



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

**WEDNESDAY, SEPTEMBER 14, 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 June 8, 2016.

2. INFORMATION ITEMS

A. MASTER SERVICE CONTRACTS AUDIT REPORT (WRITTEN)

B. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR SEPTEMBER 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, Sally Lee, Executive Assistant of the Inland Empire Utilities Agency, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. in the foyer at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, September 8, 2016.



Sally Lee

**ACTION
ITEM**

1A



**MINUTES
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
WEDNESDAY, JUNE 8, 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
Stephanie Riley, Executive Assistant
Peter Soelter, Senior Internal Auditor

OTHERS PRESENT

Travis Hickey, Audit Committee Advisor
Debbie, LSL

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 March 9, 2016.
- ◆ Recommended that the 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.

INFORMATION ITEMS

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

- ◆ Report of Open Audit Recommendations
- ◆ Prequalification process Review
- ◆ Audit Planning Communication as Required by SAS 114
- ◆ Internal Audit Department Quarterly Status Report for June 2016

GENERAL MANAGER'S COMMENTS

None.

COMMITTEE MEMBER COMMENTS

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

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COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

None.

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


Respectfully submitted,

Stephanie Riley
Executive Assistant

*A Municipal Water District

APPROVED: September 14, 2016

**INFORMATION
ITEM
2A**

Date: September 21, 2016
To: The Honorable Board of Directors
Through: Audit Committee (09/14/16)
From: Teresa V. Velarde 
Manager of Internal Audit
Subject: Master Trade Contracts Audit & Response

RECOMMENDATION

This is an informational item for the Board of Directors.

BACKGROUND

Internal Audit (IA) performed an audit of Master Trade Contracts according to the Fiscal Year 2016/17 Annual Audit Plan. The objectives of the audit included:

- To evaluate compliance with policies and procedures for the establishment of Master Trade Contracts.
- To evaluate how work is issued, verified and approved under the Master Trade Contracts.
- To evaluate whether Master Trade Contract processes follow Agency procurement policies and procedures, other legal requirements and whether they promote fair contracting and good business practices.
- To identify where policies and operations can be made more effective and efficient to ensure that contracts are utilized and monitored as intended.

The Contracts and Facilities Services Department (CFS) administers the Master Trade Contracts. CFS has primary responsibility for the issuance of Master Trade Contracts.

IA will continue to work closely with E&CM and CFS on other similar reviews. Additional work is planned to evaluate compliance with policies for the establishing of Master Service Contracts for emergencies, minor construction and repairs under \$100,000 and procedures for issuing task orders under those contracts. A final report will be issued by December 2016.

Overall, CFS provides effective oversight over the establishment and use of the Master Trade Contracts. The attached report provides details of IA's observations and recommendations. Exhibit G to the report, contains CFS' response. The bullet points below provide a summary:

- The responsibility for proposal evaluations is sometimes handled by an Agency department other than CFS. IA recommends CFS determine the need to retain all supporting documents, including the evaluation documents in their centralized filing system, and work with the end-user department to ensure the final contract and the information communicated to the Board of Directors are consistent and agree. There are instances where a department other than CFS has the primary responsibility for proposal evaluation and reporting the contract information to the Board. The evaluation process is summarized in the Board letter requesting Board approval, which is filed by CFS in the contract file. The audit noted two instances where a department other than CFS completed the evaluation process and the Board letter. IA noted that the final documents (the contract vs. the Board letter) were not consistent in the information reported. To assist the end-user department, CFS plans to develop a new cover sheet that will summarize the contract terms similar to a checklist and provide a method for summarizing the proposal evaluation process to help ensure the end-user communication to the Board is consistent with the contract.
- IA recommends CFS work with the Business Information Department (BIS) to fully utilize the Agency's systems to implement automated controls to ensure that spending on contracts and groups of contracts do not exceed Board approved limits. Master Trade Contracts generally have individual limits on contract spending, but in some cases the Board approved dollar limit is for a group of trade contracts as a whole, rather than for each individual contract. Currently the only method available to ensure that the overall limit is not exceeded is to regularly reconcile spending using a separate spreadsheet. CFS is not aware of any ongoing reconciliation to ensure the spending limit is not exceeded. An automated tool would provide an additional control and assurance that spending limits are not exceeded. CFS and BIS should determine the cost benefit of implanting a new control at this time. During the audit, IA noted that the corrosion assessment group of Master Trade contracts were at 88% of the total group maximum Board approved spending limit and the end-user department, nor CFS had been alerted that spending was reaching the maximum allowed limit. With the Agency's ERP system, users are able to run a report for individual contracts to determine total costs against total contract value. This provides a great tool; however, either the end-user or CFS would have to run the report periodically to monitor spending, as there is no alert that notifies either CFS or the end-user.
- In conjunction with the implementation of the Agency's Enterprise Content Management System (ECMS) - Laserfiche, CFS is working with BIS to develop and implement a taxonomy structure for electronic filing and retrieval of contract documents. IA supports and encourages this initiative which will organize and centralize contract documents, facilitate research and access to information, streamline recordkeeping, and eliminate multiple copies of the same documents. CFS serves as the Agency's centralized resource of contracting knowledge and expertise, as well as the centralized area to maintain procurement records. With the implementation of the Agency-wide ECMS Laserfiche system, procurement files will be automated, making them easily accessible to CSF and

designated Agency staff. The goals for Laserfiche are to enhance the filing and storage system, expedite research and eliminate duplicate copies. ECMS Phase I implementation is planned for early 2017.

- IA recommends CFS work with Human Resources and the Executive Management Team to enhance communications with Agency employees, vendors and contractors, about the Agency's ethical responsibilities and expectations regarding procurement activities, as a best practice recommendation and good internal control. Currently, CFS maintains ethical guidelines under the Procurement tab in the Agency's internal website. Additionally, the Agency website refers to the Ethics Resolution under the Ethics Hotline tab which links to the Ethics-Point site, and other related Agency policies. Finally, each year (as part of the required tailgate topics) all Agency employees are required to review the Agency's Ethics Resolution and related Agency policies. In addition to these efforts, IA recommends CFS periodically remind employees and contractors/vendors of the ethical expectations and guidelines specifically with regards to procurement activities. Agency management may also want to incorporate references to the Agency's Ethics Hotline and Ethics Point "FAQs" in that communication. Additionally, as a general best practice, IA recommends CFS staff annually attend ethics training specific to their procurement activities as a way to achieve greater understanding, learn new trends related to these topics and then share with Agency employees and contractors/vendors.
- IA recommends CFS consider the benefits of job rotation within the department, in addition to the current practices of cross-training and ensuring coverage during staff absences and to develop a plan for succession as well. CFS has recently hired new staff and is using the opportunity to cross-train the new employees on various department responsibilities. Rotating procurement responsibilities within the procurement area is a recommended best practice.

IA appreciates the Contracts and Facilities Services Department staff and the Maintenance Department staff for their cooperation and assistance during this audit. Attached as Exhibit G to this report is CFS' response.

The Master Trade Contracts Audit 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.

PRIOR BOARD ACTION

On June 15, 2016 the Board of Directors approved the Annual Audit Plan for Fiscal Year 2016/17, the Master Trade Contracts Audit was included in that plan.

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

IMPACT ON BUDGET

None.




Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

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DATE: September 1, 2016

TO: Joseph P. Grindstaff
General Manager

FROM: 
Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Master Trade Contracts Audit & Response

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed an audit of the Agency's Master Trade Contracts. The Master Trade Contracts are groups of contracts pre-established to make procurement of trade services more efficient. IA evaluated compliance with policies and procedures for the establishment of Master Trade Contracts and how work is issued under those contracts. The audit was performed under the authority given by the IEUA Board of Directors and according to the Fiscal Year 2016/17 Annual Audit Plan. Attached is the report with details of the observations and recommendations; Exhibit G includes the department's response.

Audit Objective and Scope

The audit of Master Trade Contracts had several objectives:

- To evaluate compliance with policies and procedures for the establishment of Master Trade Contracts.
- To evaluate how work is issued, verified and approved under Master Trade Contracts.
- To evaluate whether the Master Trade Contract processes follow Agency procurement policies and procedures, other legal requirements and whether they promote fair contracting and good business practices.
- To identify where policies and operations can be made more effective and efficient to ensure that contracts are utilized and monitored as intended.

The Contracts and Facilities Services Department (CFS) administers the Master Trade Contracts. CFS has primary responsibility for the establishing of the Master Trade Contracts.

Water Smart – Thinking in Terms of Tomorrow

Terry Catlin
President

Michael E. Camacho
Vice President

Steven J. Elle
Secretary/Treasurer

Jasmin A. Hall
Director

Paul Hofer
Director

P. Joseph Grindstaff
General Manager

Audit Results – Executive Summary

Overall, CFS provides effective oversight over the establishment and use of the Master Trade Contracts. The attached report provides details of IA's observations and recommendations. Exhibit G contains CFS' response. The bullet points below provide a summary:

- ***The responsibility for proposal evaluations is sometimes handled by an Agency department other than CFS. IA recommends CFS determine the need to retain all supporting document, including the evaluation documents, in their centralized filing system and work with the end-user department to ensure the final contract and the information communicated to the Board of Directors are consistent and agree:*** There are instances where a department other than CFS has the primary responsibility for proposal evaluation and reporting the contract information to the Board. The evaluation process is summarized in the Board letter requesting Board approval, which is filed by CFS in the contract file. The audit noted two instances where a department other than CFS completed the evaluation process and the Board letter. IA noted that the final documents (the contract vs. the Board letter) were not consistent in the information reported. To assist the end-user department, CFS plans to develop a new cover sheet that will summarize the contract terms similar to a checklist and provide a method for summarizing the proposal evaluation process to help ensure the end-user communication to the Board is consistent with the contract.
- ***IA recommends CFS work with the Business Information Department (BIS) to fully utilize the Agency's systems to implement automated controls to ensure that spending on contracts and groups of contracts do not exceed Board approved limits.*** Master Trade Contracts generally have individual limits on contract spending, but in some cases the Board approved dollar limit is for a group of trade contracts as a whole, rather than for each individual contract. Currently the only method available to ensure that the overall limit is not exceeded is to regularly reconcile spending using a separate spreadsheet. CFS is not aware of any ongoing reconciliation to ensure the spending limit is not exceeded. An automated tool would provide an additional control and assurance that spending limits are not exceeded. CFS and BIS should determine the cost benefit of implanting a new control at this time. During the audit, IA noted that the corrosion assessment group of Master Trade contracts were at 88% of the total group maximum Board approved spending limit and the end-user department, nor CFS had not been alerted that spending was reaching the maximum allowed limit. With the Agency's ERP system, users are able to run a report for individual contracts to determine total costs against total contract value. This provides a great tool; however, either the end-user or CFS would have to run the report periodically to monitor spending, as there is no alert that notifies either CFS or the end-user.

- ***In conjunction with the implementation of the Agency's Enterprise Content Management System (ECMS) - Laserfiche, CFS is working with BIS to develop and implement a taxonomy structure for electronic filing and retrieval of contract documents. IA supports and encourages this initiative which will organize and centralize contract documents, facilitate research and access to information, streamline recordkeeping and eliminate multiple copies of the same documents: CFS serves as the Agency's centralized resource of contracting knowledge and expertise, as well as the centralized area to maintain procurement records. With the implementation of the Agency-wide ECMS Laserfiche system, procurement files will be automated making them easily accessible to CSF and designated Agency staff. The goals for Laserfiche are to enhance the filing and storage system, expedite research and eliminate duplicate copies. ECMS Phase I implementation is planned for early 2017.***
- ***IA recommends CFS work with Human Resources and the Executive Management Team to enhance communications with Agency employees, vendors and contractors, about the Agency's ethical responsibilities and expectations regarding procurement activities, as a best practice recommendation and good internal control. Currently, CFS maintains ethical guidelines under the Procurement tab in the Agency's internal website. Additionally, the Agency website refers to the Ethics Resolution under the Ethics Hotline tab which links to the Ethics-Point site, and other related Agency policies. Finally, each year (as part of the required tailgate topics) all Agency employees are required to review the Agency's Ethics Resolution and related Agency policies. In addition to these efforts, IA recommends CFS periodically remind employees and contractors/vendors of the ethical expectations and guidelines specifically with regards to procurement activities. Agency management may also want to incorporate references to the Agency's Ethics Hotline and Ethics Point "FAQs" in that communication. Additionally, as a general best practice, IA recommends CFS staff annually attend ethics training specific to their procurement activities as a way to achieve greater understanding learn new trends related to these topics and then share with Agency employees and contractors/vendors.***
- ***IA recommends CFS consider the benefits of job rotation within the department, in addition to the current practices of cross-training and ensuring coverage during staff absences, and to develop a plan for succession. CFS has recently hired new staff and using the opportunity to cross-train the new employees on various department responsibilities. Rotating procurement responsibilities within the procurement area is a recommended best practice.***

Acknowledgements

We would like to extend our appreciation to the Contracts and Facilities Services Department staff and the Maintenance Department staff for their cooperation and assistance during this audit. Attached to this report is CFS' response to IA's observations and recommendations.

Discussion with Management

We discussed the results of this audit with Warren Green, Manager of Contracts and Facilities Services and Kathleen Baxter, Supervising Contracts and Programs Administrator on August 23, 2016.

TV:ps

cc: Randy Lee, Executive Manager of Operations/Assistant General Manager
Christina Valencia, Chief Financial Officer/Assistant General Manager
Warren Green, Manager of Contracts and Facilities Services
Kathleen Baxter, Supervising Contracts and Programs Administrator

Master Trade Contracts Audit Background

IEUA is responsible for building, improving and maintaining water/wastewater infrastructure in the region. These public works projects require effective and efficient procurement processes for all types of activities from initial construction, to operations, repairs and maintenance. The procurement processes must be able to fulfill responsibilities as broad as constructing a new laboratory or sewage treatment plant to miscellaneous repairs, maintenance and other projects.

In order to streamline and make the procurement process more efficient, IEUA revises its procurement practices from time to time to adopt procurement “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 overall value services, are selected. The current procurement processes utilized at the Agency are:

- Pre-Qualified Contractors for major public works projects above and below a \$2 million dollar threshold (see separate Prequalification Process Audit Report, dated June 8, 2016 for additional information).
- Master Service Contracts for maintenance, repairs and minor construction under \$100,000.
- Master Service Contracts for emergencies, mostly related to construction activities.
- Master Service Contracts for professional services.
- Master Trade Contracts for smaller maintenance and repairs with specific trades that include Corrosion Assessment, Painting, Roofing, Fencing and Asphalt Repair.

This audit focuses on controls over Master Trade Contracts.

Master Trade Contracts

Master Trade Contracts are administered by CFS primarily on behalf of the Maintenance Department (Maintenance). Most of the contracts are limited to a maximum of \$100,000 in services over the contract term and involve a competitive process of pre-selecting contractors in each trade to establish the contracts. The responsibility for the bidding process has varied with the Maintenance occasionally being responsible for the selection rather than CFS. The contracts for the “trade” or “craft” are generally established for a specific amount of time (3 – 5 years) and the not to exceed dollar amount. The current pre-approved list includes a total of 19 contractors in five “trade” or “craft” designations:

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September 1, 2016
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Trade/Craft	Length of Contract	Names of Contractors
Corrosion Assessment	Through 2/28/2017 (one two-year extension available)	HDR Engineering Lockwood, Andrews, Newman Russell Corrosion Consultants V & A Consulting
Roofing	Through 6/30/2021	Rite-Way Roof Corporation Best Contracting Services, Inc. Exbon Development, Inc. Tecta America Southern Calif, Inc.
Fencing	Through 6/30/2021	Moore Fence Company, Inc. Harris Steel Fence Co., Inc. Ferreire Const. Co., Inc. Ace Fence Company
Asphalt	Through 6/30/2021	Terra Pave, Inc. G. M. Sager Construction Co., Inc. Medina Construction EBS General Engineering, Inc.
Painting	Through 6/30/2020	KCC Painting U. S. National Corporation Tony Painting

Additional details for the approved contractors are included at Exhibits A and B.

Internal Audit reviewed transactions in the Agency's accounting system (SAP) to determine how much IEUA had spent on Master Trade Contracts in recent years. This activity is summarized below:

TYPE	CONTRACTOR	# 460000 ...	FY 13/14	FY 14/15	FY 15/16 only to 12/31/15	Total spent since 2013
Corrosion Assessment	HDR Engineering	1622	\$ 20,507	\$ 27,747	\$ 30,316	\$ 78,570
Corrosion Assessment	V & A Consulting	**1614	\$ -	\$ 1,796	\$ 19,156	\$ 20,952
Painting Contractors	KCC Painting	*362/ 1891	\$ -	\$ 29,800	\$ -	\$ 29,800
Painting Contractors	Industrial Coatings	364	\$ 23,598	\$ -	\$ -	\$ 23,598
Roofing	All Weather Roofing	929	\$ 4,241	\$ -	\$ -	\$ 4,241
Roofing	Rite-Way Roofing Corp.	930	\$ 7,373	\$ 2,730	\$ 8,488	\$ 18,591
Fencing	Moore Fence	620	\$ 23,837	\$ 140	\$ 140	\$ 24,117
Fencing	Harris Steel Fence	621	\$ 8,305	\$ 34,100	\$ 48,883	\$ 91,288
Asphalt	Terra Pave	1200	\$ 31,837	\$ -	\$ 4,980	\$ 36,817
TOTALS			\$ 119,698	\$ 96,313	\$ 111,963	\$ 327,974

* KCC Painting Contract # changed from 362 to 1891 due to changes in information received with their W-9.
** In addition to the Master Trade Contract, V & A Consulting also used on a separate project for \$169,874

The total spent utilizing the Master Trade Contracts is less than \$330,000 for the past two and a half years with the largest amounts being spent for corrosion assessment and fencing. While, it appears that reliance on Master Trade Contracts is increasing, with additional contractors placed on the lists and additional usage, it is still only a fraction in comparison to total construction. Construction in progress per the "Budget in Brief" is \$66.1 million for 2015/16 and \$68.6 million for 2016/2017.

In addition to the Master Trade Contracts, V&A Consulting was also used under a separate contract for the inspection of a 72 inch Mixed Liquor pipeline at CCWRF. The total payments for this work amounted to \$169,874. A contract of this magnitude requires Board approval and would generally have been bid among the prequalified contractors under \$2 million. According to E&CM staff the range of specialties on that list did not include any with the expertise in corrosion assessment that the Agency needed. Therefore, staff obtained proposals from the list of corrosion assessment Master Trade contractors which led to V&A Consulting's selection.

IA Evaluation of Master Trade Contracts

IA Evaluation of the Selection Process:

Master Trade Contracts are administered by CFS on behalf of IEUA primarily for use by Maintenance. The Master Trade Contracts were set up to complete multiple small projects with a pool of contractors that could be mobilized quickly using task orders.

The selection process is summarized below:

- Multiple maintenance type trade contractors were solicited by CFS and evaluated by CFS or Maintenance through Requests for Proposal (RFP) processes utilizing an online bidding service.
- Based on the responses to the RFP, contracts were established with multiple responsible bidders.

The department responsible for evaluation of the proposals and for obtaining Board approval has varied from solicitation to solicitation:

Trade/Craft	Length of Contract	Names of Contractors	Department responsible for proposal review and Board Letter
Corrosion Assessment	Through 2/28/2017	HDR Engineering Lockwood, Andrews, Newman Russell Corrosion Consultants V&A Consulting	Operations
Roofing	Through 6/30/2021	Rite-Way Roof Corporation Best Contracting Services, Inc. Exbon Development, Inc. Tecta America Southern Calif, Inc.	Finance & Administration Contracts and Facilities Services
Fencing	Through 6/30/2021	Moore Fence Company, Inc. Harris Steel Fence Co., Inc. Ferreire Const. Co., Inc. Ace Fence Company	Finance & Administration Contracts and Facilities Services
Asphalt	Through 6/30/2021	Terra Pave, Inc. G. M. Sager Construction Co., Inc. Medina Construction EBS General Engineering, Inc.	Finance & Administration Contracts and Facilities Services
Painting	Through 6/30/2020	KCC Painting U.S. National Corporation Tony Painting	Operations Maintenance

To test controls over the RFP process for Master Trade Contracts, IA reviewed the available contract folders maintained by CFS, including the RFP, the control over the bids that were received and the documentation of the selection process for all categories of trade contractors in the most recent rounds of solicitations. The RFP process varied for the different procurements, depending on the trade and who conducted the evaluation.

Asphalt Contractors, Fencing Contractors, Roofing Contractors:

CFS staff administered each of these procurements. In each case CFS issued an on-line solicitation and received four responsive proposals. For each solicitation, CFS staff reviewed the proposals that were received and performed the necessary verifications, including contractor licenses, prevailing wage certification with Department of Industrial Relations (DIR) registration, insurance coverage and reference checks. Since all of the proposals that were received were responsive all of them were included in the recommendation to the Board for contract approval. Per CFS staff, once the contracts were in place the individual contractors would still need to compete on price to be selected to fulfill a particular task order, thus providing an additional level of assurance that IEUA would be obtaining the best value for the services rendered.

IA noted that CFS staff maintain manual files for each contract/vendor. The department does not maintain centralized electronic files and there is no separate master file to keep documentation of the RFP process (evaluation documents, Board Letter, Minutes, etc.). This results in multiple copies of these including Board reports, minutes, etc. being placed in each individual contract file. IA reviewed these files and noted that there was manual documentation to support the steps of the RFP process (evaluation and scoring documents, etc.). IA noted that documentation describing the reasoning used to support the selection of all the submitted proposals is summarized in the Board letter. Since none

of the proposals was eliminated, the overall selection justification was the responsiveness of the proposals that were received.

Painting Services:

Maintenance administered this procurement. IA noted that nine painting contractors were listed on an evaluation spreadsheet. Six were newly submitted proposals to the RFP and one was a proposal from an existing contractor (KCC Painting). The other two remaining existing contractors from the prior solicitation were also included for comparison although they did not submit new proposals. From this list of nine potential painting contractors, three were chosen to be on the new Master Trade Contractors list.

Maintenance used a spreadsheet to summarize and evaluate 10 criteria areas and information about each contractor:

- Overall record
- Years of experience of personnel
- Staffing plan
- References
- Availability of crews
- Exceptions
- Amount of equipment owned
- Responsiveness to proposal requirements
- Fees/Discount
- Comments

Three maintenance staff members documented their top four selections from the nine painting contractors under consideration; three had submitted proposals: KCC Painting, U.S. National Corp. and Tony Painting. The fourth was an existing painting contractor, Industrial Coating. According to Maintenance staff, although the existing contractors were on the list for comparison, they could not have been selected without a proposal, therefore only three painting contractors were presented to the Board. Additionally, in describing the proposals that had been received, the communication to the Agency's Board (Board Letter) inadvertently left off one of the possible painting contractors.

Corrosion Assessment:

Maintenance administered this procurement. This is a newly established category of Master Trade Contracts as of 2014 and CFS believes it will not remain an ongoing part of the Master Trade Contracts since the corrosion assessment process has a limited time frame. CFS issued an on-line solicitation and received four responsive proposals. Maintenance and CFS staff reviewed the proposals that were received and performed the necessary verifications, including contractor licenses, DIR registration, insurance coverage and reference checks. Since all of the proposals that were received were responsive, all of them were included in the recommendation to the Board for contract approval. Per CFS staff, once the contracts were in place the individual contractors would still need to compete on price to be selected to fulfill a particular task order, thus providing an additional level of assurance that IEUA would be obtaining the best value for the services rendered.

Unlike the other Master Trade Contracts, the corrosion assessment contracts are not bound by a \$100,000 maximum or a five year term. Instead, the communication to the Board (Board Letter) states that the group of contractors as a whole will “perform corrosion and condition assessment services for the Agency’s physical assets for a total not-to-exceed amount of \$240,000 over a three-year period.” Additionally the Board Letter states that the “resulting contracts offer an option of two, one-year extensions”, although the actual contracts provide for one two-year extension.

IA Observations & Recommendations

CFS provides valuable service to the Agency in standardizing contracting procedures and ensuring compliance with procurement laws and regulations. CFS are the Agency’s subject matter experts on contracting and procurement laws, rules and ethics. The observations and recommendations noted below are intended to enhance the fulfillment of those responsibilities and the operations of the department.

Contract and Contractor Evaluation Documentation

Observation: IA’s review noted that the proposal evaluation process and the retention of evaluation documents (scoring sheets, etc.) for the Master Trade Contracts vary by the nature of the services being requested and by the Department completing the evaluation. There does not appear to be a uniform methodology for the completion of a proposal evaluation which is reasonable given the different types of services needed. In addition, when a department other than CFS has been responsible for requesting approval from the Board (Board Letter) for a group of Master Trade Contracts, the communication to the Board has been incomplete or was not entirely in agreement with the contract terms. CFS was primarily responsible for evaluating the proposals for Asphalt, Roofing and Fencing services, whereas the Operations and Maintenance Department was primarily responsible for evaluating the proposals for Painting and Corrosion Assessment. IA noted that in instances where CFS was not primarily responsible for the communication to the Board of Directors (Board Letter), the Board Letter differed from the signed contract or did not list all of the proposing contractors. CFS indicated that the proposal process for routine types of contracts are best managed by CFS, but if specialized knowledge is required the responsible department is best equipped to evaluate proposals, and therefore request Board approval. Additionally, CFS agrees the Board letter should reflect the contract. To assist the end-user department, CFS plans to develop a summary cover sheet as a checklist for the project managers to follow to ensure all final communications are consistent.

Recommendation #1:

IA recommends that even in instances where a different department has primary responsibility for the proposal evaluation process, CFS work with the end-user department to ensure the information communicated to the Board of Directors accurately reflects the signed contract terms. Additionally, CFS should determine

the need to request from the evaluating department the evaluation documentation, or a staff memo summarizing the selection process and have it available/filed.

CFS Response: CFS indicated that in an effort to assist the end-user department, they plan to prepare a one-page contract overview checklist document that summarizes the primary and other significant contract terms and provides options to check-off. This will provide a summarized record that can ensure that CFS and the responsible department are in agreement with the contract terms and conditions. This document will simplify the Board Letter preparation process, can provide a place for documentation of the evaluation process and can also include reminders to reinforce ethical contracting practices.

Approved Contract Spending Limits

Observation: There is a need for controls that warn the contract administrators and/or the end-user department when total contract spending is near the approved limit to ensure limits are not exceeded. IA recommends CFS work with the Business Information Department (BIS) to fully utilize the Agency's systems to implement automated controls that ensure that spending on contracts and groups of contracts do not exceed Board-approved limits. However, there are instances where the limits vary or are set on the group of contracts instead of the individual contract, complicating the oversight and monitoring of spending. Currently, the only method available to ensure that the overall limit is not exceeded is to regularly reconcile spending using a separate spreadsheet. IA did not note any instances where the total contract spending amount went over the approved limit. However, it was noted that the contracts for corrosion assessment did not set a limit on spending within the individual contract; instead, an overall limit of \$240,000 was established for the entire group of contractors regardless of how much was incurred for an individual contractor. At the time of the audit, the limits had not been exceeded, but the Corrosion Assessment contracts had incurred \$211,500 or 88% of total spending; approaching the maximum Board-approved limit of \$240,000 and was unknown to the administrators or the end-user department. There is no periodic reconciliation either manually with the use of a spreadsheet or an automated control in place to monitor total spending or warn the contract administrator when total spending is nearing.

It has been CFS' practice that all multi-year contracts be taken to the Board for approval. However, the terms may vary and those limits are set by the CFS administrator, as there is no consistent Agency policy or procedure on the appropriate limits. In the case of corrosion assessment, however, the only limit is in the Board letter for the entire group of contractors, there are not set limits within the individual contract documents.

CFS noted that all contractors in a particular trade are invited to bid on any task order that comes up. This helps ensure that the lowest prices are obtained for the Agency. With a contractor based contractual dollar limit a lower priced contractor might be precluded from bidding on a task order if their individual limit had been reached (even though the overall limit for this trade for the Agency has not been exceeded).

Recommendation #2:

IA recommends that CFS work with BIS to research built-in tools within SAP to implement automated controls necessary to ensure that spending on contracts and groups of contracts do not exceed Board approved limits and determine the cost benefit of implementing those monitoring tools.

CFS Response: CFS indicated that they have requested tools of this type from BIS. However, BIS and CFS must work together to determine the cost-benefit of implementing these controls and plan accordingly. CFS agrees with IA that these controls are important and will work with BIS to determine their feasibility or determine whether other third-party automated solutions are available.

Document Filing Procedures

Observation: CFS is establishing its taxonomy structure within the Agency's new Enterprise Content Management System (ECMS) to automate contract records to ensure records are centrally located and maintained, easily accessible and streamlined to avoid duplicate copies and records. IA supports CFS efforts to fully utilize Agency technology to automate contract records.

CFS currently maintains separate manual contract folders by contractor with information related to the RFP process their proposal relates to and only for the contractors that were awarded contracts. Each folder includes information about the RFP, the Board report, Board minutes and similar information. Therefore, for RFP's such as Master Trade Contracts where more than one contractor is selected, multiple copies of the same documents are copied and maintained in various hard-copy folders. Many of these documents are available electronically. Additionally, there is no separate consolidated file that documents the overall selection process for each such procurement.

When CFS administers the procurement, CFS maintains electronic files for some of the contract documents; however, CFS staff noted that these are segregated by individual and not accessible department-wide. Currently departmental contract files are limited to the manual, hard-copy folders.

CFS should serve as the Agency's centralized resource of contracting knowledge and information and should ensure all procurement files are retained. CFS is in the process of implementing the new ECMS called Laser-fiche, presenting opportunities for process changes. The first phase of this implementation is expected to be completed by January 2017.

Having access to an automated departmental filing system of contracts, proposals and proposal evaluation information, prevailing wage certifications, reference checks and insurance verifications, contract history, contracted continuing responsibilities, department checklists and other information provides the possibility for cross-department knowledge, information and skills. It can also be used as a contract evaluation, management and oversight tool as well as to expedite needed research, public records requests, etc.

Recommendation #3:

IA supports and encourages the initiative to fully implement the Agency's Enterprise Content Management System (ECMS) - Laserfiche. CFS should continue to work closely with BIS to implement the Agency's ECMS - Laserfiche to assist with the organization and centralizing of contract documents, facilitate research and access to information, streamline recordkeeping and eliminate multiple copies of the same documents.

CFS response: CFS is an enthusiastic supporter of the ECMS effort and is looking forward to implementing the electronic tools as they become available. Phase one implementation is scheduled for 2017.

Procurement Activities

Observation: CFS should work closely with Human Resources and the Executive Management Team to enhance communications about the Agency's expectations of ethical responsibilities expected of all Agency employees, vendors and contractors, with regards to procurement activities to actively foster an ethical procurement environment. Currently, CFS maintains ethical guidelines under the Procurement tab in the Agency's internal website (See Exhibit C). Additionally, the Agency website refers to the Ethics Resolution under the Ethics Hotline tab which links to the Ethics-Point site, and each year (as part of the required tailgate topics) all Agency employees are required to review the Agency's Ethics Resolution and policy.

CFS discussed the importance of fostering an ethical environment with IA and noted that this is an ongoing responsibility for everyone at the Agency. As an example, CFS noted that something as simple as leftover supplies and materials such as paint or asphalt resulting from a task order belong to the Agency. Allowing a contractor to use these elsewhere or take possession of them could constitute a gift of public funds. For reasons such as this, IA recommends CFS take a greater role in actively communicating and encouraging an ethical procurement environment.

The Agency has in the past provided annual reinforcement and notifications to employees about ethical guidelines. This was discontinued several years ago. It is a best practice to reinforce this "tone at the top" and a good internal control to embed these ethical expectations as part of the Agency's culture.

Recommendation #5:

IA recommends that CFS enhance communications about the Agency's ethical procurement responsibilities and expectations to all Agency employees as well as Agency vendors and contractors to actively foster an ethical procurement environment. CFS should consider creating an ethics outreach plan and developing an approach with Agency Executive Management and Human Resources about reinforcing the "tone at the top" to actively remind employees and contractors/vendors about the Agency's ethical expectations including once-again providing annual notifications of ethical guidelines to vendors and staff.

Agency management may also want to incorporate references to the Agency's Ethics Hotline and Ethics Point "FAQs" in that communication.

CFS response: CFS indicated that although they understand the importance of this responsibility, they do not have enforcement powers in the way that the Human Resources department has. CFS suggested that this sort of communication may be regarded more seriously coming from a source with the responsibility of setting the "tone at the top" such as Executive Management or the Board of Directors. CFS will take the lead to develop an approach in collaboration with Human Resources and Executive Management.

Recommendation #6:

IA recommends CFS staff attend annual training related to ethics in their respective procurement activities.

CFS response: CFS is committed to the highest standards in having a high-quality, well-trained professional staff that stays current in their professional development.

Job Rotation & Cross-training

Observation: CFS staff serve as subject matter experts for individual contracting areas; however, cross-training and job rotation is a best practice internal control. Existing staff have been assigned specific contractual responsibilities based upon their areas of expertise, backgrounds and the relationships they have developed with different IEUA departments. CFS staff mentioned that each individual serves as an expert in their particular contracting responsibilities. To the extent that job rotation occurs it is limited to "covering" another staff member's desk when they are on vacation, sick or out for other reasons. IA enquired about job rotation as a training tool and as an internal control feature. CFS noted that additional contracts administrators had been hired recently and the department is actively cross-training the new staff. IA suggests that CFS consider the potential benefits of job rotation within the CFS department.

Recommendation #6: In addition to the cross-training that is already occurring, IA suggests that CFS consider the potential benefits of job rotation within the CFS department as a training and internal control technique with multiple benefits.

CFS response: CFS concurs with the benefits associated with job rotation and will plan accordingly.

ANALYSIS OF TRANSACTIONS

The clusters of contractors in various trades has been maintained to allow for rapid completion of small, one-time projects and maintenance items through the use of task orders that do not fall under the responsibility of Construction Management. The task orders are for smaller dollar amounts. The pre-approved list includes a total of 19 contractors in five designations: Corrosion Assessment, Roofing, Fencing, Asphalt Repair and Painting. There is also an additional category for Electrician Support at the Inland Empire Regional Composting Facility (IERCF).

In order to analyze the utilization of contractors in the Master Trade Contracts category, IA examined transactions posted to SAP for these contractors over the last several years. The full year total spending for Master Trade Contracts in fiscal 2013-2014 was about \$120,000 and in fiscal year 2014-2015 about \$96,000 and the largest amount to an individual contractor was \$34,000 for fencing. Additionally one contractor also performed services under a separate contract (V&A Consulting for approximately \$170,000). Spending for Master Trade Contracts for the current fiscal year amounts to \$112,000 for half a year with close to half of that spending going to fencing once again. Overall, however, the amounts in total and individually by year are not significant and are spread among multiple contractors. Based on this review of payments, the utilization of master trade contractors is functioning as intended.

The detailed results of the transaction analysis are included as Exhibit B.

**EXHIBIT A:
INLAND EMPIRE UTILITIES AGENCY
LIST OF CURRENT MASTER TRADE CONTRACTORS**

SPECIALTY	CONTRACTOR	CONTRACT #	BOARD APPROVAL	EXPIRATION
Corrosion Assessment	HDR Engineering	4600001622	3/19/2014	2/28/2017
	Lockwood, Andrews, Newman	4600001616	3/19/2014	2/28/2017
	Russell Corrosion Consultants	4600001617	3/19/2014	2/28/2017
	V & A Consulting	4600001614	3/19/2014	2/28/2017
Roofing	Rite-Way Roof Corporation	4600002065	3/16/2016	6/30/2021
	Best Contracting Services, Inc.	4600002074	3/16/2016	6/30/2021
	Exbon Development, Inc.	4600002078	3/16/2016	6/30/2021
	Tecta America Southern Calif, Inc.	4600002073	3/16/2016	6/30/2021
Fencing	Moore Fence Company, Inc.	4600002066	3/16/2016	6/30/2021
	Harris Steel Fence Co., Inc.	4600002069	3/16/2016	6/30/2021
	Ferreire Const. Co., Inc.	4600002070	3/16/2016	6/30/2021
	Ace Fence Company	4600002071	3/16/2016	6/30/2021
Asphalt	Terra Pave, Inc.	4600002067	3/16/2016	6/30/2021
	G. M. Sager Construction Co., Inc.	4600002075	3/16/2016	6/30/2021
	Medina Construction	4600002076	3/16/2016	6/30/2021
	EBS General Engineering, Inc.	4600002077	3/16/2016	6/30/2021
Painting	KCC Painting	4600001946	8/19/2015	6/30/2020
	U. S. National Corporation	4600001949	8/19/2015	6/30/2020
	Tony Painting	4600001947	8/19/2015	6/30/2020

**Exhibit B:
Analysis of Transaction Activity**

TYPE	CONTRACTOR	#	BEGIN	TERM END	13 - 14	14 - 15	15 to 12/31	#
Corrosion Assessment	HDR Engineering	1622	3/19/2014	2/28/2017	\$ 20,507	\$ 27,747	\$ 30,316	9
Corrosion Assessment	Lockwood, Andrews, Newman	1616	3/19/2014	2/28/2017	\$ -	\$ -	\$ -	
Corrosion Assessment	Russell Corrosion Consultants	1617	3/19/2014	2/28/2017	\$ -	\$ -	\$ -	
Corrosion Assessment	V & A Consulting	1614	3/19/2014	2/28/2017	\$ -	\$ 1,796	\$ 19,156	4
Electr. Support (IERCF)	Southern Contracting Co.	1894	6/5/2015	6/30/2017	IERCF is a separate entity; per CFS \$15,944 has been incurred on contract			
Electr. Support (IERCF)	Pacific Winds Building	1893	6/9/2015	6/30/2017	IERCF is a separate entity; per CFS \$0 has been incurred on contract			
Electr. Support (IERCF)	Tamang Electric	1887	6/9/2015	6/30/2017	IERCF is a separate entity; per CFS \$11,680 has been incurred on contract			
Painting Contractors	KCC Painting	*362/ 1891	2/6/2009	6/30/2015	\$ -	\$ 29,800	\$ -	1
Painting Contractors	KCC Painting	1946	8/19/2015	6/30/2020	\$ -	\$ -	\$ -	
Painting Contractors	JFP Company	363	2/18/2009	6/30/2016	\$ -	\$ -	\$ -	
Painting Contractors	Industrial Coatings	364	2/4/2009	6/30/2015	\$ 23,598	\$ -	\$ -	2
Painting Contractors	Tony's Painting	1947	8/19/2015	6/30/2020	\$ -	\$ -	\$ -	
Painting Contractors	U.S. National Corp.	1949	8/19/2015	6/30/2020	\$ -	\$ -	\$ -	
Roofing	All Weather Roofing	929	6/13/2011	6/30/2015	\$ 4,241	\$ -	\$ -	1
Roofing	Rite-Way Roofing Corp.	930	6/13/2011	6/30/2015	\$ 7,373	\$ 2,730	\$ 8,488	5
Roofing	Rite-Way Roofing Corp.	2065	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Roofing	Best Contracting Services, Inc.	2074	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Roofing	Exbon Development, Inc.	2078	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Roofing	Tecta America Southern Calif., Inc.	2073	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Fencing	Moore Fence	620	4/14/2010	6/30/2015	\$ 23,837	\$ 140	\$ 140	7
Fencing	Moore Fence	2066	3/16/2016	6/30/2021	n/a	n/a	\$ -	
Fencing	Harris Steel Fence	621	4/14/2010	12/31/2015	\$ 8,305	\$ 34,100	\$ 48,883	5
Fencing	Harris Steel Fence	2069	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Fencing	All Cities Fence & Const.	622	4/14/2010	6/30/2014	\$ -	\$ -	\$ -	
Fencing	Ferreire Const. Co., Inc.	2070	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Fencing	Ace Fence Company	2071	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Asphalt	Terra Pave	1200	7/5/2012	8/31/2015	\$ 31,837	\$ -	\$ 4,980	2
Asphalt	Terra Pave	2067	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Asphalt	Vance Corp.	1201	7/5/2012	5/1/2014	\$ -	\$ -	\$ -	
Asphalt	Laird Construction	1202	7/5/2012	5/1/2014	\$ -	\$ -	\$ -	
Asphalt	Golden Arrow	1203	4/30/2012	5/1/2014	\$ -	\$ -	\$ -	
Asphalt	G.M. Sager Construction Co., Inc.	2075	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Asphalt	Medina Construction	2076	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
Asphalt	EBS General Engineering	2077	3/16/2016	6/30/2021	n/a	n/a	n/a	n/a
TOTALS (not including IERCF)					\$ 119,698	\$ 96,313	\$ 111,963	

* KCC Painting Contract # changed from 362 to 1891 due to changes in information received with their W-9.

**Exhibit C:
Purchasing Ethics from Contracts and Facilities Services web-page**

Purchasing Ethics

- **Refrain from soliciting or accepting money, loans, credit, or prejudicial discounts, and the acceptance of gifts, entertainment, favors, or services from present or potential suppliers which might influence purchasing decisions. (Reference Agency Policy No. [A-28](#))**
- **Agency employees or immediate relatives are not to utilize discounts offered to the Agency nor utilize their position with the Agency to obtain discounts or concessions from Agency suppliers for their personal purchases. (Reference Agency Policy No. [A-28](#))**
- **Refrain from any private or professional business activity which might create a conflict between your personal interests and the interests of the Agency.**
- **Avoid situations which could be viewed as compromising the Agency's interests.**
- **Follow the lawful instructions of the Agency and use reasonable care to expend Agency funds in a fiscally-prudent manner, within the authority granted.**
- **Purchase without prejudice seeking to obtain the maximum benefit from each dollar expended and ensure adequate and fair competition to all responsible suppliers.**
- **Promote positive supplier relationships by showing impartiality, fairness, honesty, and courtesy to all current and potential suppliers.**
- **Consider the ethical and legal consequences when handling proprietary or confidential information of the Agency and its suppliers.**
- **Eliminate all forms of illegal discrimination, fraud, and mismanagement of Agency funds and support coworkers in their responsible efforts to correct such abuses.**

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

CONTRACT TYPE & PRIMARY RESPONSIBILITY:		Major Public Works Contracts over \$2 Million (E & CM)	Major Public Works Contracts under \$2 Million (E & CM)
QUALIFICATION PROCESS	REQUEST FOR QUALIFICATIONS	New "Request for qualifications" for each contract to establish a minimum group of qualified bidders.	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.
BID/PROPOSAL APPROACH	INVITATION FOR BID or REQUEST FOR BID (Agency must accept lowest responsible bid)	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 "pre-qual" list are solicited through an "Invitation for Bid".
	REQUEST FOR PROPOSAL (Agency may select based on additional pre-established criteria)	N/A	N/A; however Agency may also request proposals through online bidding network in addition to using the prequalified contractors.
CONTRACT	CONTRACT	New contract established with lowest responsible bidder.	New contract established with lowest responsible bidder.
AUTHORIZATION TO PAY/PAYMENT PROCESS	PAY ESTIMATE	Work proceeds and payment is based on milestones or percentage of completion.	Work proceeds and payment is based on milestones or percentage of completion.
	NOT TO EXCEED QUOTE FOLLOWED BY TASK ORDER	N/A	N/A
	TASK ORDER	N/A	N/A
	INVOICE BASED ON CONTRACT TERMS	N/A	N/A

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

**EXHIBIT E:
 INLAND EMPIRE UTILITIES AGENCY
 EMERGENCY PROCUREMENTS**

CONTRACT TYPE & PRIMARY RESPONSIBILITY:		Emergency Procurements Level 1 (E & CM)	Emergency Procurements Level 2 (E & CM)	Emergency Procurements Level 3 (E & CM)
QUALIFICATION PROCESS	REQUEST FOR QUALIFICATIONS	N/A	N/A	N/A
BID/PROPOSAL APPROACH	INVITATION FOR BID (IFB) or REQUEST FOR BID (RFB) (Agency must accept lowest responsible bid)	N/A	N/A	N/A
	REQUEST FOR PROPOSAL (RFP) (Agency may select based on additional pre-established criteria)	Maintenance, minor construction & emergency procurement contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted when emergency occurs.	Maintenance, minor construction & emergency procurement contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted when emergency occurs.	Maintenance, minor construction & emergency procurement contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted when emergency occurs.
CONTRACT	CONTRACT	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.
AUTHORIZATION TO PAY/PAYMENT PROCESS	PAY ESTIMATE	N/A	N/A	N/A
	NOT TO EXCEED QUOTE FOLLOWED BY TASK ORDER	N/A	N/A	Select 3 responders to a "job-walk" at site of emergency and responders provide "not to exceed" bid.
	TASK ORDER	With Level 1 emergency, IEUA selects 1 st response to e-mail blast and contractor must be on-site within 2 hours. Task order prepared after work completed.	With Level 2 emergency, IEUA selects 1 st response to e-mail blast and contractor must be on-site within 24 hours. Task order prepared after work completed.	Lowest responsible bid accepted & "task order" provided once work starts.
	INVOICE BASED ON CONTRACT TERMS	Payment based on invoice.	Payment based on invoice.	Payment based on invoice.

**EXHIBIT F:
 INLAND EMPIRE UTILITIES AGENCY
 MAINTENANCE & MINOR CONSTRUCTION, PROFESSIONAL SERVICES
 AND MASTER TRADE CONTRACTS**

CONTRACT TYPE & PRIMARY RESPONSIBILITY:		Maintenance & Minor Construction (E & CM)	Professional Services (CFS)	Master Trade Contracts (CFS)
QUALIFICATION PROCESS	REQUEST FOR QUALIFICATIONS	N/A	N/A	N/A
BID/PROPOSAL APPROACH	INVITATION FOR BID (IFB) or REQUEST FOR BID (RFB) (Agency must accept lowest responsible bid)	N/A	N/A	N/A
	REQUEST FOR PROPOSAL (RFP) (Agency may select based on additional pre-established criteria)	Maintenance, minor construction & emergency procurement contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors contacted for maintenance & minor construction projects.	Professional services contractors have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted for professional services projects.	Trade contractors (Roofing, Fencing, Painting, Asphalt) have been "pre-qualified" through an "RFP" process. RFP used because no individual discrete project has been established. This group of contractors is contacted if "Trades" type project comes up (usually maintenance department).
CONTRACT	CONTRACT	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.	Based on the "RFPs", contracts have been established with multiple responsible bidders with "not to exceed" totals.
AUTHORIZATION TO PAY/PAYMENT PROCESS	PAY ESTIMATE	N/A	N/A	N/A
	ON-CALL	N/A	Generally select one professional services contractor in the relevant specialty to perform the necessary task based on a phone call or e-mail.	N/A
	NOT TO EXCEED QUOTE FOLLOWED BY TASK ORDER	Generally set-up a "job-walk" at site of project; responders provide "not to exceed" bid.	N/A	Provide a "job-walk" at site of project and responders provide "not to exceed" bid.
	TASK ORDER	Lowest responsible bid accepted & "task order" provided once work starts.	N/A	IEUA accepts the lowest responsible bid and provides a "task order" to start work.
	INVOICE BASED ON CONTRACT TERMS	Payment based on invoice.	Payment based on hours/services invoice.	Payment based on invoice.

**Exhibit G – page 1: Response from Contracts and Facilities Services
INLAND EMPIRE UTILITIES AGENCY**

MEMORANDUM

DATE: August 23, 2016

TO: Teresa V. Velarde
Manager of Internal Audits

FROM: Warren T. Green
Manager of Contracts and Facilities Services

Kathleen Baxter
Supervising Contracts & Programs Administrator

SUBJECT: MASTER TRADE CONTRACTS AUDIT

Thank you for meeting with us today to discuss the draft of the subject audit. CFS management and supervision concurs with the audit and recommendations with the updated language proposed in the review meeting. CFS management and staff appreciate the opportunity to work with Internal Audits to strengthen the Agency's internal controls while identifying ways to promote efficiencies and effectiveness in the Agency's business practices. As in previous audits, the Internal Audit team has again demonstrated their professionalism and desire to identify best practices and ensure that Agency contracts and procurements adhere to the highest standards within the Department's area of responsibility.

In response to the items identified within the report CFS staff offer the following comments.

The Master Contract Program increases efficiencies in our business processes and minimizes risk to the Agency by having terms, conditions and insurances in place for the respective master contracts. Due to the different types of master contracts and the resulting scopes of work, the anticipated Agency spend is used to establish the contract's dollar threshold. As the trade/craft master contracts have multiple contracts associated with each trade, the spending threshold is spread across the group of contracts rather than an individual set amount per contract. This creates a limitation within the SAP system for capture of total spend for each type of trade/craft. Tracking without an automated tool would have to be a manual tracking utilizing a spreadsheet software like Excel. This could be inefficient for staff as there have been no instances of contracts exceeding the threshold under CFS control. However, CFS will work with the BIS to identify the possibility of developing an automated tracking and total spend capture across contracts. This would include an automated internal control to flag the accumulated contracts spend when nearing the Board authorized threshold for a specific group of trade contracts.

Exhibit G – page 2: Response from Contracts and Facilities Services

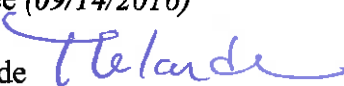
As discussed, CFS will develop a cover sheet to summarize the term and authorized spend of each contract, to easily compare against the Board letter for the customer department preparing the Board letter. This should assist to ensure there is consistency between the Board letter and the contract terms.

The ECMS project currently underway (Laserfiche) will address the centralized capture of contract information, including solicitation and evaluation documentation in one central repository. This will reduce redundant information as well as provide for efficient retrieval of information when needed.

As CFS management and staff along with IA have a common interest and concern to ensure that the Agency and its staff are fulfilling its fiduciary responsibilities, maintaining the integrity of spending public funds, as well as mitigating any perception of conflicts of interest or unethical behavior, CFS will enhance the Agency's communication to both vendors and staff about ethical practices when conducting business with the Agency. Additionally, CFS staff will participate in ethics training specific to the contracts and procurement arena.

Lastly, CFS will evaluate and implement a cross-training and job rotation protocol among the CFS staff for best practice and greater efficiencies for succession planning and work coverage.

**INFORMATION
ITEM
2B**

Date: September 21, 2016
To: The Honorable Board of Directors
Through: Audit Committee (09/14/2016)
From: Teresa V. Velarde 
Manager of Internal Audit
Subject: Internal Audit Department Status Report for September 2016

RECOMMENDATION

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

BACKGROUND

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

On June 15, 2016 the Board of Directors approved the Annual Audit Plan for Fiscal Year 2016/17.

IMPACT ON BUDGET

None

**Internal Audit Department
Status Report for September 2016**

Projects Completed This Period

Audit: Master Trade Contracts Audit & Qualification Process for not-to-exceed Contracts subject to Task Orders

Scope:

To evaluate the Agency's Master Trade Contracts and the qualification process used to establish not-to-exceed contracts subject to task orders for groups of trade contractors and to ensure these follow the required Agency policies and procedures and ensure controls exist that enforce proper contracting and procurement for transactions.

Status: COMPLETE

The audit evaluated the processes and controls in place to qualify Agency Contractors for minor repairs and maintenance in various "trades" used by IEUA for corrosion assessment, roofing, fencing, painting and asphalt services. The audit examined how work is distributed under the contracts and finally, the audit examined the amount of work issued under master trade contracts in FYS 2013/14, 2014/15 and through December 31, 2015 of FY 2015/16.

Overall, Contracts and Facilities Services Department and the Maintenance Department provide effective oversight over the evaluation process of potential contractors and over the establishment and use of Master Trade Contracts. The final report is included under a separate cover and provides full details of IAs observations and recommendations.

On-going Projects

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. IA continues to assist Management, analyze data, attend meetings upon request related to the implementation of recommendations and moving forward with the renegotiation of the contract. IA will continue to stay involved as requested and required.

Status: IN PROGRESS

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

Internal Audit Department Status Report for September 2016

Project: Management Requests

Scope:

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

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

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

- Continue to be involved with possible collection of the identified uncollected Connection Fees.
- Participate in implementation of Enterprise Content Management System.
- Assist departments with interpretation of Agency's Policies.

Audit: Follow up Review: Information Technology Equipment – FAD

Scope:

IA is in the process 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 will require follow-up evaluation. 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 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. 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), whether or not acquired as part of a capital project. IA will be discussing with FAD 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 are no reconciliation processes in place to validate existence and completeness of these assets.

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

Internal Audit Department Status Report for September 2016

Internal Audit Department

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 FMLA 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.

In June, 2016 the Manager of Internal Audit and one Senior Internal Auditor attended the annual 1-day Southern California Conference of the Institute of Internal Auditors. During the past quarter, IA staff has also 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, December 14, 2016 – Regularly Scheduled Audit Committee Meeting
- Wednesday, March 15, 2017 – Regularly Scheduled Audit Committee Meeting