.
SCE Utility Payments August 28, 2013	P&EC and Maintenance Management should work with the City of Chino and SCE to adequately transfer the electricity expense related to City of Chino property. The street lights in front of IEUA's HQ-A building have been identified by the Agency and SCE as the financial responsibility of the City of Chino. It was noted that over \$900.00 a year is paid for the street lights expense. P&EC and Maintenance previously identified this issue and had initiated discussions to transfer the account and related expense to the City of Chino. It is anticipated that by the end of calendar year 2013 this will be resolved.	IA to verify during follow-up evaluation.
SCE Utility Payments August 28, 2013	CAP management should evaluate the entire CAP Department staff's responsibilities and leverage all department resources to achieve all tasks and at the same time avoid internal control conflicts. In addition, IA recommends that SAP authorized access be modified for employees as noted in the report section "SAP Segregation of Duties - CAP Personnel" to address existing internal control conflicts identified. The report details the specific conflicts. This has previously been recommended in prior CAP Follow-Up Audit Reports dated May 24, 2010 and August 29, 2012.	IA to verify during follow-up evaluation.
SCE Utility Payments August 28, 2013	CAP personnel should take the lead in working with the responsible Agency personnel to make the necessary updates to Agency policies A-32 and A-33, and department specific SOP's.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	AFM and BIS need to work together to ensure users have appropriate access within SAP based on job responsibilities and remove/modify access privileges that are not necessary to reduce the risk of unauthorized transactions and SOD conflicts. All user access should be immediately removed when an employee resigns his/her position with the Agency.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	Access to the Vendor Master File (VMF) should only be granted to one Manager/Supervisor for AFM and CAP department with only one back up employee, if necessary, due to Segregation of Duties conflict. This is a standard best practice across many industries. Furthermore, we recommend access be removed from all other current and past employees.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	AFM department should institute controls to ensure payment of invoices by the due date.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	AFM should work with the appropriate Agency personnel to update Agency policies and remind employees of the requirements of Agency Policy A-12, Employee Personal Computer Purchase Program; Policy A-37, Reimbursement for Attendance at a Conference, Seminar or Meeting; Policy A-50, Non-Purchase-Order Invoice Approval Procedures; Policy A-55, Agency Credit Cards; and Agency Policy A-14 Vehicle Use.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	Human Resources department, in conjunction with Information Support Systems, should ensure that loans for personal computers are not approved for items not covered by the loan program as described in Agency Policy A-12. Additionally, consider revising Agency Policy A-12 to clarify the applicability of the computer loan program to tablet computers and operating systems other than Microsoft Windows.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	AFM department should strengthen Vendor Master File procedures to establish uniformity in entering, altering and deleting vendors, and to provide guidelines for the maintenance of vendors, to ensure vendors are authorized, including the requirement that a supervisor or manager in FMD CAP approve additions, deletions, or changes to vendors.	IA to verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Accounts Payable Follow-Up Audit August 29, 2013	7	AFM department should ensure all new vendors provide a current, physical business address for the Vendor Master File. Additionally, AFM should establish a plan to update the master file for all active vendors that do not currently have a physical address on file.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	8	AFM department should work with BIS to test the features of SAP related to purging inactive vendors. Upon successful completion of the testing, AFM should identify vendors with no activity in the previous three to five years and deactivate or delete from the Vendor Master File as appropriate.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	9	AFM department should update all SOP's to reflect business process changes resulting from the implementation of the Agency's ERP SAP system.	IA to verify during follow-up evaluation.
Automobile Insurance Requirements March 3, 2014	1	IA recommends that the Contracts and Facilities Department: Take the lead to review and update and/or consolidate the existing Agency Policy A-14 "Vehicle Use Policies and Procedures" and A-36 "Automobile Insurability and Driver's License Requirements for Current and Prospective Employees." The policies should define and specify the requirements for employees to maintain personal automobile insurance, clarify the coverage limits and any other responsibilities and provisions. Ensure policy updates and requirements are communicated to all employees.	IA to verify during follow-up evaluation.
Automobile Insurance Requirements March 3, 2014	2	IA recommends that the Contracts and Facilities Department: Consider developing an appropriate "Acknowledgment Statement" form or other verification/certification document or process that outlines and verifies the requirements of the Agency's policies related to personal automobile insurance coverage and driver's license. Determine the need to require all employees sign the acknowledgement/verification document each year as a certification that the employee understands and accepts responsibilities when driving a personal or Agency vehicle.	IA to verify during follow-up evaluation.
Vehicle Security Procedures March 3, 2014	1	CAP should take the lead to properly inventory and account for all assigned and unassigned gate transmitters. CAP should continuously work with department managers who request gate transmitters to monitor and revise access based on staff duties and responsibilities. CAP should promptly deactivate any improperly assigned/unassigned gate transmitters or for those employees and contractors that separate employment from the Agency.	IA to verify during follow-up evaluation.
Vehicle Security Procedures March 3, 2014	2	CAP should ensure the appropriate signed gate transmitter form is maintained on file for all issued gate transmitters. Additionally, CAP should ensure the employee/contractor who is issued a gate transmitter understands the requirements of Agency Policy A-24 "Issuance and Inventorying of Gate Transmitters and Keys to Agency Facilities, Vehicles and/or Equipment." This can be done at the time the employee/contractor is issued the gate transmitter via the signed form and is provided a copy of the Agency policy.	IA to verify during follow-up evaluation.
Vehicle Security Procedures March 3, 2014	3	IA recommends CAP staff inventory all Certificates of Title and work to locate or replace the missing titles for Agency vehicles. Additionally, CAP should implement and communicate the proper procedure to ensure that all Certificates of Title are promptly submitted to Records Management for filing and retention.	IA to verify during follow-up evaluation.

Audit Performed	Rec# #	Internal Audit Recommendation	Target Date for Implementation & Comment
Vehicle Inventory Procedures March 12, 2014	1	<p>Maintenance Department and HR Department should work together to develop and/or consolidate into one updated policy, the proper procedures for refueling Agency vehicles in order to streamline processes and clearly define the procedures for refueling Agency vehicles. Specifically, the policy should include: payment method, when to fuel, and specify if the requirement applies to assigned, pool or all vehicles.</p> <p>Take the lead to review and update and/or consolidate the existing Agency Policy A-14 "Vehicle Use Policies and Procedures" and A-36 "Automobile Insurability and Driver's License Requirements for Current and Prospective Employees." The policies should define and specify the requirements for employees to maintain personal automobile insurance, clarify the coverage limits and any other responsibilities and provisions. Ensure policy updates and requirements are communicated to all employees.</p>	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	2	Maintenance Department should take the lead to update Agency Policy A-86, "Refueling Agency Vehicles" to include a clear definition of a "pool" versus an "assigned" vehicle and these definitions should be carried across all Agency policies that relate to Agency vehicle procedures.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	3	Maintenance Department should revise Agency Policy A-86 to specifically address how Voyager fuel cards for Agency "pool" vehicles will be issued and used by employees in order to establish separate guidelines for Agency "pool" vehicles.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	4	Maintenance Department should work with Business Information Systems (BIS) to develop an online/electronic "vehicle reservation and approval process." Approval should be obtained through the online/electronic process by either the employee's supervisor or manager. If the travel in an Agency "pool" vehicle will be for the calendar day only, online/electronic approval obtained from the employee's direct supervisor is sufficient. If travel utilizing an Agency "pool" vehicle will be overnight or several nights, or outside the service area, the employee should obtain online approval from the responsible manager and/or a member of Executive Management.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	5	Maintenance Department should work with the HR Department to incorporate mileage limitations and/or geographic boundaries (i.e. out-of-state) for Agency vehicles in updated Agency policies.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	6	Maintenance Department should evaluate the overall purpose of the VIF, to determine what elements are necessary to be reported by employees after use of an Agency vehicle, as well as determine what elements to hold the employee accountable for. Additionally, fewer incomplete forms may be returned if wording is revised to require only exceptions (an example might be: "Indicate damage to vehicle, if any").	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	7	Maintenance Department should determine the need to require that the VIF include an area for the employee's direct supervisor/manager to approve and sign, specifically acknowledging where the vehicle will be used and permitting the use of the Agency vehicle, prior to checking out the vehicle as an added control and accountability measure for the vehicle and the employee.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	8	Maintenance Department should ensure the recipients of the VIF (currently, the receptionists) no longer accept incomplete VIF forms from an employee upon the return of the vehicle to Headquarters. The receptionist should return the form to the employee and request they fill out the VIF completely before checking-in the vehicle.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	9	Maintenance Department should continue to work with "Voyager Fleet Systems" and U.S. Bank to review the card issuer's reporting capabilities, in order to develop the reports needed with the appropriate inputs (e.g. odometer readings, date of purchase, amount, credit card number, cardholder name, number of gallons purchased at point-of-sale) so that the Agency can perform a thorough analysis of fuel consumption monthly.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	10	Maintenance Department should develop one policy or update the existing policy (ies) to outline the proper procedures for washing Agency vehicles.	IA to verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Vehicle Inventory Procedures March 12, 2014	11	Maintenance Department should perform a routine inventory as well as regular safety/maintenance inspections for all Agency vehicles at least annually and ensure necessary safety and emergency equipment is available and operational. Issues identified should be addressed and corrected timely. Specifically, items required for safety reasons such as fire extinguishers, insurance information and accident instructions, etc. should be current and readily available in the vehicle. Documented maintenance and safety inspection results should be retained and placed in the vehicle's file as evidence of examination.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	12	Maintenance Department should consider including a vehicle bumper sticker on all Agency vehicles that display the Agency's logo and a hotline or contact phone number where issues may be reported by any member of the public.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	13	Periodic reconciliations for fleet (vehicles and equipment) should be performed by the Maintenance Department between any report(s) or system databases that are utilized by management to ensure accuracy when reporting fleet information and making decisions regarding fleet.	IA to verify during follow-up evaluation.
Regional Contract Review - Final Report December 16, 2015	Overall	Consider legal, political and financial impacts of governing by ordinance vs. contract	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	Overall	Review and revise EDU formula	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	Overall	Resolve identified differences of over/under collected amounts of Connection fees and identified differences of over/under collected amounts of unreported monthly sewerage fees	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	1	<b>Connection Fees:</b> Centralize the permitting process OR IEUA provides final sign-off and plumbing permit approval for all non-residential entities.	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	2	<b>Connection Fees:</b> IEUA should establish monitoring program to inspect random facilities and those where there is a suspected discrepancy	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	3	<b>Connection Fees:</b> Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	4	<b>Connection Fees:</b> Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	5	<b>Connection Fees:</b> Two tier connection fees process that distinguishes between common features and unique features (ie., a toilet always costs the same regardless of type of business)	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	6	<b>Connection Fees:</b> Update Exhibit J regularly to include new/evolving business types	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	7	<b>Connection Fees:</b> Update & clarify Fixture Unit descriptions of Exhibit J regularly	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	8	<b>Connection Fees:</b> Standardize calculation worksheet to ensure it is consistent with Exhibit J and consistent region-wide	IA to follow-up after Renegotiation of the Regional Contract



Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Regional Contract Review - Final Report December 16, 2015	9	<b>Connection Fees:</b> IEUA should require copies of calculation worksheets for all nonresidential customers along with the monthly Building Activity Reports.	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	10	<b>Connection Fees:</b> Regular workshops, meetings, plant tours, etc. with staff in Building, Plan Check and Utility Billing/Financial Departments	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	11	<b>Connection Fees:</b> IEUA develop fixture count expertise and provide regular/ongoing training for Contracting Agencies - Building Departments	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	12	<b>Connection Fees:</b> Contracting Agency internal review of Connection Fees as part of preparing the Building Activity Report	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	1	<b>Monthly Sewerage:</b> Collect monthly sewerage fees for the entire region through County's property tax roll	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	2	<b>Monthly Sewerage:</b> Evaluate methodology used for billing monthly sewerage fees (residential and commercial) and consider alternatives by water consumption, EDUs purchased or other methodology	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	3	<b>Monthly Sewerage:</b> Standardize monthly report to provide IEUA automated, itemized listings of non-residential monthly sewerage charges	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	4	<b>Monthly Sewerage:</b> Establish contract for monthly sewerage payments from Contracting Agencies rather than IEUA issuing monthly invoices	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	5	<b>Monthly Sewerage:</b> IEUA exercise inspection, verification and recourse rights for under-collected/under-reported monthly sewerage fees	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	6	<b>Monthly Sewerage:</b> Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	7	<b>Monthly Sewerage:</b> Update 1997 billing memorandum regularly for new business types to provide detailed definitions and descriptions	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	8	<b>Monthly Sewerage:</b> Create a correlation between monthly sewerage fees and Connection Fees	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	9	<b>Monthly Sewerage:</b> Add billing guidance for locations with multiple types of businesses serviced by a master meter	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	10	<b>Monthly Sewerage:</b> Bill commercial businesses at least a minimum of one EDU per month	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	1	<b>Public Service Facility:</b> Consider legal, political and financial impacts of excluding Public Service Facilities from Connection Fees and monthly sewerage charges.	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	2	<b>Public Service Facility:</b> Consider legal, political and financial impacts of IEUA assuming responsibility for Connection Fees calculations, collections and CCRA accounts	IA to follow-up after Renegotiation of the Regional Contract

Audit Performed	Rep #	Internal Audit Recommendation	Target Date for Implementation & Comment
Regional Contract Review - Final Report December 16, 2015	3	<b>Public Service Facility:</b> Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	4	<b>Public Service Facility:</b> Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	5	<b>Public Service Facility:</b> Address difference between "Publicly Owned" vs. "Publicly Used"	IA to follow-up after Renegotiation of the Regional Contract
Regional Contract Review - Final Report December 16, 2015	6	<b>Public Service Facility:</b> Consider cross-departmental approach to the development review process as a regional model	IA to follow-up after Renegotiation of the Regional Contract

Total of 73 outstanding recommendations as of June 8, 2016 requiring IA verification and/or supported response.

**INFORMATION  
ITEM  
2B**



Date: June 15, 2016  
To: The Honorable Board of Directors  
Through: Audit Committee (06/08/16)  
From: Teresa V. Velarde  
Manager of Internal Audit  
Subject: Prequalification Process Review

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### **RECOMMENDATION**

This is an informational item for the Board of Directors.

### **BACKGROUND**

Internal Audit (IA) performed a review of the Agency's prequalification process of prospective contractors according to the Fiscal Year 2015/16 Annual Audit Plan. The objectives of the review included:

- To evaluate the processes and controls in place to prequalify potential Agency contractors for major public works projects. Prequalified contractors are utilized in different ways for construction-related contracts above and below a \$2 million threshold.
- To assure that the prequalification process follows Agency procurement policies and procedures, and to consider whether it promotes fair contracting and good business practices. The Engineering and Construction Management (E&CM) and the Contracts and Facilities Services departments (CFS) administer the contracts. E&CM has primary responsibility for large public works contracts.
- To identify where policies and operations can be made more effective and efficient to ensure that contracts are utilized and monitored as intended.

The audit evaluated the processes and controls in place since the Board approved prequalification process was adopted in May 2013. The audit did not include financial procedures or tests of transactions.

IA will continue to work closely with E&CM and CFS. Additional work is planned to evaluate compliance with policies for the establishing of Master Service Contracts and procedures for issuing task orders under those contracts. A final report will be issued by September 2016.

Overall, E&CM staff provide effective oversight over the prequalification of potential contractors. A few suggestions were discussed and are documented in this report. The suggestions are related to the advertisement of the biannual prequalification process, formalizing the appeal process, and to consider synchronizing the timeline for the administrative requirements related to the prequalification process:

- IA suggested advertising a set date for the biannual prequalification process and posting the date on the website and on the application documents to notify prospective contractors of the timeline for the biannual solicitation process. This will communicate to potential interested contractors the deadline for submitting their application for consideration.
- IA suggested formalizing the appeal process to require additional information and documentation be provided by the protesting contractor when they choose to protest the Agency's decision. The documentation should further emphasize their qualifications and justify the appeal. Additionally, reasons for overturning a rejection should be documented to provide justification for changes to the initial decision of the evaluation team.
- IA suggested that E&CM consider the feasibility and benefits of synchronizing the timing and completion of most or all of their required administrative responsibilities related to prequalification to ensure the requirements are fulfilled with minimal impact on resources. Administrative tasks include advertising the prequalification process, updating contractor financial information and annual State prevailing wage certification and the prequalified term of the contractors on the list.

The Prequalification Process Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by providing an independent evaluation of IEUA's contracting policies and practices and suggesting recommendations for improvements.

Refer to the attached report for additional details.

### **PRIOR BOARD ACTION**

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

On September 16, 2015 the Board of Directors approved the Annual Audit Plan for Fiscal Year 2015/16, the Prequalification Process Review was included in that plan.

### **IMPACT ON BUDGET**

None.



## ***Inland Empire Utilities Agency***

**A MUNICIPAL WATER DISTRICT**

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DATE: June 8, 2016

TO: Joseph P. Grindstaff  
General Manager

*Teresa V. Velarde*

FROM: Teresa V. Velarde  
Manager of Internal Audit

**SUBJECT: Prequalification Process Review**

### **Audit Authority**

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed a review of the Agency's prequalification process of prospective contractors. The audit was performed under the authority given by the IEUA Board of Directors (Board) and according to the Fiscal Year 2015/16 Annual Audit Plan.

### **Audit Objective and Scope**

The Prequalification Process Review had several objectives:

- To evaluate the processes and controls in place to prequalify Agency contractors for major public works projects. Prequalified contractors are utilized for construction-related contracts above and below a \$2 million threshold.
- To assure that processes follow Agency procurement policies, and to consider whether they promote fair contracting and good business practices. The Engineering and Construction Management (E&CM) and Contracts and Facilities Services (CFS) departments administer the contracts. E&CM has primary responsibility for large public works contracts.
- To identify where policies and operations can be made more effective and efficient to ensure that contracts are utilized and monitored as intended.

The audit evaluated the processes and controls in place since the Board approved prequalification process was adopted in May 2013. The audit did not include financial procedures or tests of transactions. This report covers the objectives described above.

IA will continue to work closely with E&CM and CFS. Additional work is planned to evaluate compliance with policies for the establishing of Master Service Contracts and the procedures for issuing task orders under those contracts. A final report will be issued by September 2016.

*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

### **Audit Results – Executive Summary**

Overall, E&CM and CFS provide effective oversight over the prequalification of potential contractors. A few suggestions were discussed with E&CM and are provided as soft recommendations. The attached report provides details of IA's review.

- IA suggested advertising a set date for the biannual prequalification process and posting the date on the website and on the application documents to notify prospective contractors of the timeline for the biannual solicitation process. This will communicate to potential contractors who are interested, the deadline for submitting their application for consideration.
- IA suggested formalizing the appeal process to require additional information and documentation be provided by the protesting contractor when they choose to protest the Agency's decision. The requirements should to further emphasize their qualifications and justify the appeal. Additionally, reasons for overturning a rejection should be documented to provide justification for changes to the initial decision of the evaluation team.
- IA suggested that E&CM consider the feasibility and benefits of synchronizing the timing and completion of most or all of their required administrative responsibilities related to prequalification to ensure the requirements are fulfilled with minimal impact on resources. Administrative tasks include advertising the prequalification process, updating contractor financial information and annual State prevailing wage certification and the prequalified term of the contractors on the list.

### **Acknowledgements**

We would like to extend our appreciation to the Engineering and Construction Management Department and the Contracts and Facilities Services staff for their cooperation and assistance during this review.

### **Discussion with Management**

We provided a copy of this audit report to Shaun Stone, Manager of Engineering, Warren Green, Manager of Contracts and Facilities Services and their staff for comments prior to finalizing this report. We also met with staff on May 24, 2016 to discuss the results of this review.

TV:ps

cc: Chris Berch, Executive Manager of Engineering/Assistant General Manager  
Shaun Stone, Manager of Engineering  
John Scherck, Acting Deputy Manager of Engineering  
Jerry Burke, Deputy Manager of Engineering  
David Mendez, Deputy Manager of Capital Improvement Program  
Warren Green, Manager of Contracts and Facilities Services

## Prequalification Process Review

### Background

IEUA is responsible for building, improving and maintaining water/waste water infrastructure in the region. The public works projects require effective and efficient procurement processes for all types of activities from initial construction, to operations and repairs and maintenance. The Agency procurement processes must fulfill responsibilities as broad as building large projects to miscellaneous work and projects.

In order to streamline and make the procurement process more efficient, IEUA revises its procurement practices from time to time to adopt procurement practices considered “best practices” in the industry. The intent is to save time and resources and ensure only the most qualified contractors able to provide the best value for services are selected. The current processes for public works projects are summarized in Exhibit A.

The Agency has established a Prequalification Process for major construction projects above and below a \$2 million dollar threshold. The Agency has also established Master Trade Contracts and Master Service Contracts for various types of construction services, including emergencies. The Trade and Master Service Contracts will be discussed in greater detail in a separate report.

At its May 15, 2013 meeting, the Board approved the prequalification process for major public works construction contracts. The goal of the prequalification process is to filter and select only the most responsive and best value contractors based on established and “best-value criteria”. IEUA staff believe the traditional construction contract bidding process can be problematic since the goal of selecting the lowest bidder sometimes resulted in contractors with minimal qualifications being selected, claim-oriented contractors submitting bids and high costs of construction management to ensure quality. IEUA staff believe the prequalification process improves the quality of construction, decreases impacts to operations, promotes better schedules and costs and encourages contractors to settle disputes.

The prequalification process for major public works contracts intends to compile a list of the most qualified and ready to serve contractors through a prescreened process. The objective of the audit with regards to the prequalification review, was to determine if sufficient and fair criteria exists to screen contractors, additionally to determine if the Agency makes periodic efforts to expand the list and reevaluate the list of contractors to ensure there is fair competition and criteria are monitored to ensure only the best qualified contractors continue to be on the lists.



## Internal Audit's Evaluation of the Prequalification Process for

### Major Public Works Contractors

IEUA has two categories of major public works contracts: Those over \$2 million dollars and those under \$2 million dollars. In both cases IEUA has established a prequalification process to prescreen potential contractors. E&CM has documented the screening processes and criteria and the information is available for review. The information includes research done about the prequalification processes used at other Agencies and "model" documents that were considered in establishing the Agency's selection processes.

#### Major public works projects in excess of \$2 million:

Large public works construction projects over \$2 million follow the most standard contracting process used in the industry and required by the Public Contract Code. These projects are bid out on an individual project basis, and have significant oversight and visibility. Strict Public Contract Code laws apply. Once the Agency has identified a project and the need to contract with a construction company, each individual project goes through a two-step process: First, a "Request for Qualifications" that results in a selection of a qualified group of bidders, and second, a "Request for Bid"/"Invitation for Bid" process among those contractors considered qualified after the first step. This is the most common business practice applied in the industry to establish a contract. The screening of potential contractors is based on factors such as experience, financial stability, managerial ability and work history.

This operational audit did not apply financial procedures or perform tests of financial transactions or payment controls. The audit focused on the method and process in place to "prequalify" those contractors for projects under \$2 million (as described below) and to determine if the prequalification process conforms to the Agency's procurement goals/objectives and are fair and legal practices.

#### Major public works projects less than \$2 million:

The Agency currently has a list of 43 pre-qualified contractors which includes specialty contractors as defined by the Contractor's State License Board. Contractors remain pre-qualified for 5 years. This list of prequalified contractors is used to solicit bids for major public works projects under \$2 million.

Once the Agency has identified a project and the need to contract with a construction company, the Agency issues the advertisement of the project only to the prequalified contractors with a "Request for Bid" or "Invitation for Bid". Contractors with the applicable licenses still need to submit bids in accordance with IEUA's Procurement Ordinance, and compete among the prequalified contractors. The project is then awarded to the lowest responsive and responsible bidder.

On May 15, 2013, the Board approved the prequalification process and the benefits of having prequalified contractors for major public works. In February 2014 E&CM advertised a Request for Prequalification in various construction trades and specialties. This was E&CM's first prequalification process, and in June 2014, had the first list of prequalified contractors. In April of 2015, E&CM completed a second prequalification evaluation process to add additional contractors to the prequalified list.

#### IA's Evaluation of the Prequalification Process

IA evaluated the methodology applied and the criteria used to select the Prequalified Contractors for major construction Projects under \$2 million. A summary of the evaluation is included at Attachment B. IA also reviewed the amounts of expenditures associated with each prequalified contractor to-date.

The first solicitation in February 2014 resulted in a total of 49 responses. The proposals were evaluated by a team that included staff from E&CM, a representative from CFS and three outside consultants. This was an informal process. Each reviewer provided written comments about each contractor's proposals. The documented comments were the evaluators' subjective reaction to the proposal, as well as some information about their past project experiences with the contractors in other settings and IEUA's past experience with the contractor. IEUA asked that the evaluators consider the applicant's experience, resources, litigation record, and safety qualifications. The process did not include weighting the responses or developing scores to ensure each evaluator considered the qualities and qualifications in the same manner. The responses were collated and summarized on a spreadsheet. Based on comments from the reviewers, a decision was made by E&CM supervisory/management staff with input from the review panel.

In 2014, of the 49 responses, 25 were placed on the Prequalification List. Twenty-four were not approved through this initial process, however, of the 24, five were considered qualified the following year during the 2015 prequalification process and are now on the list. Additionally, one contractor successfully appealed and was added to the list.

Of the 25 contractors prequalified in the first year, only 24 of them are shown on the list of prequalified contractors. One contractor that received a positive evaluation was not included. According to E&CM, the contractor was inadvertently left off the prequalified list and was added following IA's inquiry. Additionally, one contractor placed on the prequalified list, was the only contractor that did not have documented comments on the evaluation summary. According to E&CM the contractor was included as prequalified based on the unanimous discussions of the evaluators during the meeting.

The first evaluation and qualification process appeared less formal than the one used in 2015 when additional contractors were solicited. It also appears, there was not sufficient review to ensure the process was well documented. An informal process, lacking sufficient supporting documentation, could inadvertently disregard contractors that could

potentially contest the process and put the Agency at risk of being accused of not following adequate procurement policies or providing fair opportunities.

In April 2015, IEUA published a second solicitation for the "Request for Qualifications". A total of 34 contractors responded to the solicitation. These responses were evaluated by a six person team that included IEUA E&CM, CFS staff and two outside representatives.

The 2015 solicitation process was more formal and there is more documentation to support the process and selections made. Each evaluator was assigned responsibility for evaluating a specific area of the proposal and each of the six evaluators had the opportunity to provide a favorable or unfavorable evaluation:

<u>Category</u>	<u>Percentage Weight</u>
Staff/Subcontractor qualifications	15%
Water/Wastewater experience	25%
CPM Schedule, budget, quality of work	10%
Firm experience, history, labor compliance	10%
Application thoroughness, references	15%
Fiscal stability	15%
DIR Requirements (yes/no – not an individual evaluating)	10%

**Financial Evaluation:**

In addition, the Agency's Finance and Accounting Department (FAD) performed a financial evaluation of the proposals. This evaluation included the following criteria (as described by FAD):

1. Overall Liquidity: These ratios demonstrate the ability to finance new contracts and meet current obligations
2. Overall Profitability: Measure of management's effectiveness in utilizing the assets and the equity of the company, as well as the most opportune allocation of the company's capital on its risk assessment.
3. Overall Leverage: Indicates the relationship between the company and the creditors and whether or not there is a proper investment in fixed assets

FAD provided an Overall Outlook of "Favorable" or "Unfavorable" along with one of the comments from the above list.

Of the 34 proposals received, 26 had the financial analysis performed, eight did not have a financial analysis. The notes indicated that six contractors turned in their financial information late, therefore there was no time to perform the analysis before the final selection was made. There no information about whether financial information was received from the other two contractors. Of these eight contractors, four were subsequently included on the approved list.

The financial analysis portion of the evaluation process led to a varied comparison of the contractors. Of the 24 contractors that were prequalified in this selection process, 15 had favorable financial evaluations, 4 did not submit financial information or provided it too late for evaluation, 3 were unfavorable, 1 was favorable with caution and 1 was incomplete

**Team Evaluation:**

The most traditional measure for selecting the firms to include on the prequalified list is to require a majority of favorable evaluations. A total of 24 contractors were selected from the evaluation process. All of those selected received at least 4 out of 6 positive evaluations and 14 of the companies received the perfect score of 6 out of 6.

**Consultant Evaluation:**

A measure of the impartiality of the selection process is to compare those contractors that were prequalified to the recommendations of the outside consultants. By this measure, all 24 prequalified contractors received a "pass" evaluation from one outside consultant. A second outside consultant provided a favorable evaluation to 19 of the 24 prequalified contractors and gave none of the passed-over contractors a favorable evaluation.

E&CM documented the information from both procurements in multiple spreadsheets summarizing the comments by the evaluators and maintaining files of their original evaluation sheets with the proposals received.

**Biannual Prequalification Process**

E&CM has now completed two prequalified processes, February 2014 and April 2015. E&CM plans to perform additional prequalification process as needed, and at minimum biannually. The E&CM SOP #78 states that "Contractors can be added to the list on a biannual basis; however they can submit a qualification package at any time". Staff recognized the process requires much time and resources to complete and has no set date for the next process.

*IA discussed with E&CM the possibility of committing to a biannual deadline and to post the specific date or time frame for the next prequalification process on the website along with the contractor application that is already posted on the website. Doing so would provide clear guidance and a timetable for the biannual solicitation process. This will communicate to potential contractors who are interested, the deadline for submitting their application for consideration.*

**Appeal of Prequalification Decision**

One contractor who was originally rejected during the first evaluation process, appealed the initial decision during the required time period. According to E&CM this is the only instance where a contractor subsequently appealed their initial rejection because most

contractors consider the feedback documented and provided by the evaluation team and move on.

E&CM SOP #78, Section 3.2 provides an appeal process, which states:

A contractor who receives a disqualification may appeal the decision in writing within five business days from the date of IEUA's notification of the qualification status letter. The contractor may request a hearing, which will be conducted no later than five days after the receipt of the notice of appeal.

E&CM staff indicated that the contractor initially rejected during the review process, followed the appeal process and requested a "Meet and Confer" meeting to discuss the rejection. According to staff, the contractor was able to demonstrate that their business model had changed and their commitment to quality work. Based on the Meet and Confer meeting the contractor was placed on the prequalified list.

IA noted that although there is an appeal process documented and available for contractors wanting to contest the initial decision by the Agency, the appeal process does not require that the contractor submit additional information or support to fully justify any changes to the initial decision. IA believes that additional justification should be required to ensure that contractors take the process seriously and further demonstrate their capabilities and qualifications. Without additional requirements, it may give the appearance that a simple conversation is all that is required to change the Agency's initial decision. IA believes that a more formalized process requiring additional information would provide some added protection to the Agency.

*IA recommends that E&CM consider formalizing the appeal process to require additional information and documentation be provided by the protesting contractors to further emphasize their qualifications. In addition, reasons for overturning a rejection should be documented to provide justification for changes to the initial decision of the evaluation team. The process and required documentation should be documented in the department's SOP and in the proposal requirements to ensure both parties understand.*

### **Synchronization of Administrative Requirements**

E&CM staff have many administrative responsibilities that take up much time and resources in conjunction with pre-qualification; but that are very important and must be satisfied to ensure their continued use and reliance on contractors. For example:

- The prequalification process takes time and resources. E&CM has committed to accepting applications at any time, but the prequalification process is only conducted as needed or potentially at a regular interval.
- E&CM also prefers to obtain financial information about prequalified contractors on an annual basis to ensure their continuing viability and commitment to the prequalification list.

- Because all contractors on the prequalified list are qualified for five years, time and resources are necessary to ensure the five year term is monitored.
- E&CM must ensure contractors comply with their required annual registration with the Department of Industrial Relations (DIR). This is intended to provide assurance that the contractors meet the prevailing wage criteria of the DIR and applies to all Agency contractors, not only those on the prequalified list.

*IA recommends that E&CM consider the feasibility and benefits of synchronizing the timing and completion of most or all of the above described administrative responsibilities to ensure the requirements are fulfilled with minimal or less impact on resources. For example, performing the prequalification process every odd year during a specific month of the year and synchronizing this process with the requalification effort of asking for DIR and financial information. E&CM may also want to consider a contract term of something other than five years to conform to a synchronized process.*

In conclusion, the prequalification process during both years appears to have been an impartial and thorough analysis of the proposals that were received and the process resulted in selecting a broad group of prequalified contractors.

IA Evaluation of the Use of the Prequalified Contractors:

IA performed an analysis of disbursements made to contractors that were prequalified for projects under \$2 million.

**Contracts to Prequalified Contractors under \$2M**

Contractor	Contract #	Contract Start Date	Original Contract Amount	Total thru 3/31/2016 (since start of contract)	% over/under contract amount
Allison Mechanical	4600001703	7/17/14	\$ 571,315	\$ 583,744	2.18%
Allison Mechanical	4600001966	7/15/15	\$ 431,216	\$ 96,120	in process
Environmental Const Inc.	4500020426	3/16/15	\$ 714,822	\$ 758,081	6.05%
GSE Construction	46EN11035	2/20/14	\$ 1,374,700	\$ 1,494,252	8.70%
GSE Construction	46EN13054	3/24/14	\$ 1,779,100	\$ 1,906,432	7.16%
GSE Construction	46EN14027	5/21/14	\$ 604,000	\$ 699,755	15.85%
Humphrey Constructors	4600001591	11/25/13	\$ 984,000	\$ 868,371	-11.75%
J. F. Shea Construction, Inc.	4600001845	5/18/15	\$ 707,350	\$ 707,350	0.00%
J. R. Filanc Construction Co. Inc.	4600001738	3/18/15	\$ 407,835	\$ 368,685	-9.60%
J. R. Filanc Construction Co. Inc.	4600001702	6/18/14	\$ 1,135,000	\$ 1,309,906	15.41%
J. R. Filanc Construction Co. Inc.	4600001888	5/12/15	\$ 630,100	\$ 814,756	29.31%
Mladen Buntich Construction Co.	4600001586	10/21/13	\$ 529,000	\$ 540,355	2.15%
Pascal & Ludwig	4600001390	1/16/13	\$ 644,231	\$ 675,832	4.91%
W. M. Lyles Co.	4600001628	12/4/13	\$ 1,113,083	\$ 1,261,414	13.33%
			\$ 11,625,752	\$ 12,085,053	3.95%

Prequalification Process Review

June 8, 2016

Page 10 of 12

Based on the analysis of SAP financial activity, there has been a reasonably broad distribution of contracting activity among the prequalified contractors for contracts under \$2 million, however E&CM has no control over whether prequalified contractors decide to submit bids. Additionally, some contractors have specific specialty areas and cannot bid on certain types of projects. Therefore, there are also a number of prequalified contractors that have not been utilized. We noted that 19 prequalified contractors showed no activity since the prequalification process was completed.

**EXHIBIT A: INLAND EMPIRE UTILITIES AGENCY  
 MAJOR PUBLIC WORKS PROJECTS**

<b>Steps Required:</b>		<b>Major Public Works Contracts over \$2 Million (E &amp; CM)</b>	<b>Major Public Works Contracts under \$2 Million (E &amp; CM)</b>
<b>QUALIFICATION PROCESS</b>	<b>REQUEST FOR QUALIFICATIONS</b>	New "Request for qualifications" for each contract to establish a minimum group of qualified bidders for each project.	Numerous contractors by various trades have been "pre-qualified" by E & CM through a "Request for Qualifications" evaluation process. This list is the group of contractors contacted for new projects.
<b>BID/PROPOSAL APPROACH</b>	<b>INVITATION FOR BID or REQUEST FOR BID (Agency must accept lowest responsible bid)</b>	The contractors that have been approved from the "Request for Qualifications" process are solicited through an "Invitation for Bid".	When a new project is approved, contractors in the applicable trade from the "prequal" list are solicited through an "Invitation for Bid".
	<b>REQUEST FOR PROPOSAL (Agency may select based on additional pre-established criteria)</b>	N/A	N/A; however Agency may also request proposals through online bidding network in addition to using the prequalified contractors.
<b>CONTRACT</b>	<b>CONTRACT</b>	New contract established with lowest responsible bidder.	New contract established with lowest responsible bidder.
<b>AUTHORIZATION TO PAY/PAYMENT PROCESS</b>	<b>PAY ESTIMATE</b>	Work proceeds and payment is based on milestones or percentage of completion.	Work proceeds and payment is based on milestones or percentage of completion.

**NOTE:**

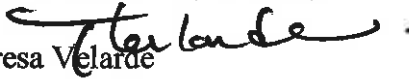
E & CM: The Engineering and Construction Management Department has primary responsibility for these contracts. CFS provides contracting expertise and oversight.



**EXHIBIT B: EVALUATION OF MAJOR PUBLIC WORKS CONTRACTORS FOR  
 CONTRACTS LESS THAN \$2 MILLION**

CONTRACTOR	SPECIALTIES	2014 RFQ	2015 RFQ
Air-Ex Air Conditioning	HVAC	Y	
Allison Mechanical	HVAC, Mechanical		5/6
ARB, Inc.	General, Pipeline		6/6
Canyon Springs Enterprises, dba RSH Construction	General		6/6
Charles King Company, Inc.	Pipeline	Y	
Colich & Sons, L.P.	Pipeline	Y	
C.P. Construction Co., Inc.	Pipeline	Y	
CSI Electrical Contractors	Electrical	N	1/6
Dalke & Sons Construction	Electrical, General		6/6
Davis Electric	Electrical		6/6
Environmental Construction Inc.	Earthwork, General, Landscaping, Mechanical	Y	6/6
Ferreira Construction	Fencing, General, Pipeline		6/6
GCI Construction	Pipeline	Y	
GSE Construction Co., Inc.	Mechanical	Y	5/6
Halcyon Electric, Inc.	Electrical		5/6
Hemet Manufacturing Co. dba Genesis Construction	General, Pipeline	Appealed	
Henkels & McCoy	Electrical, General		6/6
Houalla Enterprises LTD dba Metro Builders Inc.	General		4/6
Humphrey Constructors	Mechanical	Y	4/6
J.F. Shea Construction, Inc.	Pipeline	Y	
J.R. Filanc Construction Co., Inc.	Mechanical	Y	
J.R. Pipeline Co., Inc.	Pipeline	Y	
Jamison Engineering Contractors, Inc.	General, Mechanical, Pipeline		6/6
Mike Bubalo Construction	Pipeline	Y	
Mike Pritch & Sons Inc.	Pipeline	N	4/6
Mladen Buntich Construction Co. Inc.	Pipeline	Y	
MNR Construction	Pipeline	N	6/6
Norstar	General, Pipeline		4/6
OHL USA, Inc. dba Group OHL USA Inc.	Earthwork, Electrical, General, Pipeline		6/6
Pacific Hydrotech Corporation	HVAC	Y	
Pacific Internal Electric Co, Inc dba Pacific Industrial Electric	Electrical	Y	
Pascal & Ludwig Constructors	Mechanical	Y	6/6
Paso Robles Tank, Inc.	Coating & Painting, General	N	6/6
Ramona, Inc.	Pipeline	Y	
S.S. Mechanical Corp.	General, Mechanical	Y	6/6
Sancon Engineering	General	Y	
SCW Contracting Corp	General, Pipeline	Y	
Southern Contracting Company	Electrical	Y	6/6
SSC Construction	General	N	5/6
Tharsos	General		4/6
Trautwein Construction Inc.	Pipeline	Y	
Utah Pacific Construction	General, Pipeline		5/6
VCI Construction, Inc.	Pipeline	Y	
W.A. Rasic Contracting	Pipeline	Y	
W.M.Lyles Co.	General, Mechanical	Y	
<b>2014 RFQ: Y – Yes, considered qualified; N – No, not considered qualified</b>			
<b>2015 RFQ: X/X – This indicates the proportion of reviewers who considered a contractor's proposal as qualified in comparison to the total number of reviewers</b>			

**INFORMATION  
ITEM  
2C**

Date: June 15, 2016  
To: The Honorable Board of Directors  
Through: Audit Committee (06/08/16)  
From:   
Teresa Velarde  
Manager of Internal Audit  
Subject: Audit Planning Communication as Required by SAS 114

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### **RECOMMENDATION**

This is an informational item for the Board of Directors.

### **BACKGROUND**

Statement on Auditing Standards No. 114 (SAS 114) requires the financial statement auditors to communicate the planned scope and timing of the audit. SAS 114 also describes the auditor's responsibility to inquire of the audit committee information that should be considered in the auditor's risk assessment. The Agency's external auditors are Lance, Soll & Lunghard, LLP (LSL), an independent CPA firm. Attached is the required communication letter under SAS 114. Ms. Deborah Harper, partner with LSL will provide a presentation related to the audit scope and approach, as well as the required communications during the Audit Committee meeting.

### **PRIOR BOARD ACTION**

On March 16, 2016, the Board approved Contract Number 4600002079, in the amount of \$100,820, with Lance, Soll and Lunghard, LLP, to provide Annual Financial and Single Audit Services for the Inland Empire Utilities Agency, and also Contract Number 4600002081, in the amount of \$12,450, both, to complete the required audits for the three (3) fiscal years ending 2015/16, 2016/17 and 2017/18 with the option for an additional two (2) fiscal years.

### **IMPACT ON BUDGET**

The cost of the annual financial and single audit has been included in the FY 2016/17 Administrative Services (GG) budget.



CPAs AND ADVISORS

May 17, 2016

To the Board of Directors  
Inland Empire Utilities Agency

We are engaged to audit the financial statements of the Inland Empire Utilities Agency (Agency) and Chino Basin Regional Financing Authority (Authority) and the Single Audit for the year ended June 30, 2016. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

**Our Responsibilities under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards*, and the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we will consider the internal control of the Agency and Authority. Such considerations will be solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Agency's and Authority's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with Uniform Guidance, we will examine, on a test basis, evidence about the Agency's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Agency's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the Agency's compliance with those requirements.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.





To the Board of Directors  
Inland Empire Utilities Agency

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis, the schedule of changes in net pension liability and related ratio, the schedule of employer contributions, and the OPEB funding progress which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on the combining and individual fund statements and schedules which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have not been engaged to report on the introductory and statistical sections which accompany the financial statements but are not RSI. Our responsibility with respect to this other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information will not be audited and we will not express an opinion or provide any assurance on it.

#### Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to issue our report on approximately December 1, 2016.

This information is intended solely for the use of the governing board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

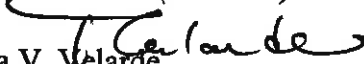
Very truly yours,

*Lance, Soll & Lughard, LLP*

**INFORMATION  
ITEM  
2D**



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Date: June 15, 2016  
To: The Honorable Board of Directors  
Through: Audit Committee (06/08/16)  
From:   
Teresa V. Velarde  
Manager of Internal Audit  
Subject: Internal Audit Department Status Report for June 2016

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### **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 June 2016.

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

### **PRIOR BOARD ACTION**

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

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

### **IMPACT ON BUDGET**

None.

## Internal Audit Department Status Report for June 2016

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### ***Projects Completed This Period***

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**Audit:**        **Master Service Contracts Audit & Prequalification Process Review**

**Scope:**

To evaluate the Agency's Master Service Contracts and Prequalification Process to ensure these follow the required Agency policies and procedures and ensure controls exist that enforce proper contracting and procurement for transactions. Additionally, to evaluate the pre-qualification of contractors to ensure they meet the Agency's objectives in an efficient manner that complies with Agency policies.

**Status:**                                **COMPLETE**

The audit evaluated the processes and controls in place to prequalify Agency Contractors for major public works projects since the Board approved pre-qualification process was adopted in May 2013. The audit examined how work is distributed under contracts for minor construction and repairs, for emergency procurements, and for professional services based on the starting dates of the signed contract numbers. Finally, the audit examined the amount of work issued under master trade contracts in 2013-14, 2014-15 and through December 31 of the current fiscal year.

Overall, E&CM and CFS provide effective oversight over the pre-qualification of potential contractors and over the establishment and use of the Master Services Contracts. The audit is in the process of identifying opportunities to further enhance operations and strengthen internal controls which may result in recommendations in a follow-up report. The report is attached under separate cover and provides full details of IA's observations to date.

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**Project:**        **Management Requests**

**Scope:**

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

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

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

- Continue to be involved with possible collection of the identified uncollected Connection Fees.
  - Review and comment on draft updates to Fiscal Ordinance #102 and Budget Amendments Policy A-66.
  - Participate in implementation of Enterprise Content Management System.
  - Assist departments with interpretation of Agency's Policies
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## Internal Audit Department Status Report for June 2016

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**Audit:**      **Annual Audit Plan**

**Scope:**

Create a flexible plan of proposed audit projects that considers potential risk areas, to address internal control and Agency policy requirements.

**Status:**      **COMPLETE**

The Annual Audit Plan is attached under separate cover for the Board of Directors approval.

The plan discusses the methodology applied and addresses areas of concern discussed with various management representatives.

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### ***On-going Projects***

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**Audit:**      **Follow up Review: Information Technology Equipment – FAD**

**Scope:**

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

**Status:**      **IN PROGRESS**

There are 7 recommendations that require follow-up evaluation. IA is currently in the fieldwork phase of this project. IA has met with FAD to discuss the outstanding recommendations with the assigned representatives. The 7 recommendations require follow-up procedures be performed to verify if corrective actions have been implemented.

IA has begun reviewing the process in place and the supporting documentation for the capitalization of IT equipment. FAD is currently in the process of establishing a Standard Operating Procedure (SOP) to address the functions for the capitalization of IT Equipment and timely closing of capital/construction projects. Furthermore, FAD is also currently reviewing the intent of the policy related to the capitalization of IT assets, especially for IT equipment purchases on the Procurement Card (P-card) and whether or not acquired as part of a capital project. In addition, IA is also reviewing the feasibility of reconciling IT assets in ISS records to the Agency's financial system (SAP). IEUA has invested in a significant amount of IT equipment to support the Agency's day-to-day operations and currently there is no process in place to perform an annual reconciliation of these assets to validate existence and completeness.

IA will report on the status of these outstanding recommendations in September 2016.

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

**Scope:**

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

**Status:** **IN PROGRESS**

Internal Audit stands ready to assist in moving forward with implementation of the recommendation and/or resolution of the unpaid fees identified.

## Internal Audit Department Status Report for June 2016

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

### **Reports related to the Regional Contract Review include:**

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

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### ***Internal Audit Department***

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#### **Internal Audit Department Staffing:**

The Internal Audit Department is staffed as follows:

- 1 Manager of Internal Audit
- 1 Full-time Senior Internal Auditor
- 1 Full-time Senior Internal Auditor currently on sick leave

#### **Internal Audit Staff Professional Development Activities:**

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

During the past quarter, IA staff has continued to stay abreast of industry developments through review of industry periodicals. All three IA members are preparing for the third exam of the 3-part Certified Internal Auditor (CIA) certification examination. The CIA is the only globally-recognized certification for internal audit professionals and is the highest certification that can be attained by an internal auditor. One Senior Auditor is a Certified Public Accountant (CPA). One Senior Auditor is a Certified Government Audit Professional (CGAP).

#### **Future Audit Committee Meetings:**

- Wednesday, September 14, 2016 – Regularly Scheduled Audit Committee Meeting
- Wednesday, December 14, 2016 – Regularly Scheduled Audit Committee Meeting