



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

**MONDAY, JUNE 12, 2017
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 6, 2017.

B. FISCAL YEAR (FY) 2017/18 ANNUAL AUDIT PLAN

It is recommended that the Committee/Board

1. Approve the FY 2017/18 Annual Audit Plan; and
2. Direct the Manager of Internal Audit to finalize the FY 2017/18 Annual Audit Plan.

2. INFORMATION ITEMS

**A. FOLLOW-UP REVIEW – HUMAN RESOURCES
(WRITTEN/POWERPOINT)**

- B. 2017 PETTY CASH AUDIT AND FOLLOW-UP REVIEW
(WRITTEN/POWERPOINT)
 - C. WATER USE EFFICIENCY PROGRAMS AUDIT
(WRITTEN/POWERPOINT)
 - D. INTERNAL AUDIT DEPARTMENT STATUS REPORT FOR JUNE 2017
(WRITTEN)
 - E. AUDIT PLANNING COMMUNICATION AS REQUIRED BY SAS 114
(WRITTEN/POWERPOINT)
 - F. AUDIT COMMITTEE FINANCIAL ADVISOR - REQUEST FOR
PROPOSAL PROCESS (WRITTEN)
- 3. GENERAL MANAGER'S COMMENTS
 - 4. COMMITTEE MEMBER COMMENTS
 - 5. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS
 - 6. CLOSED SESSION
 - A. PURSUANT TO GOVERNMENT CODE SECTION 54956.9(d)(4)
CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION;
INITIATION OF LITIGATION
One (1) Case
 - 6. ADJOURN

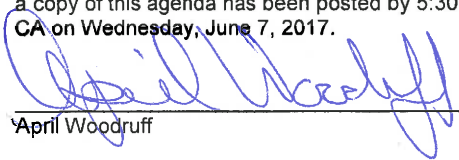
*A Municipal Water District

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

Proofed by: 

DECLARATION OF POSTING

I, April Woodruff, Board Secretary/Office Manager 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 Wednesday, June 7, 2017.


April Woodruff

**ACTION
ITEM**

1A



**MINUTES
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
WEDNESDAY, MARCH 6, 2017
9:00 A.M.**

COMMITTEE MEMBERS PRESENT

Kati Parker, Chair
Steven J. Elie

COMMITTEE MEMBERS ABSENT

None

STAFF PRESENT

P. Joseph Grindstaff, General Manager
Christina Valencia, Chief Financial Officer/AGM
Sally Lee, Acting Executive Assistant
Teresa Velarde, Manager of Internal Audit
Peter Soelter, Senior Internal Auditor
Sapna Nangia, Senior Internal Auditor
Javier Chagoyen-Lazaro, Manager of Accounting & Fiscal Management
Jason Gu, Grants Officer

OTHERS PRESENT

Travis Hickey, Audit Committee Advisor

The meeting was called to order at 9:09 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 14, 2016 with Director Elie abstaining.

Recommended that the Board:

- ◆ Approve the Single Audit Report for FY 2015/16; and
- ◆ Direct staff to distribute the report as appropriate, to the State Controller's Office, the Federal Audit Clearing House, and other interested parties.

as a Consent Item on the March 15, 2017 Board meeting agenda.

Recommended that the Board:

- ◆ Reconfirm the Audit Committee and the Internal Audit Department Charters; and

Audit Committee

March 6, 2017

Page 2

- ◆ Direct staff to continue to implement the Audit Committee and the Internal Audit Department Charters.

as a Consent Item on the March 15, 2017 Board meeting agenda.

INFORMATION ITEMS

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

- ◆ Report on the Audit Function
- ◆ Report of Open Audit Recommendations
- ◆ Internal Audit Department Status Report for March 2017

GENERAL MANAGER'S COMMENTS

The General Manager had no comments.

COMMITTEE MEMBER COMMENTS

There were no Committee Member comments.

COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

With no further business, the meeting adjourned at 10:28 a.m.

Respectfully submitted,


Sally Lee
Acting Executive Assistant

*A Municipal Water District

APPROVED: JUNE 12, 2017

**ACTION
ITEM**

1B

Date: June 21, 2017
To: The Honorable Board of Directors
Through: Audit Committee (06/12/17)
From: Teresa V. Velarde 
Manager of Internal Audit
Subject: FY 2017/18 Annual Audit Plan

RECOMMENDATION

It is recommended that the Board of Directors:

1. Approve the FY 2017/18 Annual Audit Plan; and
2. Direct the Manager of Internal Audit to finalize the FY 2017/18 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.

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 assessed risks, level of priority, and/or requests by the Board, Audit Committee and/or Executive Management. The Annual Audit Plan will be used as a *guide* in selecting the audits. The Audit Plan is not a concrete plan. The Institute of Internal Auditors (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 quarterly status reports and Audit Plan amendments when required.

FY 2017/18 Annual Audit Plan

In addition to several on-going projects, the major audit projects scheduled for FY 2017/18 are the following listed below, additional details are included in the attached Annual Audit Plan:

- **Reserve Obligations**
To evaluate whether the Agency complies with all legal and regulatory requirements of maintaining the required and/or necessary reserve balances and if balances are invested or available as mandated by those reserve obligation requirements/policies.
- **Inter-Fund Transfers**
To evaluate whether the Agency complies with all legal and regulatory requirements over inter-fund transfers and whether transfers are documented appropriately and recorded accurately in the Agency's financial statements.
- **Payroll and Time System**
To evaluate adequate internal controls and authorizations are in place with Payroll and Time System (myPT). With the implementation of the Payroll and Time system to streamline the current time, payroll and leave processes, it is now appropriate for an audit/review to ensure adequate internal controls are in place and proper authorizations were provided and continue to be in place and are working effectively. Additionally, to identify any areas for improvement. IA will review to ensure time and leave are logged according to the different MOU requirements and Agency policies. Also, to review and determine that the appropriate deductions are made as required.
- **Wire Transfers and Electronic Disbursements**
To evaluate that adequate segregation of duties exists for electronic disbursements to ensure that no one person has the sole 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. There are many risks associated with electronic payments and disbursements; an audit of this area will test and evaluate internal controls, including policies and procedures. This audit area has been recommended by the External Auditors due to the increase in scrutiny over government movies and due to recent news reports where controls have failed at other agencies. Due to responses required for other priority audit projects, the Wire Transfers and Electronic Disbursements Audit was delayed from the originally scheduled date in FY 2016/17.
- **Follow-up Reviews to Evaluate the Status of Outstanding Recommendations**
IA is required to follow up on the status of outstanding recommendations to determine if corrective actions were implemented. Follow up audit work may include detailed testing and verification by IA. A separate report is issued once a status is determined. There are 82 outstanding audit recommendations that relate to 13 different audits. Of the 82 recommendations, 31 relate to the Regional Contract Review, which are planned for implementation through the renegotiation of the Regional Contract.

The Annual Audit Plan also provides a vision of future/possible audit projects and 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 requested audit projects or an audit from the following:

- Accounts Payable – Credit Cards and P-Cards
- Duplicate Payments/Late Payments/Fees and Penalties
- Data Analytics
- Travel Expenses and Policy Compliance
- Water Connection Fee
- Capital Projects
- Various or Other Agreements
- Telephone Expense
- Bid and Selection Process for Construction Contracts
- Asset Management
- Operations
- Recycled Water Program & Revenue

The FY 2017/18 Annual Audit Plan was developed using a general assessment, best practice recommendations, auditor judgment, feedback from Agency management, and the Audit Committee, as well as other considerations such as:

- 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

The Audit Plan and Risk Assessment are based on Section 2010 Planning and 2010.A1 of the 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.
- **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.

The Annual Audit Plan is consistent with the *Agency's Business Goals* of *Fiscal Responsibility, Workplace Environment* and *Business Practices* by proposing a plan of audit projects where the objective is to foster a strong control environment and evaluate compliance with Agency policies and procedures and provide independent evaluations of Agency financial and operational activities and suggesting recommendations for improvements and assisting in the achievement of organizational goals.

PRIOR BOARD ACTION

On March 15, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

IMPACT ON BUDGET

Only when 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
2017-2018**

Internal Audit Department Annual Audit Plan

Submitted by:
Teresa V. Velarde
Manager of Internal Audit Department
June 21, 2017

The Annual Audit Plan and plan of audit projects is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by ensuring that audits and recommendations evaluate and promote a strong control environment and assist management in achieving organizational goals.

Annual Audit Plan Contents

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Purpose of the Internal Audit Department

According to 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.

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 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 2017/18 Annual 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 presented to the Audit Committee.

FY 2017/18 Annual Audit Plan:

Reserve Obligations

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

Inter-Fund Transfers

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

Payroll and Time System

To evaluate adequate internal controls and authorizations are in place with Payroll and Time System (myPT). With the implementation of the Payroll and Time system to streamline the current time, payroll and leave processes, it is now appropriate for an audit/review to ensure adequate internal controls are in place and proper authorizations were provided and continue to be in place and are working effectively. Additionally, to identify any areas for improvement. IA will review to ensure time and leave are logged according to the different MOU requirements and Agency policies. Also, to review and determine that the appropriate deductions are made as required.

Wire Transfers and Electronic Disbursements

To evaluate that adequate segregation of duties exists for electronic disbursements to ensure that no one person has the sole 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. There are many risks associated with electronic payments and disbursements, an audit of this area will test and evaluate internal controls, including policies and procedures. This audit area has been recommended by the External Auditors due to the increase in scrutiny over government movies and due to recent news reports where controls have failed at other agencies. Due to responses required for other priority audit projects, the Wire Transfers and Electronic Disbursements Audit was delayed from the originally scheduled date in FY 2016/17.

Follow-up Reviews to evaluate the status of outstanding recommendations

As required by the Charters and audit standards, IA will follow up on the status of outstanding recommendations to determine if corrective actions or alternate internal controls were implemented. Follow-up reviews are scheduled as noted in the chart that follows on Page 9.

On-Going Projects for FY 2017/18

- ❖ 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
- ❖ Continue to participate with the Enterprise Content Management System (ECMS) Committee, Safety Committee and the Technology/Cybersecurity Committees.
- ❖ Provide needed support related to audit topics, internal controls, Agency policies and procedures 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 AIM 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

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. Below is a table of the Outstanding Recommendations:

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Payroll Audit	August 24, 2010	1	Annually
Intercompany Receivables - Watermaster	August 30, 2011	1	FY2018
Contracts and Procurement Follow-Up	August 29, 2012	2	FY2018
SCE Utility Payments	August 28, 2013	3	FY2018
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
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2019
Master Trade Contracts	September 1, 2016	6	FY 2019
Master Service Contracts	December 14, 2016	3	FY 2019
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2019
Total Recommendations		51	
Recommendations related to the Regional Contract Review			
Regional Contract Review – Final Audit Report	December 16, 2015	31	Pending – Renegotiation of the Regional Contract
Total Recommendations Outstanding of March 15, 2017		82	

**See the Report of Open Recommendations under separate cover submitted March 2017 and attached to this Plan.*

The table above does not include the recommendations reviewed and issued in 2017, as the audit reports have not been received and filed with the Board of Directors. The table that follows this report lists all outstanding recommendations as of June 2017, which includes the recommendations issued in 2017.

During FY 2016/17, IA reviewed and verified the implementation status of 13 open recommendations related to 3 different audits. The list reports there are 82 open recommendations, 17 recommendations relate to audits completed recently and 31 relate to the Regional Contract Review, which was the primary objective of IA's projects during FY 2015/16 when 10 audit reports were issued in less than 18 months. Because all audit resources were utilized primarily for this effort, follow-up activities were temporarily on hold. Audit guidelines suggest that an adequate amount of time be granted to provide auditees with sufficient time to implement corrective action plans. Follow-up audit work for some of the open recommendations will be incorporated and completed along with the proposed projects. 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.

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.

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 that transactions do not bypass the required procurement processes.

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

Duplicate Payments/Late Payments/Fees and Penalties

This area was covered during the previous 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.

Data Analytics

Fully utilize existing technology to gather additional data and analytical information to assist auditing. In addition, explore and expand utilizing new technology and tools to build and customize dashboards, reports and other analytics tools to assist with audit reviews and monitoring of transactions in various areas, such as payments, payroll, contract payments, etc.

Travel Expenses and Policy Compliance

Review Agency policies and internal controls as they relate to employee travel expenses and reimbursements to ensure adequate procurement methods are followed and policy requirements for appropriate reimbursements are followed.

Water Connection Fee

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

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.

Various or Other Agreements

Evaluate the variety of special and/or other types of agreements the Agency may have with other agencies or vendors that may or may not be formalized under an official Agency 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.

Telephone Expense

The Agency pays for telephone services provided by 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
- Evaluate whether 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.

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.

Recycled Water Program – Revenue

Recycled water revenue in FY 2015/16 is almost \$13.5 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.

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 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 acts to reduce the impact** and likelihood of an adverse event, including control activities in response to a risk.

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 2017/18 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

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.

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 2017/18, IAD will perform internal assessments of the IAD. An external assessment by an independent reviewer is planned for FY 2018/19. Results will be presented and discussed at the regularly scheduled Audit Committee meetings.

**Outstanding Audit Recommendations
as of June 1, 2017**

Audit Performed	Rec #	Internal Audit Recommendation	Target 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.	The Executive Management Team and HR continue to work closely with legal counsel to determine the need for updates to the Resolution. Any updates are planned for December 2017. IA will continue to follow-up on this item.
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.	Finance and Accounting stated they will implement the billing requirement to bill in advance of each quarter as required by the contract. The Department requires additional time to implement this recommendation. IA will verify that this process has been implemented during follow-up evaluation planned for FY 2018.
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.	Consistent with the soft recommendation provided by the External Auditor prior to 2016, IA also recommends there should be adequate segregation of duties. Contracts and Procurement stated that with recent retirements and new hires the conflict will be resolved and eliminated. IA will verify during follow-up evaluation planned for FY 2018.
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.	Contracts implemented this added procedure during our audit. IA will verify the practice continues during follow-up evaluation of randomly selected files, a review is planned for FY 2018.
SCE Utility Payments August 28, 2013	1	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 will verify during follow-up evaluation planned for FY 2017.

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as of June 1, 2017**

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
SCE Utility Payments August 28, 2013	2	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 will verify during follow-up evaluation planned for FY 2017.
SCE Utility Payments August 28, 2013	3	CAP personnel should take the lead in working with the responsible Agency personnel to make the necessary updates to Agency policies A-32 (Authority to Contractually Commit the Agency) and A-33 (Request and Evaluation of Proposals), and department specific SOP's.	IA will verify during follow-up evaluation planned for FY 2017.
Accounts Payable Follow-Up Audit August 29, 2013	1	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	2	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	3	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	4	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	5	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	6	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.
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.

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Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
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 SOPs 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.

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Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Vehicle Inventory Procedures March 12, 2014	1	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. 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.
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.

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Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
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.
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.

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Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Regional Contract Review - Final Report December 16, 2015	Overall	Consider legal, political and financial impacts of governing by ordinance vs. contract	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	Overall	Review and revise EDU formula	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
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	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	1	Connection Fees: Centralize the permitting process OR IEUA provides final sign-off and plumbing permit approval for all nonresidential entities.	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	2	Connection Fees: IEUA should establish monitoring program to inspect random facilities and those were there is a suspected discrepancy	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	3	Connection Fees: Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	4	Connection Fees: Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	5	Connection Fees: Two tier connection fees process that distinguishes between common features and unique features (i.e., a toilet always costs the same regardless of type of business)	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	6	Connection Fees: Update Exhibit J regularly to include new/evolving business types	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	7	Connection Fees: Update & clarify Fixture Unit descriptions of Exhibit J regularly	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	8	Connection Fees: Standardize calculation worksheet to ensure it is consistent with Exhibit J and consistent region-wide	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	9	Connection Fees: IEUA should require copies of calculation worksheets for all nonresidential customers along with the monthly Building Activity Reports.	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	10	Connection Fees: Regular workshops, meetings, plant tours, etc. with staff in Building, Plan Check and Utility Billing/Financial Departments	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	11	Connection Fees: IEUA develop fixture count expertise and provide regular/ongoing training for Contracting Agencies - Building Departments	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.

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Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Regional Contract Review - Final Report December 16, 2015	12	Connection Fees: Contracting Agency internal review of Connection Fees as part of preparing the Building Activity Report	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	1	Monthly Sewerage: Collect monthly sewerage fees for the entire region through County's property tax roll	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	2	Monthly Sewerage: Evaluate methodology used for billing monthly sewerage fees (residential and commercial) and consider alternatives by water consumption, EDUs purchased or other methodology	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	3	Monthly Sewerage: Standardize monthly report to provide IEUA automated, itemized listings of non-residential monthly sewerage charges	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	4	Monthly Sewerage: Establish contract for monthly sewerage payments from Contracting Agencies rather than IEUA issuing monthly invoices	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	5	Monthly Sewerage: IEUA exercise inspection, verification and recourse rights for under-collected/under-reported monthly sewerage fees	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	6	Monthly Sewerage: Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	7	Monthly Sewerage: Update 1997 billing memorandum regularly for new business types to provide detailed definitions and descriptions	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	8	Monthly Sewerage: Create a correlation between monthly sewerage fees and Connection Fees	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	9	Monthly Sewerage: Add billing guidance for locations with multiple types of businesses serviced by a master meter	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	10	Monthly Sewerage: Bill commercial businesses at least a minimum of one EDU per month	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	1	Public Service Facility: Consider legal, political and financial impacts of excluding Public Service Facilities from Connection Fees and monthly sewerage charges.	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	2	Public Service Facility: Consider legal, political and financial impacts of IEUA assuming responsibility for Connection Fees calculations, collections and CCRA accounts	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	3	Public Service Facility: Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.

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Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Regional Contract Review - Final Report December 16, 2015	4	Public Service Facility: Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	5	Public Service Facility: Address difference between "Publicly Owned" vs. "Publicly Used"	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	6	Public Service Facility: Consider cross-departmental approach to the development review process as a regional model	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
IT Equipment August 21, 2012 (February 29, 2016 Follow-Up)	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.
IT Equipment November 14, 2012 (February 29, 2016 Follow-Up)	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.
Master Trade Contracts, dated September 1, 2016	1	IA recommends that even in instances where a difference department has primary responsibility for the proposal evaluation process, CFS work with the end-user department to ensure the information is 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.	Both CAP and CM stated they would begin steps to implement. IA to verify during a future follow-up evaluation.
Master Trade Contracts, dated September 1, 2016	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.	Both CFS and BIS stated they would work together to evaluate implementation. IA to verify during a future follow-up evaluation.
Master Trade Contracts, dated September 1, 2016	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.	Both CFS and BIS stated they would work together to evaluate implementation. IA to verify during a future follow-up evaluation.
Master Trade Contracts, dated September 1, 2016	4	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 stated they would research the best approach and begin steps for implementation. IA to verify during a future follow-up evaluation.

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Master Trade Contracts, dated September 1, 2016	5	IA recommends CFS staff attend annual training related to ethics in their respective procurement activities.	CFS reported that all staff attended ethics training related to procurement activities shortly after the audit and will plan to attend training annually. IA to verify during a future follow-up evaluation.
Master Trade Contracts, dated September 1, 2016	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 stated that they would evaluate and determine the need for rotation since currently there have been various retirements and changes. IA to verify during a future follow-up evaluation.
Audit of Master Service Contracts, dated December 14, 2016	1	Emergency projects are classified according to three levels. Level 3 emergencies are the least urgent and the work can be scheduled on a time-table set by the Agency. E&CM and CFS should consider establishing clear criteria that differentiate between a "Level 3" emergency procurement and routine minor construction and repairs procurements and/or determine and document whether the "Level 3" designation is necessary.	CM stated they would begin implementation. IA to verify during a future follow-up evaluation.
Audit of Master Service Contracts, dated December 14, 2016	2	To ensure that the Agency communicates sufficient information about emergency procurement activity, E&CM and CFS should consider developing and providing a comprehensive monthly update of emergency procurements for the Board. The information to consider could include the current month emergency procurement activity and a year-to-date total. It may also be useful to compare current year-to-date emergency procurement activity in dollars and numbers of task orders to prior years and to the total budget. Trends can be analyzed and comparisons can be made to ensure that the Agency's infrastructure is well maintained and emergency procurements are kept to a minimum.	CM stated they would begin implementation. IA to verify during a future follow-up evaluation.
Audit of Master Service Contracts, dated December 14, 2016	3	To ensure that contracts for Repairs and Minor Construction operate as intended, E&CM and CFS should consider developing specific criteria and/or additional guidance and definitions about what constitutes repairs or minor construction as compared to projects for prequalified contractors for contracts less than \$2 million. An additional control would be to consider establishing dollar maximums within the contract or the group of contractors to provide assurance that the contracts are being utilized as intended and spending is constrained.	CM stated they would begin implementation. IA to verify during a future follow-up evaluation.
IT Equipment August 21, 2012 (December 5, 2016 Follow-Up)	15	FMD should implement adequate controls to ensure that the stated capitalization policy for IT equipment is consistently followed to ensure that all items meeting the capitalization threshold are capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
IT Equipment August 21, 2012 (December 5, 2016 Follow-Up)	17	FMD should implement adequate controls to ensure that asset records established in SAP are accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that only those items allowed by the capitalization policy are capitalized.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.

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IT Equipment August 21, 2012 (December 5, 2016 Follow-Up)	19	FMD should return incorrect or incomplete Project Closure Authorization Forms to the Project Manager for proper completion. FMD should also provide training to Project Managers on the importance of proper completion and instructions on completing the form.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
IT Equipment August 21, 2012 (December 5, 2016 Follow-Up)	22	FMD should document Standard Operating Procedures to address the functions of setting up capital assets such as procedures for completing the SAP asset information, compliance with stated capitalization thresholds, and processing of Project Closure Authorization Forms.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
Follow-Up Review - Information Technology Equipment Audit, dated December 5, 2016	1	FAD should take the lead to ensure a physical inventory and inspection of the Agency's IT fixed assets is completed on a periodic basis to verify existence, location, and working condition of assets.	FAD agrees with IA and the External Auditors recommendation and would evaluate implementation. IA to verify during a future follow-up evaluation.
Follow-Up Review - Information Technology Equipment Audit, dated December 5, 2016	2	FAD should evaluate the Agency's current capitalization thresholds for IT equipment and determine if these need to be increased to ensure current practice meets policy and are consistent with current trends.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review dated May 31, 2017	1	FAD should reinforce the guidelines of the petty cash fund, including custodian responsibilities and internal controls over petty cash accountability and record-keeping.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review dated May 31, 2017	2	FAD should consider updating the "Monthly Mileage Log and Reimbursement Request" to add a designated signature area for when the petty cash funds are utilized as a reimbursement for mileage.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review dated May 31, 2017	3	FAD should take the lead to communicate changes to the Petty Cash policy and forms immediately after implementation, to ensure employees understand the policy and utilize the updated forms.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review dated May 31, 2017	4	Petty cash custodians should only accept the appropriate forms and inform the requestor of the most appropriate procurement methods if the requestor's petty cash request does not conform to Agency policies.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review dated May 31, 2017	5	FAD should take the lead to review and determine if the Petty Cash limit of \$50 is adequate or if it should be updated (increased or decreased), or determine if there is a threshold that will require Executive Manager/General Manager authorization (i.e., anything over \$50).	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review dated May 31, 2017	6	Human Resources and FAD should work together to formally document or communicate the policy on the purchase and gifting of Gift Cards to ensure compliance with Federal requirements. The policy should be communicated to all Agency employees and be reminded periodically.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review dated May 31, 2017	7	Human Resources and FAD should continue to work with the appropriate personnel in making revisions and updates to the following Agency policies that relate to cash reimbursements and controls: A-75 Employee Recognition Rewards Program, A-68 Meal Reimbursement and Unscheduled Overtime, and A-34 Vehicle Maintenance.	IA to verify during a future follow-up evaluation.

Audit Committee

**INFORMATION
ITEM
2A**

Date: June 21, 2017
To: The Honorable Board of Directors
Through: Audit Committee (06/12/17)
From: Teresa V. Velarde 
Manager of Internal Audit
Subject: Follow-Up Review - Human Resources

RECOMMENDATION

This is an information item for the Board of Directors.

BACKGROUND

Internal Audit (IA) has completed the Follow-Up evaluation of the one remaining outstanding recommendation for the Human Resources (HR) department according to the Fiscal Year 2016/17 Annual Audit Plan. The Internal Audit Department Charter requires that IA perform follow-up evaluations to determine the progress made to implement recommendations provided in previous audits.

In July 2007, IA finalized the first HR Operations Audit, where the audit scope included to determine whether HR provides effective support to Agency employees, ensures compliance with required rules and policies and provides training programs. The original audit found opportunities to improve in the areas of performance appraisals, reports provided to management and the Board, conducting surveys and trainings, recruiting cycle, documentation retained, and written department procedures. The 2007 audit provided 30 recommendations to assist HR in achieving its goals. IA conducted follow up evaluations in 2010 and 2012 to determine if recommendations had been implemented or alternate internal controls had been adopted. As of 2012, one recommendation remained outstanding.

During the 2017 follow-up review, IA verified the status of the one open recommendation, which has now been implemented. The recommendation required that HR document formal department-specific Standard Operating Procedures (SOPs) for the various administrative activities of the department.

The audit found that HR has now documented approximately 22 SOPs for the various functions of Safety and administrative procedures handled by the HR department. SOPs now exist for the accurate processing of the various medical, dental, and insurance invoices. Additionally,

procedures were documented for processing specific personnel documents with sensitive employee information such as the Personnel Fact Sheet which documents pay and position changes, the Merit Review Report, and the Position Control Report as well as processing background checks. Additional SOPs were documented for the many important administrative duties of the department. Attachment 1 of the report that follows provides a list of the SOPs.

Documented procedures lay the foundation for a strong internal control framework because they provide guidance and the minimum expectations for carrying out the many administrative tasks of the department. The written procedures are especially helpful during staff absences or changes and serve as a training tool and manual for other staff to ensure the continuity of the services and the required activities are accurately carried out in a timely manner. SOPs also provide a benchmark for evaluating employees.

The attached report provides details of the review.

The Follow-Up review is consistent with the *Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices* by ensuring that the recommendations foster a strong control environment, and assist management in achieving organizational goals.

PRIOR BOARD ACTION

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

On March 15, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Charter.

IMPACT ON BUDGET

None.



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

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www.ieua.org

DATE: May 24, 2017

TO: P. Joseph Grindstaff
General Manager


FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Follow-Up Review – Human Resources

Audit Authority

This follow-up review was performed under the authority provided by the Inland Empire Utilities Agency (IEUA or Agency) Board of Directors. The Internal Audit (IA) Department's Charter and the Annual Audit Plan require that IA follow up on the status of audit recommendations to determine if corrective actions were implemented. IA completed a follow-up review of the one remaining outstanding recommendation related to the Human Resources Operations Audit.

Audit Objective, Scope, and Results

The purpose of this follow-up review was to evaluate the implementation status for the one outstanding recommendation from the 2012 follow-up audit, which has now been implemented. The recommendation required that HR document formal department-specific Standard Operating Procedures (SOPs) for the various administrative activities of the department. IA did not expand the scope of the review to evaluate additional areas or operations within the HR Department, further reviews will be scheduled through the Board approved Annual Audit Plan. The attached report provides details of our review.

Acknowledgements

We would like to extend our appreciation to HR staff for their cooperation and assistance during this follow-up review.

Discussions with Management

We provided the results of this follow-up review to Sharmeen Bhojani, Manager of HR, and Blanca Arambula, Deputy Manager of HR on May 4, 2017, for their review and comments prior to finalizing this report.

Water Smart – Thinking in Terms of Tomorrow

Steven J. Elie
President

Michael E. Camacho
Vice President

Jasmin A. Hall
Secretary/Treasurer

Paul Hofer
Director

Kati Parker
Director

P. Joseph Grindstaff
General Manager

Background

The Human Resources (HR) Department is responsible for providing effective and efficient support to Agency Management and staff for: recruitment and retention, benefits and training programs, safety and worker's compensation, application and administration of the various bargaining units Memorandum of Understanding and Personnel Manuals, and compliance with State and Federal laws and regulations.

The original HR Operations Audit report was issued in July 2007 and provided a total of 30 recommendations to assist the HR department in achieving its mission and goals. In May 2010, a follow-up review was completed to assess the implementation status of the original 30 recommendations. The 2010 follow-up audit report found that 23 recommendations had been implemented, six recommendations were in progress, and one recommendation was no longer applicable. Furthermore, IA identified 10 new recommendations. Thus, after the first follow-up review in 2010, 16 recommendations remained outstanding.

In June 2012, IA performed a second follow-up audit and found that of the 16 outstanding recommendations, 13 recommendations had been implemented and three recommendations were no longer applicable, and provided one new recommendation.

The recommendations provided in the 2007 and 2010 audit reports, which have been fully implemented, relate to improving monitoring controls over performance appraisals, evaluating the different appraisal categories given to employees on the different appraisals, reviewing exempt categories to ensure these are consistent with legal definitions and job assignments, conducting periodic employee surveys, improving orientation and training programs as well as hiring time frames and recruitment efforts, and other administrative related recommendations including documenting Standard Operating Procedures (SOPs), all of which HR has implemented. HR related audits will be scheduled through the Annual Audit Plan when deemed necessary or requested.

This report provides an update on the one outstanding recommendation, which follows:

2012 Follow-up recommendation # 1: Standard Operating Procedures

Document standard operating procedures according to Agency Policy A-51 to address the many administrative practices/activities of the department.

Status: Implemented

During the 2007 original and 2010 follow-up audits, IA found that the HR Department did not have documented procedures/checklists for the various administrative practices for the staff. The original recommendations provided by IA were made during the implementation of the Agency's Enterprise Resources Planning (ERP) system, which would result in changes to some administrative processes. In the 2012 follow-up audit

report, IA consolidated the original recommendations and restated/clarified into one new recommendation (**2012 Follow-up recommendation #1**).

Documented procedures are the foundation of good internal controls to ensure consistency and accuracy in applying those procedures. SOPs serve as a training tool and manual for other staff, as well as an evaluation tool to measure performance. The purpose of SOPs is to ensure there are documented processes during staff absences, staffing changes, and for cross-training to ensure the continuity of the services provided by HR. Without SOPs, there is the risk that procedures will be incorrectly applied and/or not reflect current business practice. Department SOPs are part of the Agency's internal control framework and a recommended best practice.

During this follow-up evaluation, HR finalized several SOPs in the areas of handling the various medical, dental, and insurance invoice processing. These procedures will provide guidance to ensure the accuracy of those required billings. Additionally, procedures were documented for processing specific personnel documents with employee sensitive information such as the personnel Fact Sheet, the Merit Review Report, and the Position Control Report as well Background checks. HR currently has documented approximately 22 SOPs related to Safety and other HR related functions. Written procedures serve as a manual for training and ensure consistency in processes and procedures as well as a tool to evaluate employee performance.

Agency Policy A-51 Standard Operating Procedures requires that all department-specific SOPs be formatted in the prescribed form for Agency consistency. Based on our review, HR has documented its SOPs, however, the SOPs are not in the format outlined and described in A-51 (effective November 11, 2013). IA suggests that in the near future, HR document its SOPs in the format prescribed by Agency Policy A-51.

IA recommends that HR review its SOPs from time to time to ensure they are up-to-date, added as required, consistent with the current business practices, and reflect the format outlined in accordance with Agency Policy A-51. All SOPs should be made available to the employees in the department.

IA commends the HR department for implementing all the recommendations provided since the 2007 audit and documenting their department SOPs. For a list of the HR's department SOPs, refer to **Attachment 1**.

TV:sn

cc: Christina Valencia, CFO/AGM
Sharmeen Bhojani, Manager of Human Resources
Blanca Arambula, Deputy Manager of Human Resources

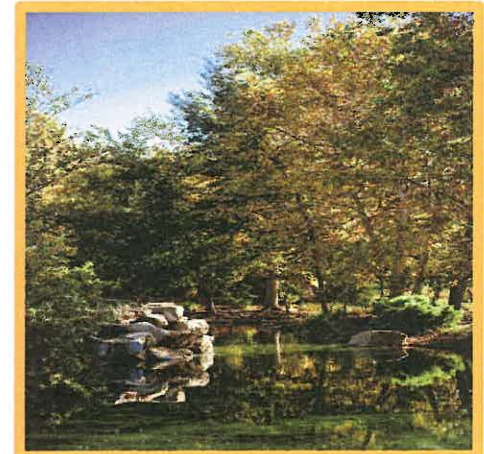
Attachment 1

**Human Resources Department
 Table – List of all Standard Operating Procedures as of March 2017**

Procedure Number	Procedure Name	Status
HR4-01	Processing Workers' Compensation Claims (Rev. 3/5/03)	Safety/WC
HR4-02	Review of Contract, Lease, Purchase Order, or Agreement Insurance Documents (Rev. 3/25/03)	Safety/WC
HR4-03	Processing Claims Filed Against the Agency (Rev. 3/25/03)	Safety/WC
HR4-04	Verification of Employee Driving Records (Rev. 2/7/04)	Safety/WC
HR4-05	Proctoring Applicant Examinations	No Longer Applicable
HR4-06	PERS Health Insurance Invoice Processing	Finalized
HR4-07	Delta Dental Insurance Invoice Processing	Finalized
HR4-08	Western Dental Insurance Invoice Processing	Finalized
HR4-09	Recruitment Advertising (Rev. 2/1/05)	No Longer Applicable
HR4-10	Temporary Employment Services (Rev. 2/1/05)	No Longer Applicable
HR4-11	(Eyemed) Vision Plan Invoice Processing	Finalized
HR4-12	Standard Life Insurance Invoice Processing	Finalized
HR4-13	Employee Support Systems Co. (ESSCO) Invoice Processing	No Longer Applicable
HR4-14	Insurance Reconciliation Processing	No Longer Applicable
HR4-15	Workers' Compensation Quarterly Report (Rev. 2/20/04)	Safety/WC
HR4-16	Maintenance of Training Records (Rev. 2/24/04)	No Longer Applicable
HR4-17	Processing Personnel Action Fact Sheet	Finalized
HR4-18	Merit Review Report Update and Distribution (Rev. 3/2/04)	Finalized
HR4-19	Position Control Report Update and Distribution (Rev. 3/24/03)	Finalized
HR4-20	New-Hire Background Checks	Finalized
HR4-21	IEUA/DOT Random Substance Testing (Rev. 2/20/04)	Safety/WC
HR4-22	MSDS (Materials Safety Data Sheets) Maintenance & Distribution (Discontinued)	Safety/WC
HR4-23	IFAS Payroll Changes (Rev. 3/2/04)	No Longer Applicable
HR4-24	Legal Aid	No Longer Applicable
HR4-25	Employment Separation Procedure (Rev. 5/10/05)	Finalized
HR4-26	Notification of Relative of Employees who are seriously or fatally Injured at Work (Rev. 5/10/05)	Safety/WC
HR4-27	New/Reclassified Employee Notification Form	Finalized
HR4-28	From 1-9, Employment Eligibility Verification	Finalized
HR4-29	New Hire Processing	Finalized
HR4-30	Employee Requests to Review Personnel Files	Finalized

Note: The HR Department determines the SOPs they would like to document, maintain, update, revise, finalize, and/or no longer applicable. The current status of each SOP was provided by HR. Any SOP that has Safety/WC (Worker's Compensation) listed in the Status column is outside the scope of IA's review.

Follow-Up Review – Human Resources



Follow-Up Review – Human Resources

Highlights of HR initiatives as a result of the 2007 original audit and the 2010/2012 FU audits:

- Performance Evaluation categories
- Recruiting program
- SOPs

Follow-Up Review – Human Resources

Human Resources Department
Table – List of all Standard Operating Procedures as of March 2017

Procedure Number	Procedure Name	Status
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HR4-02	Review of Contract, Lease, Purchase Order, or Agreement Insurance Documents (Rev. 3/25/03)	Safety/WC
HR4-03	Processing Claims Filed Against the Agency (Rev. 3/25/03)	Safety/WC
HR4-04	Verification of Employee Driving Records (Rev. 2/7/04)	Safety/WC
HR4-05	Proctoring Applicant Examinations	No Longer Applicable
HR4-06	PERS Health Insurance Invoice Processing	Finalized
HR4-07	Delta Dental Insurance Invoice Processing	Finalized
HR4-08	Western Dental Insurance Invoice Processing	Finalized
HR4-09	Recruitment Advertising (Rev. 2/1/05)	No Longer Applicable
HR4-10	Temporary Employment Services (Rev. 2/1/05)	No Longer Applicable
HR4-11	(Eyemed) Vision Plan Invoice Processing	Finalized
HR4-12	Standard Life Insurance Invoice Processing	Finalized
HR4-13	Employee Support Systems Co. (ESSCO) Invoice Processing	No Longer Applicable
HR4-14	Insurance Reconciliation Processing	No Longer Applicable
HR4-15	Workers' Compensation Quarterly Report (Rev. 2/20/04)	Safety/WC
HR4-16	Maintenance of Training Records (Rev. 2/24/04)	No Longer Applicable
HR4-17	Processing Personnel Action Fact Sheet	Finalized
HR4-18	Merit Review Report Update and Distribution (Rev. 3/2/04)	Finalized
HR4-19	Position Control Report Update and Distribution (Rev. 3/24/03)	Finalized
HR4-20	New-Hire Background Checks	Finalized
HR4-21	IEUA/DOT Random Substance Testing (Rev. 2/20/04)	Safety/WC
HR4-22	MSDS (Materials Safety Data Sheets) Maintenance & Distribution (Discontinued)	Safety/WC
HR4-23	IFAS Payroll Changes (Rev. 3/2/04)	No Longer Applicable
HR4-24	Legal Aid	No Longer Applicable
HR4-25	Employment Separation Procedure (Rev. 5/10/05)	Finalized
HR4-26	Notification of Relative of Employees who are seriously or fatally injured at Work (Rev. 5/10/05)	Safety/WC
HR4-27	New/Reclassified Employee Notification Form	Finalized
HR4-28	Form 1-9, Employment Eligibility Verification	Finalized
HR4-29	New Hire Processing	Finalized
HR4-30	Employee Requests to Review Personnel Files	Finalized

Note: The HR Department determines the SOPs they would like to document, maintain, update, revise, finalize, and/or no longer applicable. The current status of each SOP was provided by HR. Any SOP that has Safety/WC (Worker's Compensation) listed in the Status column is outside the scope of IA's review.

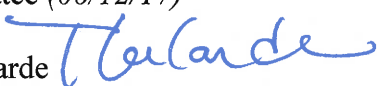


The End Questions or Comments?

The Follow-Up review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by ensuring that the recommendations foster a strong control environment, and assist management in achieving organizational goals.

Audit Committee

**INFORMATION
ITEM
2B**

Date: June 21, 2017
To: The Honorable Board of Directors
Through: Audit Committee (06/12/17)
From: Teresa V. Velarde 
Manager of Internal Audit
Subject: 2017 Petty Cash Audit & Follow-Up Review

RECOMMENDATION

This is an information item for the Board of Directors.

BACKGROUND

Internal Audit (IA) completed an unannounced audit of the Board-approved petty cash funds, along with a Follow-Up review of the five outstanding recommendations from the 2013 audit. The Petty Cash Audit was scheduled in the Fiscal Year 2016/17 Annual Audit Plan.

The unannounced petty cash audit was performed on April 4, 2017. The overages and shortages identified were not significant/material in nature and will be resolved according to the procedures outlined by the Finance and Accounting Department (FAD). The 2017 Petty Cash audit noted that funds were generally accounted for and expenditures appeared reasonable; however, the audit identified instances of non-compliance with the current Agency policies and regulations that require further attention. IA provides seven recommendations to improve internal controls and processes.

IA reviewed petty cash transactions for the period from July 1, 2015 to March 31, 2017, (after the date that the newest Petty Cash policy was implemented and through the most current date at the time of our review). For the 21-month period reviewed, approximately \$23,000 in petty cash reimbursements were paid to employees.

The audit identified instances where the Petty Cash Policy was not followed or enforced as summarized in the bullet points below, the attached audit report provides details of the findings and recommendations:

Petty cash reimbursements are for small incidental expenses and limits are set to ensure other Agency approved procurement methods are employed and to limit the number of times the fund needs to be replenished. Each box has an assigned amount approved by the Board. Over the years, IA has recommended to either increase the fund assignment amount if the level of expenses/reimbursements warrant the need for additional funds, or to ensure policy guidelines are enforced to limit certain reimbursements. Currently the petty cash fund assignments are as follows:

Location	Amount
HQA	\$1,250
HQB	\$400
RP1	\$600
IERCF	\$300

Agency policies set the foundation for strong internal controls. Additionally, Agency policies are documented to help guide the behavior and actions of employees. Policies help promote and foster healthy internal controls. Agency Policy A-02 Petty Cash, provides the criteria used to evaluate the program. During the petty cash audit, auditors noted the following:

- Non-compliance with Petty Cash Policy/Other policy:

The audit found instances where the items purchased were for Agency-related expenses; however, reimbursements exceeded the \$50 maximum reimbursable amount using Petty Cash funds; therefore, not in compliance with the policy and should have been reimbursed or paid for with alternate approved procurement methods:

- Found 26 instances where reimbursements were processed for amounts above the maximum allowed petty cash reimbursement of \$50. The current policy does not allow reimbursements over the \$50 limit. Prior to December 2014, the policy allowed for reimbursements above \$50 only with Executive Manager approval; however, the policy no longer allows reimbursements above \$50 and employees can request a check reimbursement or if appropriate, use the Agency Credit Card or Procurement Card.
- Found 2 instances where the reimbursement was split to fall below the maximum amount allowed of \$50. In each of the two instances, the audit found 2 receipts to the same retailer, on the same date, same time and for the same purpose and each was slightly under the \$50 limit. The transactions were split to circumvent the reimbursable amount with Petty Cash; however, the employee could have submitted a check request for the reimbursement.
- The audit revealed that Petty Cash funds were used to purchase 12 gift cards in the amount of \$20 each to various vendors, totaling \$240. Current Agency Policy A-75 Employee Recognition Rewards Program, states that gift cards can be one of the rewards given for exemplary work accomplishments. A-75 was last updated in 2005 and currently it is unclear if awarding employee's gift cards is an allowable Agency practice. IRS guidelines require gift cards to be reported as income to the

employee. The gift cards have not been reported as regular income to the employees who received them. It is important for Agency policies to be reviewed periodically to ensure they are up to date. A formal and documented policy on the purchase and distribution of gift cards is necessary to ensure the Agency complies with Federal regulations.

- Training/Reinforcement on Policies and Procedures:

Based on the results of the audit, additional training and reinforcement of the Agency's policies and guidelines for petty cash is required, specifically as they relate to the custodian responsibilities, internal controls, accountability, and record-keeping. Agency employees should also be made aware of the appropriate use of Petty Cash funds.

FAD, as well as each custodian, should remind employees of the policy and controls to safeguard Petty Cash funds and suggest they assist requestors to seek other Agency approved procurement methods for transactions that exceed a petty cash transaction amount.

- Account Coding:

The audit identified various transactions that appear to be improperly coded or could have been coded to a more appropriate account in the Agency's financial system. Detailed guidelines should be provided on what type of petty cash expenditures should be posted to which type of account code. Having guidelines serves as a resource and training tool and ensures consistency in posting expenditures to the appropriate account code.

IA provides seven new recommendations in this report to improve and strengthen the internal controls and processes related to the Agency's Petty Cash Program. The attached audit report provides details of the observations and recommendations.

The Petty Cash Audit and Follow-Up review is consistent with the *Agency's Business Goals* of *Fiscal Responsibility*, *Workplace Environment* and *Business Practices* by ensuring that the recommendations foster a strong control environment, and assist management in achieving organizational goals.

PRIOR BOARD ACTION

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

On March 15, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Charter.

IMPACT ON BUDGET

None.



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

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DATE: June 5, 2017
TO: Honorable Board of Directors
P. Joseph Grindstaff
General Manager

Teresa V. Velarde
FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: 2017 PETTY CASH AUDIT & FOLLOW-UP REVIEW

Audit Authority

The Internal Audit (IA) Department performed an unannounced audit of the Agency's Board approved petty cash funds. IA also completed a follow-up review of the 5 outstanding recommendations provided in the Petty Cash Audit report dated May 31, 2013. The audit was performed under the authority provided by the Inland Empire Utilities Agency (IEUA or Agency) Board of Directors. Additionally, the IA Department's Charter and the Annual Audit Plan require that IA follow up on the status of open recommendations to determine if corrective action was taken to implement.

Audit Objective and Scope

The purpose of this audit was to determine whether petty cash funds were reasonable and accounted for, and to determine whether internal controls are in place and operating as intended. IA reviewed Petty Cash transactions for the period from July 1, 2015 to March 31, 2017, and for the 21-month period reviewed, approximately \$23,000 in petty cash reimbursements were paid out to employees.

The results of the April 4, 2017 unannounced petty cash audit is as follows:

Location	Amount	Overage/(Shortage)
HQA	\$1,250	\$0
HQB	\$400	(\$1.00)
RP1	\$600	\$22.58
IERCF	\$300	\$0

The overages and shortages are not considered material in nature and will be resolved by the Finance and Accounting Department (FAD) according to their Standard Operating Procedure CM PR-13 (Cash Management Procedures – Petty Cash).

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Audit Results – Executive Summary

FAD has the responsibility to oversee and administer the Agency's petty cash funds. Each assigned Petty Cash custodian has the responsibility to safeguard and control their assigned fund. During prior Petty Cash audits, FAD was called Accounting and Fiscal Management (AFM) or Fiscal Management Department (FMD) and since then, the department has been renamed. This report makes reference to "AFM", "FMD" and/or "FAD".

The results of the 2017 Petty Cash audit noted that, overall, funds were accounted for and expenditures appeared reasonable. However, we found instances of non-compliance with Agency policies and areas that require further attention.

The last time IA completed an unannounced Petty Cash Audit was in 2013. Of the five outstanding recommendations from the 2013 audit, IA found that three recommendations have been implemented and two recommendations are no longer applicable. Based on the results of this review, IA provides seven new recommendations to improve internal controls and processes. The attached report provides details of the findings and recommendations. The bullet points below provide a summary:

- Non-compliance with Petty Cash Policy/Other policy:
The audit found instances where the items purchased were for Agency-related expenses; however, reimbursements exceeded the \$50 maximum reimbursable amount using Petty Cash funds; therefore, not in compliance with the policy and should have been reimbursed or paid for with alternate approved procurement methods:
 - Found 26 instances where reimbursements were processed for amounts above the maximum allowed petty cash reimbursement of \$50. The current policy does not allow reimbursements over the \$50 limit. Prior to December 2014, the policy allowed for reimbursements above \$50 only with Executive Manager approval; however, the policy no longer allows reimbursements above \$50 and employees can request a check reimbursement or if appropriate, the Agency Credit Card or Procurement Card.
 - Found 2 instances where the reimbursement was split to fall below the maximum amount allowed of \$50. In each of the two instances, the audit found 2 receipts to the same retailer, on the same date, same time and for the same purpose and each was slightly under the \$50 limit. The transactions were split to circumvent the reimbursable amount with Petty Cash; however, the employee could have submitted a check request for the reimbursement.
 - The audit revealed that Petty Cash funds were used to purchase 12 gift cards in the amount of \$20 each to various vendors, totaling \$240. Current Agency Policy A-75 Employee Recognition Rewards Program, states that

gift cards can be one of the rewards given for exemplary work accomplishments. A-75 was last updated in 2005 and currently it is unclear if awarding employee's gift cards is an allowable Agency practice. IRS guidelines require gift cards to be reported as income to the employee. The gift cards have not been reported as regular income to the employees who received them. It is important for Agency policies to be reviewed periodically to ensure they are up to date. A formal and documented policy on the purchase and distribution of gift cards is necessary to ensure the Agency complies with Federal regulations.

- Training/Reinforcement on policies and procedures:
Based on the results of the audit, additional training and reinforcement of the Agency's policies and guidelines for petty cash is required, specifically as they relate to the custodian responsibilities, internal controls, accountability and record-keeping. Agency employees should also be made aware of the appropriate use of Petty Cash funds.

FAD as well as each custodian should remind employees of the policy and controls to safeguard Petty Cash Funds and suggest they turn requestors to seek other Agency approved procurement methods for transactions that exceed a petty cash transaction amount.

- Account Coding:
The identified various transactions that appear to be improperly coded or could have been coded to a more appropriate account in the Agency's financial system. Detailed guidelines should be provided on what type of petty cash expenditures should be posted to which type of account code. Having guidelines serves as a resource and training tool and ensures consistency in posting expenditures to the appropriate account code.

Acknowledgements

We would like to extend our appreciation to Petty Cash Custodians and FAD staff for their cooperation and assistance during this follow-up review.

Discussions with Management

We provided the results of this follow-up review to Christina Valencia, Chief Financial Officer/Assistant General Manager, Javier Chagoyen-Lazaro, Manager of FAD, and Mr. Suresh Malkani, Principal Accountant on May 19, 2017, for their review and comments prior to finalizing this report.

Future Follow-Up by Internal Audit

According to the IA Charter, IA must perform follow-up work on all outstanding recommendations to verify that corrective action has occurred. Follow-up evaluations are planned through the Board-approved Annual Audit Plan and were discussed with FAD prior to finalizing this report.

TV:sn

Results of the 2017 Petty Cash Audit

IA reviewed Petty Cash transactions for the 21-month period from July 1, 2015 to March 31, 2017, noting that approximately \$23K in petty cash monies were paid out for employee reimbursements for Agency-related expenses. The expenses were coded as follows in order of highest to lowest:

Budget Account Code	Budget Account Title	Amount
513010	Meeting Expenses	\$ 8,458.06
511220	Travel Costs – Mileage Reimbursement	7,183.89
511210	Overtime Meal Expenses	2,503.23
511120	Training and Seminars – Department	720.28
512010	Office Supplies/Other Computer Supplies	683.65
511230	Travel Costs - Transportation	644.00
511290	Parking Permits/Tolls	638.14
512110	DCS Supplies/Operating Supplies	515.77
129010	Miscellaneous Clearing Account	429.82
512170	Maintenance Supplies – Mechanical, Electric, or Plant	341.93
512350	Postage	261.98
511330	Safety Incentive Award	240.00
511240	Travel Costs – Meals	148.89
511310	Employee Recognition	109.35
512660	Small Tool & Equipment < \$5,000	98.18
514110	Subscriptions & Publications	72.69
511110	Training and Seminars – Agency	57.38
514210	Miscellaneous/Clearing	25.00
512610	Minor Office Equipment < \$500	23.27
512410	Fuel	20.00
	Total Petty Cash Expenditures	\$ 23,175.51

On April 4, 2017, IA conducted an unannounced physical count of the petty cash funds at the various Agency locations and noted the following results:

Location	Amount	Overage/(Shortage)
HQA	\$1,250	\$0
HQB	\$400	(\$1.00)
RP1	\$600	\$22.58
IERCF	\$300	\$0

Additionally, during the surprise count, IA reviewed the following internal controls:

- Cash was locked, kept in a secured location and only authorized custodians had access to cash

- Internal controls over cash handling processes (reimbursements, advancements, and replenishments) were in place
- Agency policies and procedures related to expenditures and controls over cash
- Discussed processes and procedures with Petty Cash custodians

RP-1 had an overage of \$22.58. After the completion of IA's surprise count, the custodian researched the findings. IA was informed that the overage was related to two transactions totaling \$18.28, where the documentation was retained by the custodian but the cash had not yet been reimbursed and therefore, the overage was only \$4.30. According to FAD's SOP CM PR-13 (Cash Management Procedures – Petty Cash), the variances fall below the threshold amount and no reporting to Executive Management is required.

IA reviewed the reimbursement requests and receipts and noted the following:

- **Incomplete Form – the custodian did not sign the form to indicate the cash was physically paid out.** On the line item "Paid-Out By", the Petty Custodian did not sign the form at the time of disbursement. The signature requirement indicates that the custodian physically paid out the amount requested. Without the signature, there is no tool to indicate and verify that the amount was paid out by the custodian.
- **Incomplete Form – No approver signature.** Noted no signature on the Approver line. The approver signature indicates that the requestor's supervisor reviewed the expense and authorized the purchase. The Petty Cash Custodian reimbursed the employee without the proper approval. The approver signature was obtained as a result of this audit. IA noted that at one location, most Petty Cash transactions are reimbursed to the requestors without the proper approver signature and the custodian obtains the approver's signature after the reimbursement has been made.

Additionally, at the time of the unannounced count, one of the Petty Cash Custodian's noted that the "Monthly Mileage Log and Reimbursement Request" has no designated area for signature, such as on the "Petty Cash Reimbursement/Advance Form", for when the funds are reimbursed through petty cash. The custodian indicated this line item would be a helpful final step to document that the cash was physically paid out by the custodian.

2017 Recommendations:

- 1. FAD should reinforce the guidelines of the petty cash fund, including custodian responsibilities and internal controls over petty cash accountability and record-keeping.***
- 2. FAD should consider updating the "Monthly Mileage Log and Reimbursement Request" to add a designated signature area for when the petty cash funds are utilized as a reimbursement for mileage.***

Petty Cash Expenditures:

The audit found several Petty Cash Transactions above \$50, the current Agency Policy A-02 does not allow any reimbursements above \$50. IA reviewed petty cash transactions to determine if reimbursements were reasonable and allowable under Agency policies. Agency Policy A-02 Petty Cash (effective December 18, 2014), states that a petty cash advancement/reimbursement can be requested for an expenditure in the amount of \$50 dollars or less. The policy does not address expenditures over the \$50 limit.

The audit found that in the 21-month period reviewed, 26 instances the reimbursement processed exceeded the maximum allowed limit of \$50, six of them exceeded \$100.00. **See chart on the following page.** While the transactions appear to be for Agency related expenses and were adequately approved by the Executive Manager and/or General Manager, the current Petty Cash Policy does not allow petty cash funds to be used for any transactions above the \$50 limit and there is no mention that they are allowed with Executive Management/General Manager approval. Therefore, the transactions violate Policy A-02, circumvent established policies and therefore it appears that the Agency's internal controls fail.

According to Petty Cash Custodians, employees should have used alternative reimbursement methods for the items over \$50 such as a check reimbursement, an advance check request, or an Agency credit card if authorized.

Incorrect Form Used: The current "Petty Cash Reimbursement/Advancement Form" available on the Agency's Intranet and attached to Agency Policy A-02 has the IEUA Form No. FM00038.2 (revised 12/18/2014) has no line item for a General Manager/Executive Manager signature. The audit found the incorrect forms were used in all 26 instances where purchases exceeded \$50, old Form No. FM00038 (revised 04/27/10) that had space for General Manager/Executive Manager signature.

Petty Cash Reimbursements over the \$50 Agency Policy limit

Date	Item/Service Description	Amount
September 2, 2015	Ice Cream purchase for facility/HR meetings	\$ 52.40
October 12, 2015	Purchase Plants at Water Fair to contribute to the raffle	\$100.00
October 29, 2015	Mileage	\$62.10
December 10, 2015	Mileage	\$69.00
April 7, 2016	USPS Mail & Stamps	\$179.25
April 14, 2016	Finance Staff Lunch Meeting	\$54.62
June 14, 2016	Retirement Education Workshop refreshments – 6/15/2016	\$76.88
June 23, 2016	Fee for Butterfield Ranch Park reservation for the Employee Appreciation Picnic on July 20, 2016	\$75.00
August 16, 2016	Sandwiches for site visit with SWRCB/RWQCB	\$56.79
August 30, 2016	Deputy Manager of Maintenance Interview Panel Lunches	\$65.00
October 6, 2016	Refreshments for DBE Training from EPA staff	\$54.85
November 9, 2016	Lunch for Interview Panel for Manager of Operations and Maintenance & Control Systems Analyst	\$77.00
January 4, 2016	Meeting Refreshments	\$60.01
March 29, 2016	Lunch & Learn Meeting	\$53.04
May 10, 2016	Refreshments for American College Management Training	\$67.54
May 11, 2016	Refreshments for American College Management Training	\$51.00
August 8, 2016	Breakfast items for RP1/RP5 Expansion Workshop	\$105.23
August 8, 2016	New Employee Welcome Lunch	59.19
August 15, 2016	Breakfast items for RP1/RP5 Expansion Workshop	105.23
August 15, 2016	Lunch Meeting for RMPU Projects	64.26
October 13, 2015	Mileage	\$56.00
August 3, 2015	Snacks for IERCA Board Meeting	\$55.47
November 5, 2015	Drum for Brother printer outside Scale PC	\$118.79
December 22, 2015	Lunch for Interview Panel – Compost Worker 12/17/15	\$59.74
March 15, 2016	All Hands 5-year Safe free lunch celebration	\$119.95
October 26, 2016	Outstanding Safety Record – All Hands Celebration	\$103.00

2017 Recommendations:

- 3. FAD should take the lead to communicate changes to the Petty Cash policy and forms immediately after implementation, to ensure employees understand the policy and utilize the updated forms.**
- 4. Petty cash custodians should only accept the appropriate forms and inform the requestor of the most appropriate procurement methods if the requestor's petty cash request does not conform to Agency policies.**
- 5. FAD should take the lead to review and determine if the Petty Cash limit of \$50 is adequate or if it should be updated (increased or decreased), or determine if there is a threshold that will require Executive Manager/General Manager authorization (i.e., anything over \$50).**

Petty Cash transactions were inappropriately split to circumvent the \$50 limit

IA identified 2 petty cash transactions that appear to have been split in order to stay under the maximum reimbursement amount of \$50:

Vendor Purchase Date/Time per receipt	Petty Cash Reimbursement Date per form	Date Paid out by Petty Cash Custodian	Item/Service Description	Actual Receipt Amount	Reimbursed Amount
May 9, 2016/ 18:46 (6:46 pm)	May 25, 2016	June 1, 2016	Costco - Refreshments for ECM Taxonomy meeting with Vendor	\$52.57	\$50
May 9, 2016/ 18:48 (6:48 pm)	May 31, 2016	June 1, 2016	Costco - Refreshments for ECM Taxonomy meeting with Vendor	\$55.43	\$50
October 28, 2015/ 11:25 am	October 28, 2015	December 9, 2015	Mountain Mike's Pizza - Meal for IEUA staff that worked on demolishing co-gen concrete pad	\$47.50	\$47.50
October 28, 2015/ 11:26 am	October 28, 2015	December 9, 2015	Mountain Mike's Pizza -Meal for IEUA staff that worked on demolishing co-gen concrete pad	\$36.69	\$36.69

The two transactions noted above were purchases made on two separate receipts from the same vendor on the same date and time, just minutes apart. The transactions appear to have been split to request reimbursement through petty cash. According to Agency Policy A-02 (Petty Cash), Section 5.4 Prohibited Uses, the policy specifically prohibits the splitting of purchases to stay under the \$50 limit.

FAD should remind staff that Petty Cash Funds shall not be used to avoid or circumvent the Agency's Ordinances and Policies, including Procurement, Vehicle Maintenance, Travel, Meal Reimbursement, Mileage Reimbursement, and Credit Card policies.

Petty Cash funds are used to purchase Gift Cards for employees

IA noted 12 instances where a \$20 gift card was purchased to gift to an Agency employee as a "Safety Incentive Award". However, IA found that this "Safety Incentive program" is not under the purview of the Agency's Safety Officer.

Date	Description	Item Purchased	Vendor	Amount
July 13, 2015	Safety Incentive Award for June	Gift Card	In-N-Out Burger	\$20
August 24, 2015	Safety Incentive Award for July	Gift Card	In-N-Out Burger	\$20
October 8, 2015	Safety Incentive Award for September	Gift Card	In-N-Out Burger	\$20
November 16, 2015	Safety Incentive Award for October	Gift Card	In-N-Out Burger	\$20
December 10, 2015	Safety Incentive Award for November	Gift Card	In-N-Out Burger	\$20
February 23, 2016	Safety Incentive Award for January	Gift Card	In-N-Out Burger	\$20
June 20, 2016	Safety Incentive Award for May	Gift Card	Corner Bakery	\$20
August 26, 2016	Safety Incentive Award for July	Gift Card	Subway	\$20
September 22, 2016	Safety Incentive Award for September	Gift Card	In-N-Out Burger	\$20
November 21, 2016	Safety Incentive Award for October	Gift Card	Panera Bread	\$20
December 6, 2016	Safety Incentive Award for November	Gift Card	Panda Express	\$20
February 27, 2017	Safety Incentive Award for January	Gift Card	Baker's	\$20
Total Petty Cash Expenditures used to purchase Gift Cards				\$240

According to Agency Policy A-02, petty cash expenditures are to be for small, inexpensive or emergency purchases. The Safety Incentive Award appears to be a re-occurring expenditure that is planned in advance, and may not meet the definition of an "allowable" petty cash expenditure. Also, "gift cards" are viewed as cash and can be considered a gift of public funds.

Per Agency Policy A-75 (Employee Recognition Rewards Program), effective November 2005, under Section 2, Procedure F and G, "gift cards" can be one of the rewards given out for exemplary work/accomplishments that is above and beyond normal position requirements; however, the policy also states that all cash recognitions will be reported as regular income in the calendar year paid, and taxed accordingly.

It is unclear if awarding employees with gift cards is an Agency allowable practice or not. However, the Human Resources Department has informally communicated and refrained from the distribution of "gift cards" to employees during events due to IRS regulations.

IRS Publication 15-B (2017), Employer's Tax Guide to Fringe Benefits, Section 2

De Minimis (Minimal) Benefits

You can exclude the value of a de minimis benefit you provide to an employee from the employee's wages. A de minimis benefit is any property or service you provide to an employee that has so little value (taking into account how frequently you provide similar benefits to your employees) that accounting for it would be unreasonable or administratively impracticable. Cash and cash equivalent fringe benefits (for example, gift certificates, gift cards, and the use of a charge card, or credit card), no matter how little, are never excludable as a de minimis benefit. However, meal money and local transportation fare, if provided on an occasional basis and because of overtime work, may be excluded as discussed later.

According to IRS Publication 15-B, gift cards are not to be excluded; therefore, must be reported as a benefit to the employee.

2017 Recommendations:

- 6. Human Resources and FAD should work together to formally document or communicate the policy on the purchase and gifting of Gift Cards to ensure compliance with Federal requirements. The policy should be communicated to all Agency employees and be reminded periodically.***

Account Coding

For the 2017 audit, IA reviewed the petty cash expenditures for reasonable and compliance with policies. IA noted there are petty cash expenditures that appear to have been improperly coded and/or could have been coded to a more appropriate budget code. **See the table on the following page.**

2017 Petty Cash Audit & Follow-up Review
 June 5, 2017
 Page 11 of 17

Date	Description	Amount	Actual Account Coding	Appropriate Account Coding
March 2017	Refreshments for month staff meeting	15.41	511110 PC Train/Seminars - Agency	513010 PC Meeting Expenses
March 2017	Parking Fees and Lunch	\$ 16.74	513010 PC Meeting Expenses	511290 PC Parking Permits/Tolls (\$7) 513010 PC Meeting Expenses (\$9.74)
March 2017	Purchase for Binder Envelopes	\$ 32.30	511110 PC Train/Seminars - Agency	512010 PC Office Supplies
March 2017	Purchase for Binder Envelopes	\$ 9.67	511110 PC Train/Seminars - Agency	512010 PC Office Supplies
February 2017	Parking Fees and Lunch	\$ 37.60	513010 PC Meeting Expenses	511290 PC Parking Permits/Tolls (\$14) 513010 PC Meeting Expenses (\$23.60)
January 2017	Train Ticket	\$ 20	513010 PC Meeting Expenses	511230 PC Transport Expenses
November 2016	Sympathy Cards & Soft Drinks for lunch meeting	\$ 27.91	512010 PC Other Computer Supplies	513010 PC Meeting Expenses (\$14.23) 512010 PC Office Supplies (\$13.68)
July 2016	DMV Registration for skytrack forklift	\$ 25	513010 PC Meeting Expenses	511230 PC Transport Expenses
April 2016	Finger Printing for LA/Ont Security Badge Program	\$38	514110 PC Subs & Publication	129010 Misc Expenses/Clearing
March 2016	Parking Fees	\$ 8	513010 PC Meeting Expenses	511290 PC Parking Permit/Tolls
March 2016	Purchases of Supplies for Training	\$ 48.59	512110 Operating Supplies	512010 PC Office Supplies
March 2016	Purchase of wiper blades for Tacoma Vehicle #9902	\$ 37.78	512170 PC Maintenance Supplies	512450 PC Parts & Supplies (Vehicle)
February 2016	Parking Fees	\$ 16	513010 PC Meeting Expenses	511290 PC Parking Permit/Tolls
September 2015	Parking and 2 days lunch for Landscape Expo	\$ 33.44	513010 PC Meeting Expenses	511290 PC Parking Permits/Tolls (\$10) 513010 PC Meeting Expenses (\$23.44)
September 2015	Parking and 2 days lunch for Landscape Expo	\$ 31.72	513010 PC Meeting Expenses	511290 PC Parking Permits/Tolls (\$20) 513010 PC Meeting Expenses (\$11.72)
August 2015	Meal Reimbursement for Motor Circuit Analysis Training on August 25, 2015	\$ 47.94	511210 PC Overtime Meal Expense	513010 PC Meeting Expenses
August 2015	Meal Reimbursement for Motor Circuit Analysis Training on August 26, 2015	\$ 16.20	511210 PC Overtime Meal Expense	513010 PC Meeting Expenses

These are just examples that have been noted showing inconsistencies when it comes to coding petty cash expenditures. Not coding petty cash expenditures to the correct budget account affects the department's budgets, along with the year-end financial statements. It is important for expenditures to be posted to the appropriate account to ensure accurate and reliable reporting. Therefore, IA provides the following soft recommendation for consideration:

FAD should provide detailed guidelines to the Petty Cash Custodians on what type of petty cash expenditures should be posted to which type of budget account code. By having guidelines, this would ensure consistency in posting expenditures to the appropriate account.

Status of the 2013 Petty Cash Audit & Recommendations, dated May 31, 2013

IA performed follow-up procedures to consider the current status of the open recommendations 1, 3, 4, 5 and 6.

Agency Policies

Recommendation #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.

Status: No Longer Applicable

During the 2013 audit and follow-up review, IA noted that the four Agency Policies listed in the recommendation required revisions/updates. Of the four policies, one (A-02) was updated and three remain in progress of being updated. Therefore, because three policies remain to be updated, this recommendation is restated in this 2017 audit.

Staff is working with General Counsel on the documentation of the Administrative Code, which might also include a review of all Agency policies and possibly the other 3 policies; however, until the policies are updated and clarified, IA provides a new 2017 recommendation. Below is a table showing the policies that still require updates and the reasons the updates are necessary (details are included in the 2013 Petty Cash audit):

2017 Recommendations:

- 7. Human Resources and FAD should continue to work with the appropriate personnel in making revisions and updates to the following Agency policies that relate to cash reimbursements and controls: A-75 Employee Recognition Rewards Program, A-68 Meal Reimbursement and Unscheduled Overtime, and A-34 Vehicle Maintenance.**

Agency Policy #	Title/topic	Last date of revision	Recommendation or reason for needed revision
A-75	Employee Recognition Rewards Program	11/01/05	<ul style="list-style-type: none"> Update language to state that items purchased for employee recognition rewards (such as gift cards) can be purchased using petty cash funds, appropriate type of award for this recognition, and maximum allowable amount.
A-68	Meal Reimbursement for Unscheduled Overtime	04/10/08	<ul style="list-style-type: none"> Update language that states the meal can be purchased as an “authorized expenditure utilizing petty cash up to the authorized amount of \$10.
A-34	Maintenance, Washing and Fueling of Agency Vehicles	07/15/05	<ul style="list-style-type: none"> Update language that states in extenuating circumstances a car wash for an Agency vehicle can be purchased and reimbursed through petty cash.

Fund Reconciliations

2013 Recommendation #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.

Status: Implemented

The 2013 audit report identified that monthly petty cash reconciliations were not always performed at the all locations, reconciliations were not always reviewed/signed by the Petty Cash Custodian's supervisor or manager, and the reconciliations were not performed by personnel independent of the petty cash reimbursement process.

According to Agency Policy A-02 (Petty Cash), its states the following:

5.10. Replenishments –

- A. Replenishment of the petty cash fund must be completed at a minimum, once per month.

In 2017, the audit found that for the 21-month period reviewed, the following was noted:

Location	2017 Audit Results: Monthly Reconciliations Performed	2013 Audit Findings: Monthly Reconciliations Performed
HQA	21 of 21 or 100%	10 of 16 or 63%
HQB	18 of 21 or 86%	6 of 16 or 38%
RP1	21 of 21 or 100%	3 of 16 or 19%
IERCF	19 of 21 or 90%	10 of 16 or 63%

The audit found that the reconciliations are performed at the time of a fund replenishment request, which usually occurs monthly and the reconciliation is verified by the main Petty Cash Custodian when the replenishment is made, therefore, providing an "independent review". IA noted a few instances where the reconciliation crossed months, but the reconciliation was performed.

Additionally, IA noted there were a few "Petty Cash Reconciliation & Reimbursement" sheets or a "Check Request" that did not have a signature by Department Manager/Supervisor showing approval. However, when the custodian comes for replenishment, an "independent review" is performed by the main Petty Cash Custodian that validates the amount requested for replenishment and an independent person

performs the reconciliation of the main Petty Cash box, even though there is no evidence of a documented signature.

Since the reconciliations are being performed, IA has determined the intent of the original recommendation has been implemented and no further action is required.

Standard Operating Procedures

2013 Recommendation #4: 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.

Status: Implemented

In the 2013 audit report, IA found that FAD’s SOP CM PR-13 lacked detailed procedures over the petty cash reimbursement process because there were instances of missing management approval and/or incomplete documents when the Petty Cash Reimbursement/Advancement Form and other corresponding documents were reviewed. After the completion of the 2013 audit, FAD updated Agency Policy A-02 in December 2014, to outline the reimbursement process as follows:

- 5.3. Petty Cash Reimbursements - An employee making a purchase with petty cash must follow this process:
 - A. Complete purchase of Agency supplies, materials, or activities and obtain receipt.
 - B. Complete a [petty cash reimbursement form](#) (Found on AIM) and attach receipt.
 - C. Obtain the Department Manager’s approval.
 - D. Take the approved advancement to the custodian closest to their location and receive the funds allocated per their form.
 - E. All disbursements of petty cash must be supported by original invoices, sales slips or other documentation that clearly states the purpose of the expenditure, the appropriate account code structure, and must contain the appropriate signatory approval.

The department went above and beyond and incorporated the Petty Cash processes into the Policy (A-02), which applies Agency-wide to all personnel. Therefore, the objective of the recommendation provided has been met and IA considers this recommendation implemented.

Petty Cash Expenditures Budget Account Coding

2013 Recommendation #5: 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.

Status: Implemented

In the 2013 petty cash audit report, IA identified various petty cash expenditures that were improperly coded to the wrong budget account code. IA recommended FAD develop a master list of account codes or establish roles within SAP for the Petty Cash custodians to have access for coding expenditures.

In 2017, IA followed up with FAD and noted that the Petty Cash Custodians have access to a drop-down menu in SAP (Agency's financial system) that lists 35 General Ledger accounts that can be utilized for coding petty cash expenditures. If an expenditure does not apply to any of the accounts listed, then the transaction should be posted to a clearing account and journalized into the correct account in SAP.

Since a list of accounts is available for use by the custodians when posting petty cash expenditures, IA has determined this recommendation has been implemented.

Petty Cash Fund Assignments

Recommendation # 6: 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.

Status: No Longer Applicable

IA noted in the 2013 Petty Cash audit and follow-up review that the Agency should evaluate the petty cash needs for each location. During the prior audit, the number of petty cash replenishments was infrequent at RP-1 as compared to the amount of petty cash assigned. For the other three locations (HQA, HQB, and IERCF), the petty cash reimbursements occurred more frequently. IA advised the Agency to review and analyze the petty cash assignments and determine if the imprest amount should be increased and/or decreased for any of the locations. This recommendation was provided in the March 2011 and May 2013 Petty Cash audit reports as well.

In the 21-month period reviewed for the four Petty Cash Funds, approximately \$23K was paid out to employees as Petty Cash Reimbursements. IA analyzed the number of times petty cash funds were replenished at each location:

Location	Assigned Amount	Total Dollar Amount of Replenishments	Number of Petty Cash Replenishments	Average Replenishment Amount
HQA	\$1,250	\$9,324.44	21	\$444.02
HQB	\$400	\$3,857.77	19	\$206.44
RP1	\$600	\$7,702.38	21	\$366.78
IERCF	\$300	\$2,958.99	19	\$155.74

Additionally, FAD revised Agency Policy A-02 (Petty Cash) in December 2014, which states under Section 5 (Procedures):

- 5.9. Increase or Decrease in Petty Cash Fund – The Manager of Finance and Accounting will periodically evaluate the need to increase or decrease the amount assigned to any petty cash account. The petty cash funds for all locations will not exceed the total amount approved by the Board of Directors.

IA observed that the petty cash amount assigned to each location has not changed since at least 2006. It appears that the petty cash amount assigned is sufficient to meet the needs of each location. Additionally, the new policy requirements which further limits the use of petty cash, makes the current assigned amount an appropriate amount. Therefore, no further action is required and IA considers this recommendation no longer applicable.

Attachment 1 - Petty Cash Audit Status of Recommendations

Audit Report Date	Rec #	Recommendation	Implemented	In Progress	No Longer Applicable
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. (Restated as 2017 Recommendation # 7)			X
	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.	X		
	4	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.	X		
	5	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.	X		
	6	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.			X
June 12, 2017	1	FAD should reinforce the guidelines of the petty cash fund, including custodian responsibilities and internal controls over petty cash accountability and record-keeping.	New in 2017		
	2	FAD should consider updating the "Monthly Mileage Log and Reimbursement Request" to add a designated signature area for when the petty cash funds are utilized as a reimbursement for mileage.			
	3	FAD should take the lead to communicate changes to the Petty Cash policy and forms immediately after implementation, to ensure employees understand the policy and utilize the updated forms.			
	4	Petty cash custodians should only accept the appropriate forms and inform the requestor of the most appropriate procurement methods if the requestor's petty cash request does not conform to Agency policies.			
	5	FAD should take the lead to review and determine if the Petty Cash limit of \$50 is adequate or if it should be updated (increased or decreased), or determine if there is a threshold that will require Executive Manager/General Manager authorization (i.e., anything over \$50).			
	6	Human Resources and FAD should work together to formally document or communicate the policy on the purchase and gifting of Gift Cards to ensure compliance with Federal requirements. The policy should be communicated to all Agency employees and be reminded periodically.			
	7	Human Resources and FAD should continue to work with the appropriate personnel in making revisions and updates to the following Agency policies that relate to cash reimbursements and controls: A-75 Employee Recognition Rewards Program, A-68 Meal Reimbursement and Unscheduled Overtime, and A-34 Vehicle Maintenance.			

2017 Petty Cash Audit & Follow-Up Review



The Petty Cash audit and Follow-Up review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by ensuring that the recommendations provided foster a strong control environment and assist management in achieving organizational goals.

2017 Petty Cash Audit and Follow-Up Review

- Unannounced Petty Cash Count, results below:

April 4, 2017		
Location	Amount	Overage/Shortage
HQA	\$1,250	\$0
HQB	\$400	(\$1.00)
RP1	\$600	\$22.58
IERCF	\$300	\$0
Total	\$2,550	

- Reviewed a 21-month period – approximately \$23,000 was paid to employees in reimbursements

2017 Petty Cash Audit: Findings/Observations

Non-compliance with Petty Cash Policy/Other Policy:

Transactions exceeded the maximum allowed of \$50

- 26 transactions
- Current Policy does not allow reimbursements over \$50
- Refer to page 8 of the report for details

Split Transactions

- 2 times the transactions were split to stay under the maximum reimbursement amount of \$50
- Purchased same date and time from same vendor
- Refer to page 9 of the report for details

2017 Petty Cash Audit and Follow-Up Review: Findings/Observations

Non-compliance with Petty Cash Policy/Other Policy:

Gift Cards

- 12 gift cards purchased, \$20 each to various vendors
- Unclear if allowable Agency practice
- IRS guidelines state that gift cards must be reported as cash to the employee and taxed
- Refer to page 9 of the report for details

Account Coding

- Petty Cash transactions improperly coded or could have been coded to a more appropriate budget account
- Refer to page 11 of the report for details

2017 Petty Cash Audit and Follow-Up Review: Recommendations from 2013

Outstanding: Agency Policies that require updates

- A-75 Employee Recognition Rewards Program - 2005
- A-68 Meal Reimbursement for Unscheduled Overtime - 2008
- A-34 Maintenance, Washing and Fueling of Agency Vehicles – 2005
- Refer to page 12 of the report for table

Implemented:

- Petty Cash Fund Reconciliations done timely
- Agency Policy A-02 (Petty Cash) Updated - 2014
- Accounting codes expanded – need additional criteria


Audit Committee

INFORMATION
ITEM
2C

Date: June 21, 2017

To: The Honorable Board of Directors

Through: Audit Committee (06/12/17)

From: Teresa V. Velarde 
Manager of Internal Audit

Subject: Water Use Efficiency Programs Audit

RECOMMENDATION

This is an informational item for the Board of Directors.

BACKGROUND

Internal Audit (IA) performed an audit of Water Use Efficiency (WUE) Programs according to the Fiscal Year 2016/17 Annual Audit Plan. The objectives of the audit included:

- To evaluate internal controls over administrative tasks performed by staff for WUE Programs as required by the executed contracts, the Agency's Ordinances, and policies and procedures.
- Assess how staff implemented and administered WUE Programs.
- Identify opportunities to improve internal controls and record-keeping.
- To assess the accuracy and completeness of the annual information about WUE Programs presented to stakeholders.

The Planning and Environmental Resources Department (P&ER) administers WUE Programs through the Water Resources (WR) staff. WR staff have primary responsibility for administering the WUE Programs.

IA selected the Turf Removal Programs for review because it was the program with the greatest funding during the last two fiscal years (approximately \$2M from IEUA). IA's audit of the Turf Removal Programs noted that the WR staff provide valuable service to the Agency in administering the WUE programs. The involvement of the many entities in administering the programs and inspecting the properties reduces risks of misstatement and/or loss to the various Agencies. The most significant issues facing the Agency and WR staff were in addressing the new programs, rebates, requirements, keeping up with the number of applicants as funding increased, and ensuring the completion of the post-installation inspections.

The attached audit report provides details of IA's observations and recommendations. The points below provide a summary:

Turf Removal Programs

- While many retail customers received rebates, the range of customers could have been broader. Outreach to customers about WUE measures is a primary responsibility of member agencies, but IEUA may want to consider establishing a forum to discuss the goals and results of WUE Programs. The purpose of the discussions would be to evaluate and develop approaches to help (or consider joint efforts to) publicize, target and follow-up with entities in IEUA's service area when WUE opportunities become available, and tailor outreach towards specific and/or different entities in the region that match those characteristics and/or potentially maintain a database of the region's entities by unique characteristics (schools, churches, large lots, etc.).

Note: It is IA's understanding from the P&ER department that IEUA will initiate a long-range WUE goals initiative with executives from member agencies in the near future.

Capitalization

- Finance and Accounting Department (FAD) staff have already taken several practical measures to review and reduce the amounts included in Work in Process (WIP) to ensure only capital projects are capitalized. FAD may want to consider prioritizing additional efforts to ensure that prior period adjustments are eliminated, such as:
 - Developing a cross-departmental team including representatives from Engineering, Operations and FAD to approve items for capitalization in WIP.
 - Establishing an automated log, register or report to be reviewed regularly that tracks project codes, amounts and purpose for FAD's review to ensure accurate accounting of projects.
 - Engaging an outside consultant, accounting firm or additional temporary resources to make a thorough examination of WIP to:
 - Ensure only capital projects are included
 - Recommend policies and procedures for establishing projects to ensure only capital projects are capitalized
 - Develop written examples and guidelines of what constitutes a capital project and what constitutes an O & M project.

WUE Programs Annual Report

It should be noted that most of IA's recommendations are related to the WUE Programs Annual Report. Reports and information provided for stakeholder use is an important factor in the Agency's internal control framework. It is imperative that information is useful, reliable, accurate and timely. IA identified areas where the way the information is presented could be more effective. The following recommendations are related to the Annual Report:

- The Agency may want to consider utilizing the Annual Water Use Efficiency Programs Report as an evaluative tool to compare actual results to those projected in the Regional WUE (five year) Business Plan. The Annual WUE Programs Report could discuss reasons for variances from that plan, document changes being made to the plan and describe progress on any other initiatives that expect to yield water savings in future years.
- IEUA may want to consider providing additional documentation, descriptions or reference information in the body of the Annual WUE Programs Report to describe the differing sources of information used to provide member agency information vs. regionwide information or

alternatively (and/or in addition) presenting both the summary and member agency information on the same basis.

- IEUA may want to consider expanding the “Highlights” commentary and providing subheadings, as well as organizing the section to match the order of the Summary Charts to align the descriptions to the charts that follow.
- WR staff may want to consider developing a desk procedure or other document to guide the preparation of the Annual WUE Programs Report for staff to follow.

ACKNOWLEDGEMENTS

IA extends our appreciation to the Planning and Environmental Resources and the Finance and Accounting Department staff for their cooperation and assistance during this audit.

The Water Use Efficiency Programs Audit is consistent with the *Agency’s Business Goals* of *Fiscal Responsibility, Workplace Environment* and *Business Practices* by fostering a strong internal control environment and providing an independent/objective evaluation of IEUA’s Water Use Efficiency programs, policies, practices and reporting, 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 Water Use Efficiency Programs Audit was included in that plan.

On March 15, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

IMPACT ON BUDGET

None.



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

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DATE: June 5, 2017

TO: P. Joseph Grindstaff
General Manager

Teresa V. Velarde

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Water Use Efficiency Programs Audit

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed an audit of the Agency's Water Use Efficiency (WUE) Programs. This audit was performed under the authority given by the IEUA Board of Directors and the Fiscal Year 2016/17 Annual Audit Plan. Attached is the report which discusses the largest WUE programs (Turf Removal Programs) and the Annual Water Use Efficiency Programs Report with IA's observations and recommendations.

Audit Objective and Scope

The Water Use Efficiency Programs audit had several objectives:

- To evaluate internal controls over administrative tasks performed by staff for WUE Programs as required by the executed contracts, and the Agency's Ordinances, policies and procedures.
- Assess how staff implemented and administered WUE Programs.
- Identify opportunities to improve internal controls and record-keeping.
- To assess the accuracy and completeness of the annual information about WUE Programs presented to stakeholders.

The Planning and Environmental Resources Department (P&ER) administers WUE Programs through the Water Resources (WR) staff. WR staff have primary responsibility for administering the WUE Programs.

Audit Techniques

Audit techniques included:

- Interviews of Agency staff
- Analysis of financial transactions and reports
- Reviews of supporting information available in SAP
- Analysis of information available in MWD WaterSmart electronic dashboard
- Walkthroughs of processes and transactions and development of flowcharts

Water Smart – Thinking in Terms of Tomorrow

Steven J. Elie
President

Michael E. Camacho
Vice President

Jasmin A. Hall
Secretary/Treasurer

Katie Parker
Director

Paul Hofer
Director

P. Joseph Grindstaff
General Manager

Audit Results – Executive Summary

This report discusses the Annual Water Use Efficiency Programs Report (Annual WUE Programs Report), a report prepared annually that lists the expected/potential water savings achieved through each program, and the funding amounts for WUE Programs implemented in the current and prior years. The audit noted that the WR staff provide valuable services to the Agency in tracking water use efficiency information and creating the Annual Water Use Efficiency Programs Report. The attached report provides details of IA's observations and recommendations. The bullet points below provide a summary of IA recommendations:

TURF REMOVAL PROGRAMS

- *While many retail customers received rebates, the range of customers could have been broader. Outreach to customers about WUE measures is a primary responsibility of member agencies, but IEUA may want to consider establishing a forum to discuss the goals and results of WUE Programs. The purpose of the discussions would be to evaluate and develop approaches to help (or consider joint efforts to) publicize, target and follow-up with entities in IEUA's service area when WUE opportunities become available, and tailor outreach towards specific and/or different entities in the region that match those characteristics and/or potentially maintain a database of the region's entities by unique characteristics (schools, churches, large lots, etc.).*

Note: It is IA's understanding from Planning that IEUA will initiate a long-range WUE goals initiative with executives from member agencies in the near future.

CAPITALIZATION

- *Finance and Accounting (FAD) staff have already taken several practical measures to review and reduce the amounts included in Work in Process (WIP) to ensure only capital projects are capitalized. FAD may want to consider prioritizing additional efforts to ensure that prior period adjustments are eliminated, such as:*
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 - *Establishing an automated log, register or report to be reviewed regularly that tracks project codes, amounts and purpose for FAD review to ensure accurate accounting of projects.*
 - *Engaging an outside consultant, accounting firm or additional temporary resources to make a thorough examination of WIP to:*
 - *Ensure only capital projects are included*
 - *Recommend policies and procedures for establishing projects to ensure only capital projects are capitalized*
 - *Develop written examples and guidelines of what constitutes a capital project and what constitutes an O & M project.*

WUE PROGRAMS ANNUAL REPORT

- *The Agency may want to consider utilizing the Annual Water Use Efficiency Programs Report as an evaluative tool to compare actual results to those projected in the*

Regional WUE (five year) Business Plan. The Annual WUE Programs Report could discuss reasons for variances from that plan, document changes being made to the plan and describe progress on any other initiatives that expect to yield water savings in future years.

- *IEUA may want to consider providing additional documentation, descriptions or reference information in the body of the Annual WUE Programs Report to describe the differing sources of information used to provide member agency information vs. regionwide information or alternatively (and/or in addition), presenting both the summary and member agency information on the same basis.*
- *IEUA may want to consider expanding the "Highlights" commentary and providing subheadings and organizing the section to match the order of the Summary Charts to align the descriptions to the charts that follow.*
- *WR staff may want to consider developing a desk procedure or other document to guide the preparation of the Annual WUE Programs Report for staff to follow.*

Acknowledgements

We would like to extend our appreciation to the Planning and Environmental Resources and Finance and Accounting Departments' staff for their cooperation and assistance during this audit.

Discussion with Management

We discussed the results of this audit with Finance and Accounting Department staff on May 30, 2017 and with Planning staff on June 1, 2017.

TV:ps

cc: Chris Berch, Executive Manager of Engineering/Assistant General Manager
Christina Valencia, Chief Financial Officer/Assistant General Manager
Sylvie Lee, Manager of Planning & Environmental Resources
Lisa Morgan-Perales, Senior Water Resources Analyst

BACKGROUND

On January 17, 2014 California Governor, Jerry Brown issued an emergency drought declaration. With the California drought as the main focus, Water Use Efficiency (WUE) Programs are the primary mechanism to directly influence customer behavior to limit water usage. This WUE Programs audit examines the WUE Programs undertaken by IEUA in the 2014-2015 and 2015-2016 fiscal years in conjunction with the Metropolitan Water District (MWD) to meet the Governor's call to reduce urban water use by 25%, particularly in implementing turf removal programs.

IEUA began formal planning for WUE Programs with the creation of the WUE Interim Business Plan, August 1, 2009 – June 30, 2010 which was followed by a five-year plan (for 2010 to 2015). This was followed by the most recent IEUA Regional Water Use Efficiency Business Plan for 2015 – 2020 (Business Plan) which provides the following definition for “*water use efficiency*”: *a sustainable reduction in water use, by creating a new resource value for water in the eyes of the end user and distinguishes this from “water conservation with its short-term focus on current emergency conditions.”*

As a result, the Business Plan describes: “*A portfolio of recommended programs . . . These are directly quantifiable and provide cost-effective water savings below the region's cost to purchase water from Metropolitan Water District (MWD).*” The Business Plan also includes discussions of other local initiatives that include efforts that would be the responsibility of IEUA's member agencies, such as “Budget-Based Water Rates” and “customer engagement software”.

The Agency also prepares an Annual Water Use Efficiency Programs Report (Annual WUE Programs Report). According to the Preface to the 2016 report: “*Each year, the Agency prepares a comprehensive WUE Programs Report that captures all activities that occurred during the prior fiscal year. This report tracks the progress that has been made toward goals and objectives outlined in the Agency's Regional WUE Business Plan.*” The Preface goes on to state “*The region has made substantial investments in WUE initiatives over the past 24 years and continues to strategically plan for present and future water supply challenges.*”

MWD is the primary source for significant funding of water use efficiency efforts. Rebates sponsored by MWD include:

RESIDENTIAL PROGRAMS:

- High Efficiency Toilets
- High Efficiency Washers
- Rotating Nozzles for Pop-up Spray Heads
- Weather based Irrigation Controllers
- Turf removal
- Rain Barrels
- Soil Moisture Sensor Systems

COMMERCIAL PROGRAMS:

- High Efficiency Toilets
- Waterless Urinals
- Cooling Tower Controllers
- Weather Based Irrigation Controllers
- Rotating Nozzles for Pop-up Spray Heads
- Large Rotary Nozzles
- Central Computerized Irrigation Controllers
- Laminar Flow Restrictors
- Air-Cooled Ice Machines
- Turf Removal
- Soil Moisture Sensor Systems
- Plumbing Flow Controls

In addition, MWD has contributed funding towards water use efficiency rebates and programs administered by IEUA and other Southern California water agencies (for instance, Western Municipal Water District administers the Free Sprinkler Nozzles rebate program on behalf of the region):

- Free Sprinkler Nozzles.com
- Residential Landscape Retrofit
- Landscape Transformation
- Residential Pressure Regulation

IEUA is the region’s representative to MWD and, therefore, the lead organization in administering WUE Programs for the Agency’s member organizations. In addition to the rebates and vouchers provided by MWD, IEUA and its member agencies have annually provided supplemental funding to enhance MWD funding and provide greater incentives to local customers.

Funding for WUE Programs has varied widely from year to year, largely due to the changes in program priorities by MWD and other partners (for instance, the large increase in 2008-2009 is largely due to increased MWD funding for Public Sector programs including Central Computer Irrigation Controllers which ended that year):

FISCAL YEAR	IEUA Portion Of Total Funding	TOTAL FUNDING	\$ Inc. (Dec.) over Prior Year	% Inc. (Dec.) over Prior Year
2006-2007	\$ 348,514	\$ 1,950,924	\$ 805,247	70.29%
2007-2008	\$ 500,276	\$ 2,127,430	\$ 176,506	9.05%
2008-2009	\$ 509,617	\$ 4,363,082	\$ 2,235,652	105.09%
2009-2010	\$ 213,265	\$ 702,683	(\$3,660,399)	(83.89%)
2010-2011	\$ 157,325	\$ 1,105,121	\$ 402,438	57.27%
2011-2012	\$ 164,428	\$ 1,213,277	\$ 108,156	9.79%
2012-2013	\$ 189,256	\$ 1,151,601	(\$ 61,676)	(5.08%)
2013-2014	\$ 271,615	\$ 891,658	(\$ 259,943)	(22.57%)
2014-2015	\$ 1,516,917	\$ 5,494,203	\$ 4,602,545	516.18%
2015-2016	\$ 1,960,773	\$ 12,399,586	\$ 6,905,383	125.68%

-Source: IEUA 2016 Annual Water Use Efficiency Programs Report

The past two years' increases in spending reflect the Agency's focus on the California drought and show the largest increases primarily due to additional funding for turf removal programs.

TURF REMOVAL PROGRAMS

IA reviewed the funding amounts for the various WUE programs for the 2014-15 and 2015-16 fiscal years as documented in the annual Water Use Efficiency Report prepared by IEUA's Water Resources (WR) staff. The report shows that over the two fiscal years under review the funding for WUE programs amounted to:

2015-16	Dollars			Percentages		
	FUNDING	IEUA/Other	MWD	TOTAL	IEUA/Other	MWD
RES Turf Removal	\$0	\$3,049,732	\$3,049,732	0.00%	24.60%	24.60%
COM Turf Removal	\$1,299,068	\$5,486,869	\$6,785,937	10.48%	44.25%	54.73%
Landscape Transformation	\$88,998	\$0	\$88,998	0.72%	0.00%	0.72%
OTHER	\$819,979	\$1,654,940	\$2,474,919	6.61%	13.35%	19.96%
TOTALS	\$2,208,045	\$10,191,541	\$12,399,586	17.81%	82.19%	100.00%

-Source: IEUA 2016 Annual Water Use Efficiency Programs Report

2014-15	Dollars			Percentages		
	FUNDING	IEUA/Other	MWD	TOTAL	IEUA/Other	MWD
RES Turf Removal	\$0	\$235,430	\$235,430	0.00%	4.29%	4.29%
COM Turf Removal	\$1,054,809	\$2,269,228	\$3,324,037	19.20%	41.30%	60.50%
Landscape Transformation	\$168,623	\$251,322	\$419,945	3.07%	4.57%	7.64%
OTHER	\$522,525	\$992,266	\$1,514,791	9.51%	18.06%	27.57%
TOTALS	\$1,745,957	\$3,748,246	\$5,494,203	31.78%	68.22%	100.00%

-Source: IEUA 2016 Annual Water Use Efficiency Programs Report

Included in "other" are the MWD rebates for high efficiency toilets and washers, rotating sprinkler nozzles, weather based irrigation controllers and rain barrels among others.

Most of the funding during the 2014-15 and 2015-16 fiscal years was associated with turf removal efforts. The largest was the Residential and Commercial Turf Removal program administered primarily by MWD. The other turf removal program was the Landscape Transformation Program, primarily administered by the member agencies and IEUA's WR

staff. IA's audit focused on these two programs, which amounted to over 80% of funding in 2015-2016 and almost 75% in 2014-2015 of all water use efficiency programs.

MWD Residential and Commercial Turf Removal Program

The Residential and Commercial Turf Removal program has recently been the primary water use efficiency program administered by MWD. The program was initially funded in 2008 at \$0.30 per square foot. In response to the drought, the MWD Board approved a \$1 per square foot incentive amount in 2013 with an increase to \$2 in 2014 and increases in funding levels from 2013 to 2015. A history of MWD's rebate amounts per square foot of turf removed, the overall funding levels authorized by MWD's Board and the program guidelines documents the increases:

The MWD Board authorized increases in the rebate amount per square foot several times:

MWD BOARD ACTIONS:

Rebate Incentive Increases		
Board Letter	Rate per sq. ft.	Fiscal Year
April 8, 2008	\$0.30	2008/09
September 10, 2013	\$1.00	2013/14
May 13, 2014	\$2.00	2013/14

-NOTE: Chart obtained from "Internal Audit Report for November 2016", Office of the General Auditor of the Metropolitan Water District of Southern California.

Additionally, the MWD Board agreed to increase the amount of annual funding available for turf rebates several times, with the final increase providing a total of \$450 million in MWD funding for turf rebates throughout MWD's service area for the 2015-16 fiscal year, the final year of the program. The funding in any given fiscal year was available on a first-come, first-serve basis until it ran out:

MWD BOARD ACTIONS:

Budget Actions			
Board Letter	Funding (millions)	New Budget	Comment
April 8, 2008	\$40	\$40	Part of total conservation budget
February 11, 2014	\$20	\$60	Increase in biannual budget
December 9, 2014	\$40	\$100	Increase in funding
May 26, 2015	\$350	\$450	Increase in funding

-NOTE: Chart obtained from "Internal Audit Report for November 2016", Office of the General Auditor of the Metropolitan Water District of Southern California.

MWD initially did not establish restrictions on the types of replacements to the turf that was removed nor the size of an individual rebate. For the 2015-16 fiscal year (the final year of the program), limits were established authorizing residential rebates to a maximum of \$6,000, public agencies to a maximum of \$50,000 and commercial properties to \$25,000:

MWD BOARD ACTIONS:

Regional Turf Removal Program Modifications		
Board Letter	Fiscal Year	Comment
April 8, 2008	2008/09	Listed as a device incentive – Synthetic Turf – \$0.30 per square foot without limitations
September 10, 2013	2013/14	Establishes MWD incentive as grant funding ends – \$1.00 per square foot without limitations
May 13, 2014	2013/14	Increase incentive – \$2.00 per square foot without limitations
May 26, 2015	2015/16	Residential Applicants - \$2.00 per square foot for up to 3,000 square feet. Public Agency Applicants - \$2.00 per square foot for the first 3,000 square feet; \$1.00 per square foot above 3,000 with a \$50,000 max. per property/per fiscal year Commercial/Other Applicants - \$1.00 per square foot up to 25,000 sq. ft.

-NOTE: Chart obtained from "Internal Audit Report for November 2016", Office of the General Auditor of the Metropolitan Water District of Southern California.

To encourage participation within the service area, IEUA also established additional incentive amounts in recent years for the Turf Removal programs:

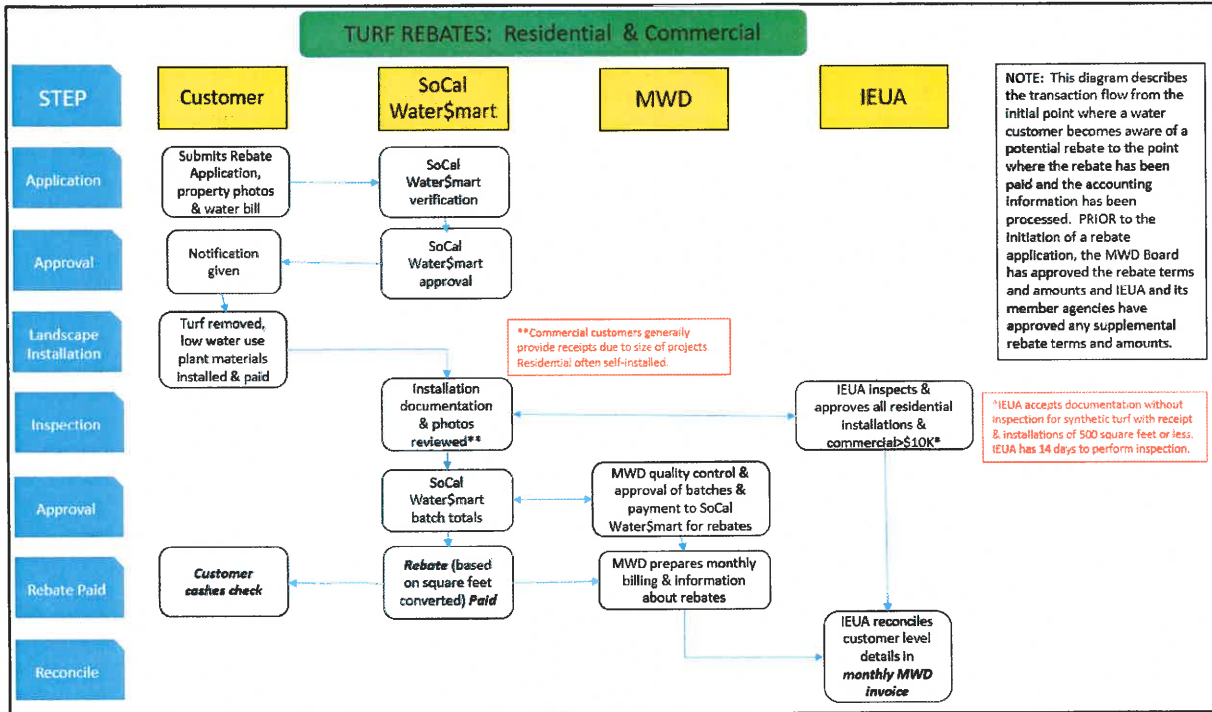
IEUA SUPPLEMENTAL FUNDING HISTORY				
Date	Rebate per sq. ft.	Funding Amount	Total Funding	Comment
7/1/2014	\$ 1.00	\$ 75,000.00	\$ 75,000.00	Matching funding for CII customers included as a budget line item
8/2014 – 10/2014	\$ 1.00	\$ 199,360.00	\$ 274,360.00	Budget transfers within WUE programs to keep up with demand
10/15/2014	\$ 1.00	\$ 3,000,000.00	\$ 3,274,360.00	Board letter to increase funding through inter-fund loan from Administrative Services Fund
5/20/2015	n/a	n/a	n/a	Establish per project funding limits of \$100,000 or a maximum project size of 100,000 square feet

As a result of MWD and the Agency's additional matching funding there was a significant increase in applications for the Turf Removal programs within the region. All the MWD rebate programs require some involvement from IEUA WR staff, but the Turf Removal programs also required IEUA WR staff to inspect, verify and reconcile the validity of the installation.

TURF REBATE PROCESS

IA reviewed the multiple steps in the rebate process for MWD Turf Removal programs to understand and assess the program's internal controls. The MWD Turf Removal programs are administered for MWD by the Electric & Gas Industries Association (EGIA) a non-profit organization dedicated to advancing energy efficiency and renewable energy solutions through their SoCal Water\$mart website. Most of the initial steps in the process occur between the customer and SoCal Water\$mart and are documented on their

dashboard which is available to MWD and the member agencies. The entire process, however, has multiple steps:



- Initially, a commercial or residential customer submits a rebate application including “before” property photos and a water bill to SoCal Water\$mart through their website. SoCal Water\$mart provides the initial approval and notifies the customer. The customer then completes the turf removal and pays for and installs the low water use plant materials. For commercial customers, the landscape installation work is generally performed by a contractor, but in many cases residential customers perform their own landscape installation.
- Once the work is complete the customer uploads “after” property photos and documentation/invoices to the Water\$mart website. SoCal Water\$mart prepares batches and totals and submits these to MWD.
- IEUA WR staff are provided 14 days to inspect and either approve or put an application on hold. IEUA inspects all residential installations and any commercial installations with a total rebate over \$10,000. IEUA WR staff accept documentation without inspection for synthetic turf installations with receipts and for installations of 500 square feet or less.
- MWD performs quality control procedures, approves the batches and makes payment to SoCal Water\$mart to process the rebates.

5. SoCal Water\$mart then pays the rebates to the customers based on the number of square feet of turf that have been converted. At this point MWD also prepares the monthly water billing to IEUA (which is subsequently paid through SAP), including information about rebates that are shown as debits or credits to the billing for any commitments that IEUA or its member agencies have made to provide additional enhancements to the rebates.

On May 13, 2014 MWD increased the amount of the rebate from \$1.00 per square foot to \$2.00 per square foot, but did not establish any limitations on the maximum rebate per customer or on what types of customers could claim rebates. The number and size of turf removal applications by commercial applicants, especially large water users such as golf courses and Homeowners Associations increased significantly.

Beginning July 1, 2014, IEUA established a supplemental rebate amount of \$1.00 per square foot to Commercial, Institutional and Industrial customers (CII) as an additional incentive, but only established a budgetary line item of \$75,000. Applications quickly exceeded available funding. After trying to meet the demand by making budgetary transfers from other water use efficiency budgetary line items, the department went to the Board on October 15, 2014 to ask for \$3,000,000 of additional funding through a transfer and inter-fund loan.

MWD established guidelines and dollar limits as of May 26, 2015, for the 2015-2016 fiscal year. The new limits created maximum rebates of \$6,000 for residential customers, \$50,000 for public agencies and \$25,000 for commercial entities. IEUA staff made similar recommendations to the IEUA Board to revise IEUA's CII rebate enhancements and, as of May 20, 2015 limits of \$100,000 or a maximum project size of 100,000 square feet were established.

Since most of the administration of the turf removal program is handled by MWD, IEUA staff, in consultation with member agencies was limited to adding additional funding to encourage participation and to provide additional conditions to ensure that turf removal was performed in a way that was appealing to local communities.

The conditions added by IEUA staff required that:

1. Applicants install drought tolerant plants and have at least 60% plant coverage at maturity within the project area where turf was removed.
2. Synthetic turf was allowable if it complied with local city codes and could be installed in place of living plant material.
3. Only low water use plants be installed.
4. A minimum of a 3" mulch base be added on top of dirt. Limited amounts of permeable rocks, decomposed granite or other materials were acceptable.
5. A post-project inspection was required.

IA Observations & Recommendations:

MWD sponsored Residential and Commercial Turf Removal Programs

IA's audit of the MWD sponsored turf removal programs noted that the WR staff provide valuable service to the Agency in administering Water Use Efficiency programs. The involvement of the many entities in administering the programs and inspecting the properties reduces risks of misstatement and/or loss to the various Agencies. Since IEUA had only 14 days to complete inspections and approve or place the application on hold, the most significant issue facing the Agency and WR staff was in keeping up with the number of applicants as funding increased to ensure the completion of all post-installation inspections.

Transactions Review

IA reviewed transactions for this program and noted that overall, 891 residential rebates and 190 commercial rebates were paid in the IEUA service area during the two fiscal years. Of those, 1 residential rebate was found that exceeded \$50,000, totaling \$51,788. IA noted 43 commercial rebates that were for \$50,000 and larger and these amounted to \$6,769,000 or almost 75% of the over \$9,000,000 in total commercial rebate dollars paid out.

RESIDENTIAL REBATES:

- The largest single rebate was for \$51,788 for a large property in Ontario.
- The average rebate amount was \$3,758.
- There were 18 rebates that exceeded \$10,000 and the average rebate for these was \$16,966.

COMMERCIAL REBATES:

Exhibit A provides a summary of all commercial turf rebate amounts from the MWD sponsored Residential and Commercial Turf Removal Programs over \$50,000 in 2014-15 and 2015-16 as summarized from the Water\$mart dashboard information.

- The single largest rebate in the IEUA service area in the amount of \$2,227,954 was paid out to a country club (Red Hill CC) amounted to almost 25% of all rebates paid in the service area. This entire rebate was funded by MWD and none of the amount came from IEUA or its member agencies.
- The largest number of rebates over \$50,000 in the IEUA service area were paid to the City of Chino Hills in the amount of \$1,222,422 for a total of 12 projects. (note, Chino Hills also received 9 smaller rebates totaling \$181,807). These rebates included IEUA's matching amounts.
- IEUA and the IERCA combined for a total of \$312,000 in rebates all of which were funded by MWD.

- The data showed some anomalies where the IEUA rebate amounts exceeded the MWD amounts: For instance, “Manheim Southern California” received a \$25,000 rebate from MWD since MWD had by that point instituted limits on rebates to commercial enterprises, but received \$100,000 from IEUA because the IEUA limit at that point was \$100,000 for 100,000 square feet of turf removal. Similarly, the MWD rebate to Monterey Village Apt. c/o So. Calif. Housing was limited to \$25,000, but the IEUA amount was \$60,000.
- Numerous rebate recipients of at least \$50,000 included “HOA” in their name, implying a Homeowner’s Association or included wording such as “apartments”, “properties”, “joint venture”, or “LP” likely signifying them as real estate developments.
- The average rebate for the 43 individual rebates that were at least \$50,000 was over \$157,000, whereas the average individual rebate for the 147 participants that received less than \$50,000 was about \$16,500.
- Although rebates of at least \$50,000 amounted to less than 25% of the number of rebates given, they amounted to almost 75% of total rebates.
- The Cucamonga Valley Water District (CVWD) headquarters address obtained a rebate of \$51,000, although the payee listed for the rebate was not the agency, but the general manager. IA made additional inquiries of CVWD staff and obtained verification of the rebate amount and its inclusion in CVWD accounts.

IA’s analysis of the transactions associated with the MWD sponsored Residential and Commercial Turf Removal Programs noted the same wide range of rebate amounts and types that led MWD to add overall restrictions to rebate amounts and types for the 2015-2016 fiscal year. The nature of the large rebate recipients and the related amounts in IEUA’s service area are generally in keeping with MWD’s overall experience.

- **IA Recommendation:** *While many retail customers received rebates, the range of customers could have been broader. Outreach to customers about WUE measures is a primary responsibility of member agencies, but IEUA may want to consider establishing a forum to discuss the goals and results of WUE Programs. The purpose of the discussions would be to evaluate and develop approaches to help (or consider joint efforts to) publicize, target and follow-up with entities in IEUA’s service area when WUE opportunities become available, and tailor outreach towards specific and/or different entities in the region that match those characteristics and/or potentially maintain a database of the region’s entities by unique characteristics (schools, churches, large lots, etc.).*
- *Note: It is IA’s understanding from Planning that IEUA will initiate a long-range WUE goals initiative with executives from member agencies in the near future.*

Landscape Transformation Program

The Landscape Transformation Program (LTP) is described in the WUE Annual Report:

“Launched on October 1, 2012, the Landscape Transformation Program offered residential participants a turnkey approach to turf removal. Participants were provided with contractor services that included landscape design, selection of climate appropriate plants from a variety of plant palettes, removal of living turf, installation of weed barriers and plants, and conversion of overhead sprinklers to drip irrigation. This program allowed customers to convert between 500 and 1,000 square feet of their landscaping for a nominal co-pay of \$0.30 per square foot.”

According to WR staff, the Regional Landscape Transformation Program originated from a presentation at MWD that proposed a “turnkey” approach to residential consumers in highly visible areas of the community to serve as “demonstration sites” to encourage other residents to consider more sustainable landscaping options. In response to the MWD presentation IEUA’s WR staff proposed a pilot program in the IEUA service area utilizing the vendor MWD had provided information about: “Generation Water”, a nonprofit 501(c)3 that employed and trained local high school and college students to perform the program activities.

On July 18, 2012, IEUA’s Board approved the one-year pilot program with \$115,000 of funding. Generation Water provided renovation for 27 sites totaling 22,034 square feet of turf removed for a cost of \$40,546. However, the contract specified that the nonprofit would not be reimbursed until projects were complete and had been inspected. The nonprofit operated with small cash reserves, and cash flow problems by the nonprofit ultimately ended the program (per WUE staff).

With budgeted funds still unspent, applicants on the waiting list and funding through MWD still available, WR staff, decided to continue the program. CAP and WR staff established a procurement process (evaluated below) for the program that resulted in IEUA WUE staff utilizing Brightview Landscaping (formerly The Brickman Group) for the program.

The program ended at the end of the 2015-2016 fiscal year after MWD discontinued support for the program for that year. The IEUA cost per installation in that final fiscal year is the “IEUA Funding” amount.

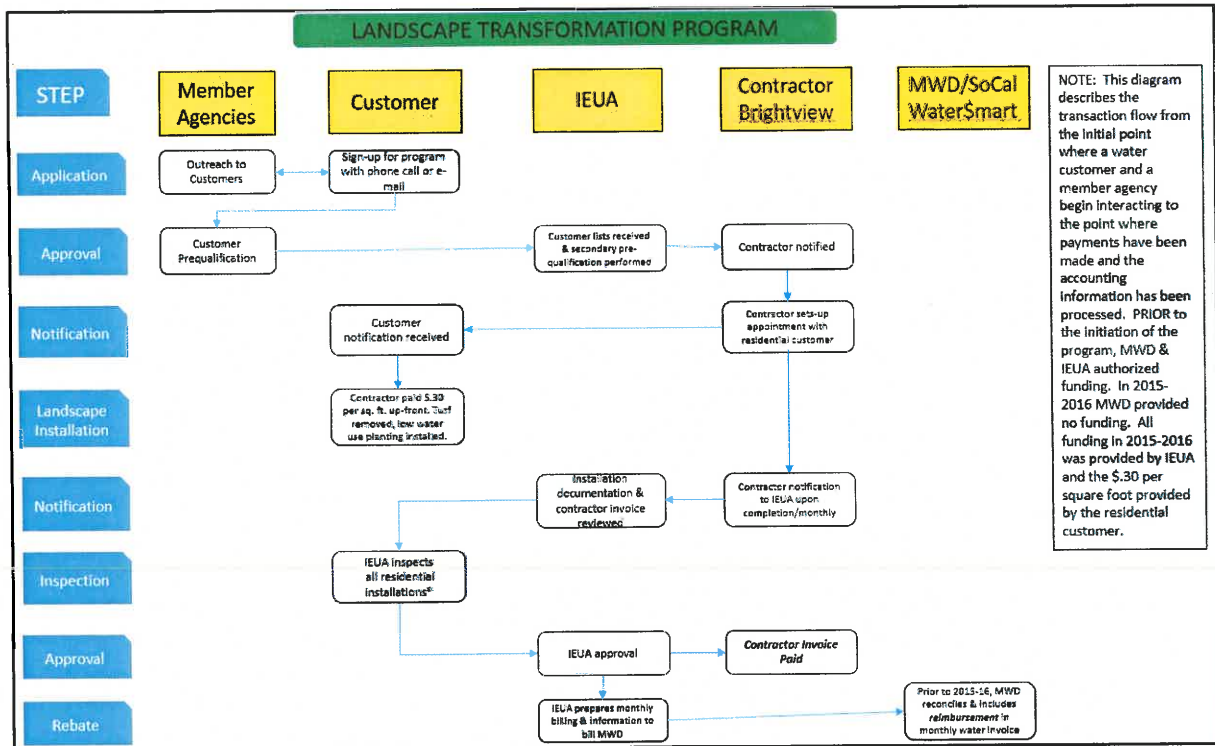
Over the term of the program, spending for landscape transformation amounted to:

Year	# of sites	Square Feet	Other Funding	IEUA Funding	MWD Funding	TOTAL
2012-2013	27	22,034	\$ 6,273.00	\$ 17,990.00	\$ 22,034.00	\$ 46,297.00
2013-2014	65	57,789	\$ -	\$ 104,477.00	\$ 73,266.00	\$ 177,743.00
2014-2015	144	128,011	\$ -	\$ 168,623.00	\$ 251,322.00	\$ 419,945.00
2015-2016	30	26,900	\$ 8,070.00	\$ 80,928.00	\$ -	\$ 88,998.00
TOTALS	266	234,734	\$ 14,343.00	\$ 372,018.00	\$ 346,622.00	\$ 732,983.00

-Source: IEUA 2016 Annual Water Use Efficiency Programs Report

PROCESS

Unlike the Turf Removal Program where MWD and SoCal WaterSmart are responsible for the process until final inspection and billing, the Landscape Transformation Program does not involve MWD until the end of the process. IEUA WR staff have established a contract with Brightview Landscaping to be responsible for the multi-step process of providing contractor services to residential customers (see procurement process review discussion below).



1. Initially IEUA's member agencies provide outreach to their customers who sign-up for the program with a phone call or an e-mail. After the member agency has completed an initial prequalification process the customer lists are transmitted to the WR staff at IEUA who perform a secondary prequalification process. IEUA staff then notify the contractor (Brightview Landscaping) who sets up an appointment with the residential customer.
2. Brightview Landscaping has multiple responsibilities to customers under their contract. According to the Request for Proposal: "Contractor will be responsible for providing participants with landscape assessments, redesign recommendations, site designs, turf removal, irrigation conversion to drip irrigation or micro-sprays, installation of a pressure compensating kit, installation of a weed barrier, installation of climate appropriate plants and shrubs with a coverage requirement of 60%, coverage with mulch, re-programming of existing controller station serving new landscaped area, customer post-site inspections, customer service on an "as needed" basis." The specific requirements consisted of:

- Phase One – Administrative Actions: Retail water agencies and cities will identify potential participants within their service area, explain the program and pre-qualify customers and provide customer lists to contractor
- Phase Two – Landscape Pre-Assessment and Landscape Design: Site pre-evaluation performed that includes assessing the current landscaping and automated irrigation system, signing of program forms, presentation of program process that includes responsibility for irrigating and the risk of grass/weed regrowth. The landscape design process begins with program orientation that includes a discussion of potential lay-out, plant selection, maintenance requirements, new irrigation system, weed barrier, mulch, etc. and the collection of the co-payment.
- Phase Three – Landscape Design: A completed site design will be presented to customers one week after the initial visit. Customers will be given a one-week time frame to review their plan and make any modifications. After the two-week period expires, if a customer is unresponsive, they will be removed from the program. Only under special circumstances will customer modifications be accepted after the two-week period. Each participating member agency will also review and approve customer site plans prior to installation occurring and during the two-week timeframe.
- Phase Four – Additional Services: Additional services requested by the customer and provided by the contractor will be reviewed on a case-by-case basis and approved by the Program Manager and Member Agency.
- Phase Five – Turf Kill Process: the project site is sprayed thoroughly with weed killer and seven day waiting period occurs (this process may be modified depending upon other proposed methods).
- Phase Six – Turf Removal: Turf will be removed, all dead turf and weeds will be cleaned and scraped using a sod cutter to a 1 inch depth, yard to be lightly tilled to hasten re-growth, yard to be graded to a smooth and even level, an "in transition" yard sign will be placed while site is in conversion phase, remove any other materials per customer agreement. Another seven-day waiting period to occur until next step.
- Phase Seven – Final Spray: Final spraying and germinating turf or weeds to be raked clean. Three to five day waiting period.
- Phase Eight – Planting and Mulching: Install a weed barrier, convert overhead sprinkler heads to drip irrigation system by using a conversion kit, install new plants, and spread mulch, project completion form signed off by customer who signed initial forms.
- Phase Nine – Post-Site Follow-up: Two weeks after the completion of the contractor's work at each project site, a follow-up inspection will be scheduled. In addition to providing 60-day and 180-day follow-ups and on an "as needed" basis.

The Agency agreed to the following per-site pricing for the program:

SQUARE FEET	RESIDENT CO-PAY (\$0.30 per sq. ft.)	IEUA FEE	TOTAL paid to contractor	MWD REIMBURSEMENT to IEUA (\$2 per sq. ft.)	Net cost to IEUA
500	\$ 150.00	\$ 1,750.00	\$ 1,900.00	\$ 1,000.00	\$ 750.00
750	\$ 225.00	\$ 2,350.00	\$ 2,575.00	\$ 1,500.00	\$ 850.00
1,000	\$ 300.00	\$ 2,950.00	\$ 3,250.00	\$ 2,000.00	\$ 950.00

IA Observations & Recommendations: Landscape Transformation Program

IA's audit of the LTP program noted that WR staff provide valuable service to the Agency in administering the Water Use Efficiency program. The involvement of the many entities in administering the programs and inspecting the properties reduces risks of misstatement and/or loss to the various Agencies. The most significant issues facing the Agency and WR staff were in keeping up with the number of applicants as funding increased, and ensuring the completion of the post-installation inspections.

Analysis of Procurement Process

According to WR staff, after the initial trial with "Generation Water" ended the member agencies encouraged IEUA to continue the program, so Contracts and Procurements (CAP) and WR staff developed a Request for Proposal (RFP) to solicit bids for the program. The RFP, dated May 31, 2013 provided the detailed steps required from potential vendors as described above and attracted five responses by its June 19, 2013 due date: The Brickman Group, CLS Landscape Management, Blue Diamond Landscape, Conserve and EcoTech Services. The RFP also provided for an informational meeting on June 5, 2013 to answer questions from potential bidders.

An interview panel that included representatives from WR staff, CAP, Cucamonga Valley Water District, Chino Basin Water Conservation District and Monte Vista Water District evaluated the proposals and interviewed the top three candidates: The Brickman Group, Blue Diamond Landscape and EcoTech Services, with the final recommendation being to utilize The Brickman Group since they were both the lowest bidder and familiar to the Agency:

Landscape Transformation Project - Bid Summary					
<u>Company</u>	<u>CLS</u>	<u>ConServe</u>	<u>Brickman</u>	<u>Blue Diamond</u>	<u>Eco Tech</u>
500 sq. ft.	\$ 2,747.50	\$ 4,925.00	\$ 1,750.00	\$ 2,315.00	\$ 3,400.00
750 sq. ft.	\$ 3,871.25	\$ 7,387.50	\$ 2,350.00	\$ 3,472.50	\$ 4,200.00
1,000 sq. ft.	\$ 5,495.00	\$ 9,850.00	\$ 2,950.00	\$ 4,630.00	\$ 5,000.00
per sq. ft. (500)	\$ 5.50	\$ 9.85	\$ 3.50	\$ 4.63	\$ 6.80
per sq. ft. (750)	\$ 5.16	\$ 9.85	\$ 3.13	\$ 4.63	\$ 5.60
per sq. ft. (1,000)	\$ 5.50	\$ 9.85	\$ 2.95	\$ 4.63	\$ 5.00

IEUA established contract #4600001525 with the Brickman Group dated August 29, 2013 in the amount of \$150,000. The proposed project was included as a line item in the water conservation budget for 2013-14. Since the contract was less than \$250,000, under Ordinance No. 101, WR staff were not required to prepare a separate Board item for the project:

Page 6: "Board approval is required for competitively-let procurements greater than \$100,000, unless the procurement is a competitively-let "budgeted procurement" under \$250,000, specifically identified as a detailed line item in the fiscal year adopted budget."

On April 16, 2014 WR staff then obtained ratification from the IEUA Board for an additional \$39,000 spent under the program and approval for an additional \$61,000 to be spent to bring the total contract to \$250,000.

On July 16, 2014 WR staff returned to the Board to expand funding for the program for applicants on the waiting list with new contract #4600001694 for the Brickman Group for \$400,000. Since Brickman had been the "best value" bidder and was willing to hold their prices to those in the prior contract, WR staff were not required to go through another bid process and could justify the contract with Brickman as a sole-source procurement.

This contract has now had two amendments, the first to extend the term to 6/30/2016 and the second to extend the term to 6/30/2017 to complete open projects and recognize Brinkman's name change to BrightView.

Based on the information in the procurement file reviewed by IA, IA notes that the procurement process was consistent with other procurements that IA has reviewed and followed the guidelines outlined by CAP.

Transactions Review

IA performed a variety of procedures to review the transactions, financial activity and participants in the Landscape Transformation Program. These included:

1. Walkthrough of process and documents including: Water\$mart dashboard, MWD invoices and IEUA financial records.
2. Participate in a post-installation inspection and evaluation.
3. Scan list of participants and addresses for any that appeared out of the ordinary. Noted 1 item with no address and 3 names currently affiliated with IEUA.
4. Perform analytical reviews including:
 - a. Average dollars per project
 - b. Review for higher and lower than expected project values
 - c. Average square feet per project
 - d. Review for higher and lower than expected project square footage
 - e. Average dollars per square foot
5. Compared reasonableness of amounts to totals shown in IEUA financial records.

As a result of these procedures, nothing requiring additional inquiry came to IA's attention.

Use of Project Codes and Capitalization Issues

A prior period adjustment is typically documented on the audited financial statements for adjustments necessary for "*material errors in a prior period financial statement made directly to the retained earnings account and shown in the current financial statement.*" (taken from Business Dictionary). Therefore, multiple instances of prior period adjustments may be a sign of weaknesses in internal controls and may raise potential red flags for those who rely on the financial statements.

The IEUA CAFR, has recognized prior period adjustments in 5 of the last 6 fiscal years. This has included adjustments required due to new accounting pronouncements such as

the treatment of bond issuance costs and for accounting and reporting pension obligations. However, in four of the six years, the CAFR has reflected downward adjustments in beginning equity balances to reflect amounts that had been shown as capitalized projects in Work-In-Progress (WIP) on the balance sheet but were for projects that should have been included in expenses.

This occurred in both the 2014-15 and 2015-16 fiscal years for the water resources fund. In attempting to trace the reasonableness of the amounts shown in the Annual Water Use Efficiencies Program report for 2016 to the amounts reflected in the Agency's accounting records in SAP, IA noted that the expenses for the turf removal programs were not included in expense in the accounting records in 2014-15 or 2015-16.

IA discussed this with both Finance and Accounting Department (FAD) staff and WR staff. SAP provides the ability to establish projects for tracking purposes. WIP within the SAP "projects" function is usually used for capital projects, but it is also possible to establish projects as "O & M" expense projects. Since the activities of the WR staff generally involve projects that span multiple fiscal years and spending can occur in one fiscal year with reimbursements or rebates occurring in a different fiscal year, they have been established as "projects" using this option in SAP, however the WUE projects were initially established as capital projects rather than O & M projects within SAP.

FAD staff has indicated that they became aware of the problems with capitalization of WIP several years ago and instituted efforts to resolve the issue. Since then, FAD staff has scrutinized projects individually to determine whether individual projects are incorrectly categorized, which has resulted in the recognition of the prior period adjustments in recent financial statements. Additionally, FAD has asked departments to provide information about projects when they are established and added additional approvals to ensure projects are correctly classified.

Project codes in SAP provide a useful tool for tracking information about individual activities/projects being performed by an Agency department, but inaccurately capitalized projects have led to prior period adjustments in each of the past four year's CAFRs.

- **IA Recommendation:** *Finance and Accounting (FAD) staff have already taken several practical measures to review and reduce the amounts included in Work in Process (WIP) to ensure only capital projects are capitalized. FAD may want to consider prioritizing additional efforts to ensure that prior period adjustments are eliminated, such as:*
 - *Developing a cross-departmental team including representatives from Engineering, Operations and FAD to approve items in advance for capitalization in WIP.*
 - *Establishing an automated log, register or report to be reviewed regularly that tracks project codes, amounts and purpose for FAD review to ensure accurate accounting of projects.*

- *Engaging an outside consultant, accounting firm or additional temporary resources to make a thorough examination of WIP to:*
 - *Ensure only capital projects are included*
 - *Recommend policies and procedures for establishing projects to ensure only capital projects are capitalized*
 - *Develop written examples and guidelines of what constitutes a capital project and what constitutes an O & M project.*

ANNUAL WATER USE EFFICIENCY PROGRAMS REPORT

Each year the Water Resources staff prepare the Annual WUE Programs Report that provides statistical and financial information about all Regional Water Use Efficiency programs implemented in IEUA's service area by MWD, IEUA and in partnership with member agencies. The most current report provides information for the current year and prior information for years back to the 2002-2003 fiscal year. In addition to the regional programs, the report also highlights local initiatives such as the Chino Basin Water Conservation District's Landscape Evaluation program, IEUA sponsored residential landscaping classes held in conjunction with member agencies, and school programs that include the "National Theatre for Children", "Shows that Teach" and the "Garden in Every School" program.

Preparing the report is a multi-step process. WR staff begin with the excel spreadsheet workbook that includes all the historical information and schedules and that serves as the framework to provide the current year's information. Then, month by month activity by individual program (such as "High Efficiency Toilets" or "Landscape Transformation Program") is obtained from the MWD dashboard maintained by the "Water\$mart" program for each member agency and entered on separate spreadsheets for each member agency. Once annual totals for the member agency have been obtained, these totals transfer automatically to the summary spreadsheet for each member agency. For most programs this spreadsheet has imbedded formulas to use those totals to calculate Gallons Saved, and Acre Feet Saved by year and lifetime. In some instances, the rebate activity is not the correct measure for calculation purposes and totals need to be determined manually and entered separately. This is the case for both the residential landscape retrofit program where the rebate is based on the number of sprinkler nozzles and weather based irrigation controllers installed and the Turf programs that are based on the number of square feet of turf removed, not the number of rebates paid. To complete the individual member agency pages, the funding amounts by category for the year are obtained from the MWD dashboard and entered manually.

Once the individual member agency schedules have been completed some of that information is used to prepare the Agency-wide schedule. Information for the Agency-wide schedule is also taken directly from the MWD dashboard. And, in other instances information is entered manually. Information for the dollar amounts shown in the "funding sources" is typically generated by imbedded formulas using the sum of the member agency devices installed multiplied by the maximum rebate amounts. In other instances,

such as turf removal the number of square feet is entered into the excel formula manually to multiply by the rebate amount.

WR staff also generate information about local programs such as the “Garden in every school” program to include separately in the report. The General Manager’s message and the “Highlights” sections are written and included at the beginning of the report. The report is available upon request and on the Agency’s website.

IA Observations & Recommendations

The Annual WUE Programs Report is an effective tool for providing a summary of all regional conservation efforts and the related historical context. IA identified opportunities to increase the usefulness, consistency and accuracy of the Annual WUE Programs Report.

Comparative Analysis

Observation: The Preface to the Annual WUE Programs Report states it “tracks the progress” of the Agency and Region in meeting “the goals and objectives outlined in” the Business Plan. However, no comparisons are included in the report between the actual results shown in the Annual WUE Programs Report and the targets established in the 2015 – 2020 Business Plan.

IA noted that the Board has been provided PowerPoint presentations that support the information in the Business Plan and the Annual WUE Programs Report, but IA did not find any reports or presentations that compared the two to provide an analysis of actual results to those predicted in the Business Plan. Providing such comparisons as additional information in the Annual WUE Programs Report, or in another report would add transparency and provide a detailed analysis about how realistic the Business Plan targets are, highlight where new initiatives were attempted, provide context to the results achieved and provide a framework for adjusting targets and prioritizing future efforts.

As an example, the Business Plan shows that Customer Engagement Software would begin to produce water savings in the 2017 Fiscal Year and Budget-Based Water Rates would begin to produce water savings in the 2018 Fiscal Year. IA asked WR staff about these initiatives. It is IA’s understanding that one member agency, the Monte Vista Water District has implemented Budget-Based Water Rates and another, the City of Chino, is considering their implementation. Similarly, there has been some progress with developing technological tools for Customer Engagement with OmniEarth and other providers. An analysis of the impact of these efforts would provide for a more comprehensive Annual WUE Programs Report and would make the report an effective document to describe progress on these and any other regional initiatives proposed in the Business Plan.

IA prepared a draft of a potential comparison and noted that categories did not always align completely, which may indicate new programs or merely name changes. However, in many areas IEUA did meet or exceed the targets in the Business Plan. Information about the reasons for the variances would provide additional context:

Comparison of Business Plan goals and Actual results*

Activity	Metric	2015-2016 Goal	2015-2016 Actual	Variance
Landscape Evaluation Program	Sites	200	74	(126)
Cooling Tower Controller	Items	10	-	(10)
Free Sprinkler Nozzles	Items	50,000	19,645	(30,355)
HE Clothes Washers	Items	500	959	459
HE Nozzle Direct Install	Items	-	-	-
HE Nozzle Rebate	Items	10,750	24,564	13,814
HE Toilets (all markets)	Items	2,600	9,953	7,353
Premium Eff. Toilets	Items	750	-	(750)
Rain Barrels	Items	50	683	633
Residential Landscape Retrofit-sites	Sites	200	501	301
Residential Smart Controller-upgrade	Items	-	2	2
Smart Controller (SF)	Items	50	271	221
Smart Controller (CII)	Items	100	212	112
<i>Customer Engagement Tech</i>	<i>Acc'ts</i>	-	-	-
Turf Removal (CII)	Sq. Ft.	11,500,000	3,337,120	(8,162,880)
Turf Removal (SF)	Sq. Ft.	1,500,000	1,596,789	96,789
Ultra-Low Volume Urinals/Waterless	Items	5	17	12
<i>Budget-Based Water Rates</i>	<i>Acc'ts</i>	-	-	-
Landscape Transformation Program	Sites	-	30	30
Residential Pressure Regulation	Sites	-	10	10
Laminar Flow Restrictor	Items	-	210	210
Air-Cooled Ice Machine	Items	-	7	7
Pumping Flow Control (CII)	Items	-	7,874	7,874
Soil Moisture Sensor Systems	Items	-	1	1

-Source: IA draft comparison of amounts in Business Plan compared to Annual WUE Programs Report

In terms of “Annual Water Savings” the Business Plan projected a total of 1,975 Acre Feet saved for the 2015-2016 fiscal year. According to the Annual WUE Programs Report the savings achieved totaled 1,858 Acre Feet, amounting to 94% of the target amount. However, in future years the Business Plan sets even more aggressive targets: 3,083 Acre Feet in the 2017 fiscal year with the introduction of *Customer Engagement Software Technology* and then over 9,000 Acre Feet per year from the 2018 fiscal year onward with the introduction of *Budget-Based Water Rates* at a minimum of 2 of the member agencies.

Provide information and analysis comparing the information in the Annual WUE Programs Report to the 2015 – 2020 Business Plan:

IA Recommendation: *The Agency may want to consider utilizing the Annual Water Use Efficiency Programs Report as an evaluative tool to compare actual results to those projected in the Regional WUE (five year) Business Plan. The Annual WUE Programs Report could discuss reasons for variances from that plan, document changes being made to the plan and describe progress on any other initiatives that expect to yield water savings in future years.*

Provide Notes and References to Supporting Information

Observation: The Annual WUE Programs Report is a hybrid of information from a variety of sources, documents and calculations. The information should be credited, cited, referenced or provided as support for the compilation of the report.

The Board Letter and the General Manager’s introduction presenting the Annual WUE Programs Report describes its purpose as serving as a “benchmark for assessing and evaluating overall program performances for planning existing and future programs.

The primary source of information for totaling the activity and funding amounts for each member agency in the WUE Programs Report is the MWD dashboard. The MWD dashboard provides information based on customer submissions and MWD approvals, rather than the rebate payment date. This provides a more comprehensive summary of activity, but makes reconciliation to MWD billings and IEUA financial information difficult. The member agency pages are created in a way that conforms to the information that the member agencies see when they refer to the MWD dashboard. The IEUA summary information is instead developed as a blend of information based on maximum rebate amounts and water-savings estimates as well as information from the MWD dashboard. Therefore, the sum of individual member agency amounts generally does not match the summary information and presentation. This can potentially lead to questions about the reliability of the information presented.

IEUA staff may want to consider options for referencing and supporting information to provide clarity and offer additional source information.

REFERENCE OPTIONS:

- One approach would be to provide notes or documentation that describe the sources of the information and/or the calculation methods used either on each page or in a separate “notes” to the presentation section. This would provide users of the report an understanding of the different sources of information and how they were used.
- Another option would be to expand the “Highlights” commentary at the beginning of the document to describe the methods used to calculate the water savings and funding amounts (see additional comment on “Highlights” below).

Providing additional descriptions and documentation about the sources of the information and how calculations were made increases transparency and helps users of the report place the information in context.

CONSISTENCY:

- The way information is determined for the summary pages supports the purpose of describing the maximum possible funding based on maximum rebate amounts for the various programs. The information on the individual member agency pages

could reflect this same calculation approach as that used for the summary pages to support that purpose.

- The member agency pages provide a succinct summary of actual rebate funding (which may be less than the maximum amount depending on pricing of rebate eligible devices) from the information provided by MWD's dashboard. To support that approach, the summary pages could use that same methodology.

Providing consistency between the individual and summary sections of the report helps users of the report understand the nature of the information and increases their reliance on the information.

IA recommendation: *IEUA may want to consider providing additional documentation, descriptions or informative information in the body of the Annual WUE Programs Report to describe the differing sources of information used to provide member agency information vs. statewide information or alternatively (and/or in addition), presenting both the summary and member agency information on the same basis.*

Align Program Descriptions to Charts Provided

Observation: The first two sections of the Annual Report provide a cover letter from IEUA's General Manager and a "Highlights" document. The Highlights document provides some descriptive and some statistical information but the headings and descriptions are not aligned with the order of the Summary Charts that follow, and some of the most significant programs are not mentioned, while other programs that have only recently been initiated are described in greater detail.

IA noted that the Highlights document is organized to highlight WUE Programs that are either the newest or the most specific to IEUA's region or under IEUA's responsibility shown under the headings: "IEUA Locally Implemented Residential Programs" and "CBWCD Landscape Evaluation Program". This is even though most programmatic spending shown in the Summary Charts that follow is under the SoCal Water\$mart Residential and Commercial categories which are summarized in two paragraphs in the middle of the second page of the "Highlights" document. Within those descriptions, however, no mention is made of the Residential Turf Removal program that accounted for over \$3 million in funding and the Commercial Turf Removal program that accounted for almost \$7 million in funding. Together these two programs accounted for almost \$10 million of the just over \$12 million shown in the Summary Chart. In contrast the Residential Pressure Regulation program that had just recently been approved and accounted for only \$5,700 in funding in 2015-16, was highlighted as the second program mentioned on the first page of the "Highlights" document.

The "Highlights" document is the first thing readers will use to understand the range of WUE Programs. Aligning the commentary with and in the same order as the categories in the Summary Charts makes it possible for readers to connect the information and better

understand the range and results of the various WUE efforts. Some options to consider include:

- Consider organizing the presentation using the same headings as are shown in the Summary Charts: “SoCal Water\$mart Residential Rebates, IEUA Locally Implemented Residential Programs, SoCal Water\$mart Commercial Rebates, IEUA locally Implemented Commercial Programs and CBWCD Landscape Evaluation Program”.
- Reorganize both the Summary Charts and the Highlights Commentary to differentiate between SoCal Water\$mart programs and IEUA Locally Implemented Programs. This would provide a spotlight for the efforts of the IEUA WR staff.
- As noted in the previous recommendation, consider using this section of the Annual Report to provide additional documentation and descriptive information about the sources of the water savings and funding information and how the calculations are made. This will make the Summary Charts easier to understand and provide context for users.

Expand the “Highlights” commentary to provide subheadings and an organizational format that matches the Summary Charts that follow.

IA recommendation: *IEUA may want to consider expanding the “Highlights” commentary and providing subheadings and organizing the section to match the order of the Summary Charts to align the descriptions to the charts that follow.*

Desk Procedures to Provide Guidance in Compiling the Report

Observation: As a guideline, WR staff have a document page of notes and contacts and a checklist to guide the preparation of the Annual WUE Programs Report. The Excel workbook that is the basis of the Report also inherently provides some documentation of the formulas and sources of amounts that are shown. However, there are also instances where amounts (particularly in the amount of turf removed and the dollar amounts of most funding sources) have been added to the report manually.

The various sources of information and methods of calculation can result in inconsistencies and inaccuracies within a schedule and from year to year, particularly when new programs begin or older programs are phased out. For instance, the calculation of gallons saved in a year for 2015-16 for the Landscape Transformation Program multiplies 325,900 times the lifetime acre-feet savings rather than the one-year acre-feet savings used in the other calculations. Also, the 2015-16 schedule includes the homeowner co-pay in the “Outside Funding” column for this program, but in the previous two years schedules it is not included. However, in the 2012-13 schedule (and first year

of this program) an amount is shown in this column. The differences in presentation can undermine the effectiveness and perceived reliability of the information in the Report.

Having a comprehensive, written resource to guide the development of the Annual WUE Programs Report would help improve its consistency and accuracy and may reduce the amount of staff time needed for its completion.

Evaluate the notes and checklist documenting the sources and contents of the Annual WUE Programs Report and consider developing a desk procedure or other document that provides complete guidelines and details for preparation.

IA recommendation: *WR staff may want to consider developing a desk procedure or other document to guide the preparation of the Annual WUE Programs Report for internal staff to follow.*

Soft Recommendations: Additional IA Observations for Consideration

IA reviewed the individual member agency information for the 2014-15 and 2015-16 fiscal years to reconcile those amounts to the summary totals in the Annual WUE Programs Report. As previously noted the totals for the amounts by individual agency do not in all cases agree to the agency-wide totals since some are obtained from different sources. However, this detailed review and other procedures performed during the audit did lead IA to develop additional observations. Therefore, IA makes the following “soft” recommendations for the Agency to consider in developing additional WUE measures for the future:

- Four of the eight member agencies are not municipalities. Over the past two years the level of participation in the various WUE Programs by some of these entities has generally lagged that of the region’s municipalities:

NAME	2015-16 Participation Ranking (of 8)	2014-15 Participation Ranking (of 8)
Cucamonga Valley Water District	1	2
Monte Vista Water District	4	6
Fontana Water Company	7	7
San Antonio Water Company	8	8

San Antonio Water Company encompasses a small service area, so their last-place ranking is understandable and Cucamonga Valley Water District has been an active participant, having responsibility for providing both water resources and wastewater treatment.

The other two non-municipal water suppliers have tended to have lower participation rates, with the Fontana Water Company ranking second to last in both years. Since water use efficiency programs have the impact of reducing revenues,

this may imply that non-municipal water suppliers may have less interest in participating.

As a Regional entity, IEUA must ensure all member agencies are provided fair and equivalent service. IEUA may want to consider where participation rates in water use efficiency programs are at their lowest within the region and establish promotional efforts designed specifically for those communities.

- Some local agencies and governmental organizations have tended to either take greater interest and advantage in WUE Programs or have partnered with IEUA for retrofits. For instance, the City of Chino Hills obtained over \$1.4 million in turf removal rebates and the Fontana Unified School District partnered with IEUA on a retrofit program for almost \$1 million in rebates from 2010 to 2013. A common factor among these efforts is that they have not been based on a coordinated long-term strategy.

IEUA and the member agencies may want to consider strategic planning options, such as establishing a collaborative, specific outreach effort to large local corporations, public agencies and governmental organizations to target significant potential water savings from MWD WUE programs.

- The responsibility for promoting and managing water use efficiency efforts is spread among multiple IEUA departments. The WR staff coordinates the MWD rebate programs and related local efforts. External Affairs takes responsibility for messaging with movie theater ads, bus bench ads, the IEUA website and other forms of publicity. Additionally, there is a separate effort focused on collecting data and developing customer engagement tools. Finally, the Recycled Water team considers ways to add to the recycled water supply and find users for it.

IEUA may want to consider establishing a “task force” or occasional “roundtable” effort between and among IEUA departments and units to coordinate and target WUE efforts, create avenues for collaboration and look for new opportunities for the Agency.

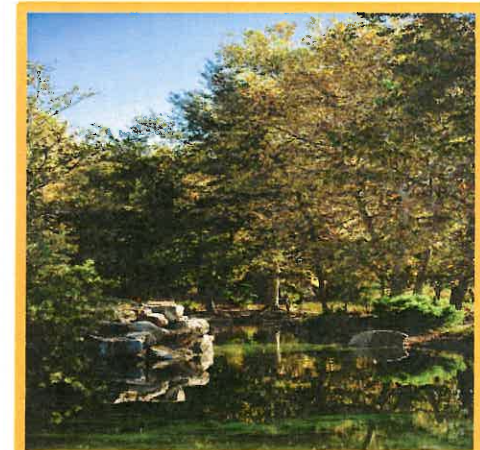
**EXHIBIT A: INLAND EMPIRE UTILITIES AGENCY
 COMMERCIAL REBATES \$50,000 OR MORE FOR 2014-15 & 2015-16**

Payee	Year	MET Amt	MBR Amt	Tot Amt
EL PRADO GOLF COURSES	2015-16	\$25,000.00	\$25,000.00	\$50,000.00
INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY	2015-16	\$50,000.00	\$0.00	\$50,000.00
CAREFREE ONTARIO HOA	2015-16	\$25,000.00	\$25,000.00	\$50,000.00
WOODBEND APARTMENTS	2015-16	\$25,000.00	\$25,000.00	\$50,000.00
UPLAND VIEWPOINT HOA C/O EUCLID MANAGEMENT	2015-16	\$25,000.00	\$25,892.00	\$50,892.00
GP RUSS CHANEY	2015-16	\$25,000.00	\$30,000.00	\$55,000.00
CHINO VALLEY INDEPENDENT FIRE DISTRICT	2014-15	\$33,524.00	\$16,762.00	\$50,286.00
MARTIN ZVIRBULIS (GM – CVWD)	2014-15	\$34,000.00	\$17,000.00	\$51,000.00
COLONY TERRACE LP	2014-15	\$36,000.00	\$18,000.00	\$54,000.00
CLS LANDSCAPE MANAGEMENT INC	2015-16	\$40,000.00	\$20,000.00	\$60,000.00
CITY OF CHINO HILLS	2014-15	\$40,312.00	\$20,156.00	\$60,468.00
CITY OF CHINO	2015-16	\$60,720.00	\$0.00	\$60,720.00
AYRES COUNTRY SUITES	2015-16	\$41,176.00	\$20,588.00	\$61,764.00
CITY OF CHINO HILLS	2014-15	\$41,184.00	\$20,592.00	\$61,776.00
US POST OFFICE RANCHO CUCAMONGA	2014-15	\$41,586.00	\$20,793.00	\$62,379.00
UPLAND ACACIA PARK HOA	2014-15	\$41,986.00	\$20,993.00	\$62,979.00
WEIRICK PROPERTIES LP	2015-16	\$42,000.00	\$21,000.00	\$63,000.00
MOUNTAIN VIEW PARK HOA	2014-15	\$43,946.00	\$21,973.00	\$65,919.00
CITY OF CHINO HILLS	2014-15	\$44,390.00	\$22,195.00	\$66,585.00
CITY OF CHINO HILLS	2015-16	\$51,868.00	\$25,934.00	\$77,802.00
D M P PROPERTIES UNITED PROPERTY MANAGEMENT	2014-15	\$52,000.00	\$26,000.00	\$78,000.00
CITY OF CHINO HILLS	2015-16	\$52,116.00	\$26,058.00	\$78,174.00
MARLAY PARTNERS LLC	2015-16	\$53,832.00	\$26,916.00	\$80,748.00
MONTEREY VILLAGE APT. C/O SO. CALIF. HOUSING	2015-16	\$25,000.00	\$60,000.00	\$85,000.00
CITY OF CHINO HILLS	2015-16	\$58,862.00	\$29,431.00	\$88,293.00
UPLAND HILLS COUNTRY CLUB HOA	2014-15	\$65,700.00	\$32,850.00	\$98,550.00
PARK VINEYARD JOINT VENTURE	2014-15	\$66,622.00	\$33,311.00	\$99,933.00
MONTEREY MANOR MOBILE HOME PARK	2015-16	\$68,130.00	\$34,065.00	\$102,195.00
ANDY MCBRIDE	2014-15	\$74,274.00	\$37,137.00	\$111,411.00
CITY OF CHINO HILLS	2014-15	\$80,314.00	\$40,157.00	\$120,471.00
CITY OF CHINO HILLS	2015-16	\$80,796.00	\$40,398.00	\$121,194.00
MANHEIM SOUTHERN CALIFORNIA	2015-16	\$25,000.00	\$100,000.00	\$125,000.00
PEACH WOOD	2015-16	\$126,308.05	\$0.00	\$126,308.05
(BAPS) DEVELOPMENT INC	2014-15	\$84,518.00	\$42,259.00	\$126,777.00
CITY OF CHINO HILLS	2014-15	\$86,570.00	\$43,285.00	\$129,855.00
CITY OF CHINO HILLS	2014-15	\$88,722.00	\$44,361.00	\$133,083.00
CITY OF CHINO HILLS	2015-16	\$98,576.00	\$35,581.68	\$134,157.68
CYPRESS PARK HOA	2015-16	\$103,480.00	\$34,145.32	\$137,625.32
CITY OF CHINO HILLS	2015-16	\$114,734.00	\$35,829.97	\$150,563.97
AUGUSTA HOMES	2015-16	\$170,134.00	\$85,067.00	\$255,201.00
INLAND EMPIRE UTILITIES AGENCY	2015-16	\$261,999.25	\$0.00	\$261,999.25
ALLEGIANCE HEALTH CARE	2015-16	\$488,000.00	\$244,000.00	\$732,000.00
RED HILL COUNTRY CLUB	2015-16	\$2,227,954.44	\$0.00	\$2,227,954.44
ALL OTHER		\$1,787,795.00	\$646,067.00	\$2,428,982.00
TOTAL FOR 2014-2015 & 2015-2016		\$7,109,128.74	\$2,088,916.97	\$9,198,045.71

**EXHIBIT A: INLAND EMPIRE UTILITIES AGENCY
 STATISTICAL COMPARISON OF COMMERCIAL REBATES \$50,000 OR MORE FOR
 2014-15 & 2015-16**

CATEGORY	% of all rebates	REBATE AMOUNT	% of all participants	IEUA AMOUNT	% of total
<i>Top Proportional Categories:</i>					
Top 10	46.63%	\$4,289,216.66	5.26%	\$564,528.97	27.02%
Top 15	53.20%	\$4,893,600.71	7.89%	\$782,220.97	37.45%
Top 20	58.36%	\$5,367,571.71	10.53%	\$971,877.97	46.53%
All >\$50K	73.59%	\$6,769,063.71	22.63%	\$1,447,729.97	69.31%
<i>Average rebate for individual rebates under \$50k:</i>				\$16,523.69	
<i>Top Individual Participants:</i>					
Red Hill CC	24.22%	\$2,227,954.44	0.53%	\$0.00	0.00%
City of Chino Hills	13.29%	\$1,222,422.65	0.53%	\$383,978.65	18.38%
IEUA & IERCA	3.39%	\$311,999.25	0.53%	\$0.00	0.00%
TOTAL PARTICIPANTS:		190	100.00%		
TOTAL PARTICIPANTS > \$50K:		43	22.63%		

Water Use Efficiency Programs Audit Results and Recommendations



RANGE OF WUE PROGRAMS

MWD SPONSORED PROGRAMS:

RESIDENTIAL PROGRAMS:

- High Efficiency Toilets
- High Efficiency Washers
- Rotating Nozzles for Pop-up Spray Heads
- Weather based Irrigation Controllers
- Turf Removal
- Rain Barrels
- Soil Moisture Sensor Systems

REGIONALLY ADMINISTERED:

- Free Sprinkler Nozzles.com
- Residential Landscape Retrofit
- Landscape Transformation
- Residential Pressure Regulation

COMMERCIAL PROGRAMS:

- High Efficiency Toilets
- Waterless Urinals
- Cooling Tower Controllers
- Weather Based Irrigation Controllers
- Rotating Nozzles for Pop-up Spray Heads
- Large Rotary Nozzles
- Central Computerized Irrigation Controllers
- Laminar Flow Restrictors
- Air-Cooled Ice Machines
- Turf Removal
- Soil Moisture Sensor Systems
- Plumbing Flow Controls

Water Use Efficiency Programs: Spending – 2015-16 & 2014-15

2015-16	Dollars			Percentages		
	IEUA/Other	MWD	TOTAL	IEUA/Other	MWD	TOTAL
FUNDING						
RES Turf Removal	\$0	\$3,049,732	\$3,049,732	0.00%	24.60%	24.60%
COM Turf Removal	\$1,299,068	\$5,486,869	\$6,785,937	10.48%	44.25%	54.73%
Landscape Transformation	\$88,998	\$0	\$88,998	0.72%	0.00%	0.72%
OTHER	\$819,979	\$1,654,940	\$2,474,919	6.61%	13.35%	19.96%
TOTALS	\$2,208,045	\$10,191,541	\$12,399,586	17.81%	82.19%	100.00%

2014-15	Dollars			Percentages		
	IEUA/Other	MWD	TOTAL	IEUA/Other	MWD	TOTAL
FUNDING						
RES Turf Removal	\$0	\$235,430	\$235,430	0.00%	4.29%	4.29%
COM Turf Removal	\$1,054,809	\$2,269,228	\$3,324,037	19.20%	41.30%	60.50%
Landscape Transformation	\$168,623	\$251,322	\$419,945	3.07%	4.57%	7.64%
OTHER	\$522,525	\$992,266	\$1,514,791	9.51%	18.06%	27.57%
TOTALS	\$1,745,957	\$3,748,246	\$5,494,203	31.78%	68.22%	100.00%

Landscape Transformation Participation

Year	# of sites	Square Feet	Resident Match	IEUA Funding	MWD Funding	TOTAL
2012-2013	27	22,034	\$ 6,273.00	\$ 17,990.00	\$ 22,034.00	\$ 46,297.00
2013-2014	65	57,789	\$ -	\$ 104,477.00	\$ 73,266.00	\$ 177,743.00
2014-2015	144	128,011	\$ -	\$ 168,623.00	\$ 251,322.00	\$ 419,945.00
2015-2016	30	26,900	\$ 8,070.00	\$ 80,928.00	\$ -	\$ 88,998.00
TOTALS	266	234,734	\$14,343.00	\$ 372,018.00	\$ 346,622.00	\$ 732,983.00

IA Recommendations:

- *Outreach Initiatives to reach a variety of customers in the service area.*
- *Ensuring only capital projects are capitalized and eliminate the need for prior period adjustments*

Comparison of Business Plan Goals and Actual Results

Activity	Metric	2015-2016 Goal	2015-2016 Actual	Variance
Landscape Evaluation Program	Sites	200	74	(126)
Cooling Tower Controller	Items	10	-	(10)
Free Sprinkler Nozzles	Items	50,000	19,645	(30,355)
HE Clothes Washers	Items	500	959	459
HE Nozzle Direct Install	Items	-	-	-
HE Nozzle Rebate	Items	10,750	24,564	13,814
HE Toilets (all markets)	Items	2,600	9,953	7,353
Premium Eff. Toilets	Items	750	-	(750)
Rain Barrels	Items	50	683	633
Residential Landscape Retrofit-sites	Sites	200	501	301
Residential Smart Controller-upgrade	Items	-	2	2
Smart Controller (SF)	Items	50	271	221
Smart Controller (CII)	Items	100	212	112
Customer Engagement Tech	Acc'ts	-	-	-
Turf Removal (CII)	Sq. Ft.	11,500,000	3,337,120	(8,162,880)
Turf Removal (SF)	Sq. Ft.	1,500,000	1,596,789	96,789
Ultra-Low Volume Urinals/Waterless	Items	5	17	12
Budget-Based Water Rates	Acc'ts	-	-	-
Landscape Transformation Program	Sites	-	30	30
Residential Pressure Regulation	Sites	-	10	10
Laminar Flow Restrictor	Items	-	210	210
Air-Cooled Ice Machine	Items	-	7	7
Pumping Flow Control (CII)	Items	-	7,874	7,874
Soil Moisture Sensor Systems	Items	-	1	1

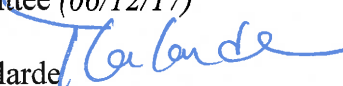
IA Recommendations: WUE Programs Annual Report

WUE PROGRAMS ANNUAL REPORT

- *Evaluate and compare results to Business Plan*
- *Details of supporting information*
- *Expand “Highlights” and ensure consistency with data*
- *Desk procedure to guide preparation of report to ensure accuracy and completeness*

Audit Committee

**INFORMATION
ITEM
2D**

Date: June 21, 2017
To: The Honorable Board of Directors
Through: Audit Committee (06/12/17)
From: Teresa V. Velarde 
Manager of Internal Audit
Subject: Internal Audit Department Status Report for June 2017

RECOMMENDATION

This is an information item for the Board of Directors.

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 2017.

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

PRIOR BOARD ACTION

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

On March 15, 2017, the Board of Directors reconfirmed the Audit Committee and Internal Audit Department Charters.

IMPACT ON BUDGET

None

Internal Audit Department Status Report for June 2017

Projects Completed This Period

Audit: **Water Use Efficiency Programs Audit**

Scope:

To evaluate Water Use Efficiency (WUE) Programs, including internal controls over administrative tasks performed by staff for WUE Programs as required by the executed contracts, and the Agency's Ordinances, policies and procedures. To assess how staff implemented and administered WUE Programs. To identify opportunities to improve internal controls and record-keeping. And, to assess the accuracy and completeness of the annual information about WUE Programs presented to stakeholders.

Status: **COMPLETE**

IA has worked closely with the Planning Department to review Water Use Efficiency Programs and the Annual Water Use Efficiency Programs Report. IA has reviewed processes in place and the supporting documentation for the activities involving Water Use Efficiency and the supporting documentation for the activities involving the preparation of the annual report.

Project: **Filing of the Annual Financial Statements and Single Audit Report**

Scope: Submit the required audited financial reports to the requesting reporting authorities

Status: **COMPLETE**

As is mandatory, IEUA must complete all filing by March 31st, 2017. Final Board of Director approval and authorization is necessary to complete the filing. The FY 2015/16 audited financial reports were available before December 31, 2016 and Internal Audit completed the required filing with the State Controller's Office, the San Bernardino Auditor-Controller and the State Water Resources Control Board. The Internal Audit Department also filed the Single Audit Reports with the required agencies when they became available prior to March 31st. All filing requirements have been satisfied.

Additionally, there was a restatement of the FY2013/14 Single Audit Report because the State Water Resources Control Board made a change in a funding category. The report has been refiled with the Federal Audit Clearing House and will be refiled with the State Controller's Office and the County of San Bernardino.

Audit: **Human Resources Follow-Up Review**

Scope:

Follow-up evaluation of the one outstanding recommendation provided in the Human Resources (HR) Operations Follow-Up audit, dated June 20, 2012.

Status: **COMPLETE**

The one outstanding recommendation from the HR Operations Follow-up Audit report has been implemented. The recommendation required that HR document formal department-specific Standard Operating Procedures (SOPs) for the various administrative activities of the department. Currently, HR has approximately 22 SOPs related to Safety and HR related functions. IA noted SOPs should be in the format outlined in the Agency Policy A-51 (Standard Operating Procedures). No additional findings or recommendations noted.

Internal Audit Department Status Report for June 2017

Audit: 2017 Petty Cash Audit & Follow-Up Review

Scope:

To perform an unannounced audit of the Agency's Board approved Petty Cash funds, along with a Follow-Up review of the five outstanding recommendations provided in the Petty Cash Audit report, dated May 31, 2013.

Status: COMPLETE

IA completed an unannounced physical count of the Agency's Petty Cash Funds on April 4, 2017, which is under the responsibility of the Finance and Accounting Department (FAD). For the 2017 Petty Cash Audit, IA reviewed that petty cash funds were accounted for, reviewed the reasonableness of expenditures, and the processes in place. For the Agency's Petty Cash program, IA identified instances of non-compliance with Agency Policy and areas of concern that require further review by FAD.

Of the five outstanding recommendations, three recommendations have been implemented and two recommendations are no longer applicable. Additionally, IA provided seven new recommendations in this report for the Agency-wide Petty Cash program.

Audit: 2017 Contracts and Procurement Follow-Up Review

Scope:

IA is in the progress of performing a follow-up evaluation to determine the status of the two outstanding recommendations provided in the Contracts and Procurement Follow-Up audit, dated August 29, 2012

Status: IN PROGRESS

There are two recommendations that require follow-up evaluation. IA is currently in the fieldwork/testing phase of this project. IA has been working with BIS on one outstanding recommendation related to the roles and authorizations of the personnel in the Contracts and Facilities Services (CFS) department. The other outstanding recommendation requires follow-up procedures to be performed to verify if corrective actions have been implemented.

IA will report on the status of each outstanding recommendation and the anticipated date for completion is September 2017.

Project: Annual Audit Plan

Scope:

To document IA's plan of proposed audit projects for the coming fiscal year as required by the IAD Charter. The plan is a flexible plan of projects. Requested projects have been scheduled, which are the completion of the Water Use Efficiency Programs Audit and the Wire/Electronic Transfer Payments Audit along with on-going requirements.

Status: COMPLETE

The Annual Audit Plan is completed using a Risk-based approach that includes having meetings, discussions and correspondence requesting input from the Agency's External Auditors, Executive Management Team, General Counsel, the Audit Committee, key Agency individuals, using current trends and knowledge of prior audit results and Agency initiatives.

Internal Audit Department Status Report for June 2017

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: ON-GOING – Agreement & Settlement of Findings/Recommendations

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 Ontario	Complete	September 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
Review of the Ten-year Forecast	Complete	June 2014
Comparable Agency Survey Report	Complete	June 2014
Survey of Comparative Information	Complete	September 2014

Internal Audit stands ready to be of assistance to any Agency department as the Agency pursues renewal, renegotiation and/or other approaches towards the extension/continuance of the Regional Contract and/or with implementation of the recommendations and/or resolution of the unpaid fees identified.

IA is currently supporting Agency staff in discussions with the City of Upland about errors in monthly sewerage reporting.

On-going Projects

Project: Management Requests

Scope:

Assist Agency Management with requests for analysis, evaluations and verification of information, assist with the interpretation of policies and procedures, and/or provide review and feedback on new policies or procedures. These services are provided according to the IA Charter, the Annual Audit Plan, and best practices. The management request projects are short-term projects, typically lasting no more than 60 – 75 hours each where 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.
- Make recommendations about Maintenance, Construction Management and Contracts and Procurement Departments’ concern/issue about a purchase requisition in excess of contract limits
- Participate in IT Security Committee
- Participate in the Safety Committee

Internal Audit Department Status Report for June 2017

Project: Special Projects

Scope:

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

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

During this quarter, IA participated in Special Projects and appropriate reports have been made to Executive Management and the Audit Committee Chair.

Internal Audit Department

Internal Audit Department Staffing:

The Internal Audit Department is staffed as follows:

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

Internal Audit Staff Professional Development Activities:

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

The Internal Audit Manager is a member of the governing board of the Inland Empire Chapter of the Institute of Internal Auditors. The governing board sets direction for the chapter and provides guidance on seminar topics and activities sponsored by the association.

During the past quarter, IA staff has continued to stay abreast of industry developments through review of industry periodicals and participation in on-line webinars. The Manager of IA and one staff member also attended the 3-day 2017 Western Regional Conference sponsored by the Institute for Internal Auditors.

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:

- Monday, September 11, 2017 – Regularly Scheduled Audit Committee Meeting
- Monday, December 11, 2017 – Regularly Scheduled Audit Committee Meeting
- Monday, March 12, 2018 – Regularly Scheduled Audit Committee Meeting

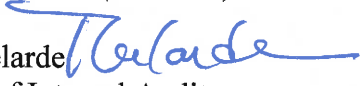
Audit Committee

**INFORMATION
ITEM
2E**

Date: June 21, 2017

To: The Honorable Board of Directors

Through: Audit Committee (06/12/17)

From: Teresa Velarde 
Manager of Internal Audit

Subject: Audit Planning Communication as Required by SAS 114

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.

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

PRIOR BOARD ACTION

On March 16, 2016, the Board approved Contract No. 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 No. 4600002081, in the amount of \$12,450, to complete the required audits for the Chino Basin Regional Financing Authority, both, for 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 services has been included in the budget.



CPAs AND ADVISORS

May 22, 2017

To the Board of Directors
Inland Empire Utilities Agency, California

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, 2017. 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. 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, California

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 15, 2017.

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



CPAs AND ADVISORS

June 1, 2017

Christina Valencia
Chief Financial Officer
Inland Empire Utilities Agency
6075 Kimball Ave.
Chino, CA 91708

We are pleased to confirm our understanding of the services we are to provide the Inland Empire Utilities Agency and Chino Basin Regional Financing Authority (the Agency) for the fiscal year ended June 30, 2017. We will audit the financial statements, including the related notes to the financial statements, which collectively comprise the basic financial statements, of the Agency as of and for the fiscal year ended June 30, 2017. In addition, we will perform an agreed upon procedure for the Appropriations Limit calculation. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Agency's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Agency's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) GASB 68 required supplementary schedules
- 3) OPEB required supplementary schedules

We have also been engaged to report on supplementary information other than RSI that accompanies the Agency's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditor's report on the financial statements:

- 1) Schedule of expenditures of federal awards.
- 2) Combining individual nonmajor fund statements
- 3) Combining individual fund statements and schedules by subfund





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Inland Empire Utilities Agency

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The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

- 1) Introductory Section
- 2) Statistical Section

Audit Objectives

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on—

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to governing board of the Agency. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or we may withdraw from this engagement.



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Audit Procedures—General

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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, if material on a rotational basis, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the government 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. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.



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An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Agency's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Agency's major programs. The purpose of these procedures will be to express an opinion on the Agency's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Other Services

We will also assist in preparing the schedule of expenditures of federal awards and related notes of the Inland Empire Utilities Agency's Single Audit Report in conformity with the Uniform Guidance based on information provided by you. This nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statements, schedule of expenditures of federal awards, and related notes services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Use of Portals

To enhance our services to you, we will utilize Sharefile, a collaborative, virtual workspace in a protected, online environment. Sharefile permits real-time collaboration across geographic boundaries and time zones and allows Lance, Soll, & Lunghard LLP and you to share data, engagement information, knowledge, and deliverables in a protected environment. You agree that Lance, Soll, & Lunghard LLP has no responsibility for the activities of Sharefile and agree to indemnify and hold Lance, Soll, & Lunghard LLP harmless with respect to any and all claims arising from our related to the operation of Sharefile. While Sharefile backs up your files to a third-party server, we recommend that you also maintain your own back files.

Newsletters and Similar Communication

We may send newsletters, emails, explanations of technical developments or similar communications to you. These communications are of a general nature and should not be construed as professional advice. We may not send all such communications to you. These communications do not continue a client relationship with you, nor do they constitute advice or an undertaking on our part to monitor issues for you.



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We may discuss with you our views regarding the treatment of certain items and decisions you may face. We may also provide you with information in an email. Any advice or information delivered orally or in an email (rather than through a memorandum delivered as an email attachment) will be based upon limited research and limited discussion and analysis of the underlying facts. Additional research or a more complete review of the facts may affect our analysis and conclusions.

Due to these limitations and the related risks, it may or may not be appropriate to proceed with any decision solely on the basis of any oral or email communication. You accept all responsibility, except to the extent caused by the gross negligence or willful misconduct of Lance, Soll, & Lunghard LLP, for any loss, cost or expense resulting from your decision (i) not to have us perform the research and analysis necessary to reach or more definitive conclusion and (ii) to instead rely on an oral or email communication. The limitation in this paragraph will not apply to an item of written advice that is a deliverable of a separate engagement. If you wish to engage us to provide formal advice on a matter on which we have communicated orally or by email, we will confirm this in a separate engagement letter.

Management Responsibilities

Management is responsible for (1) establishing and maintaining effective internal controls, including internal controls over federal awards, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements). Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations,



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contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan on the Agency's letterhead. The summary schedule of prior audit findings should be available for our review on the first day of our schedule visit for the Single Audit.

You are responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is stated fairly in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information. With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.



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You agree to assume all management responsibilities relating to the financial statements, schedule of expenditures of federal awards, and related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the schedule of expenditures of federal awards and related notes and that you have reviewed and approved the schedule of expenditures of federal awards and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Engagement Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditors' reports or nine months after the end of the audit period.

We will provide copies of our reports; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Lance, Soll, & Lunghard LLP and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to California Society of Certified Public Accountants or the American Institute of Certified Public Accountants or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Lance, Soll, & Lunghard LLP's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.



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We will return all of your records and documents provided to us at the conclusion of the engagement. Your records are the primary records for your operations and comprise the backup and support for your work product. Our copies of your records and documents are not a substitute for your own records and do not mitigate your record retention obligations under any applicable laws or regulations. Workpapers and other documents created by us are our property and will remain in our control. Our work papers will be maintained by us in accordance with our firm's record retention policy and applicable legal and regulatory requirements.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the California Society of Certified Public Accountants or the American Institute of Certified Public Accountants, or Pass-through Entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

We expect to begin our audit as previously agreed to by management. Deborah Harper is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. To ensure that Lance, Soll, and Lunghard LLP's independence is not impaired under the AICPA Code of Professional Conduct, you agree to inform the engagement partner before entering into any substantive employment discussions with any of our personnel.

Our fees for these services are outlined in our contract with you. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 90 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report(s). You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

GASB 68 Implementation

If at any time during the testing, variances are noted, *Government Auditing Standards* require us to assess the need for a specialist, such as an actuary. A specialist will need to be used to value the variance noted for the financial statements. This value will be required for us to provide an opinion on the financial statements. Any cost for an actuary will be passed to your local government and we will discuss this additional cost ahead of time.

Lance, Soll, & Lunghard LLP is a member of PrimeGlobal, a global association of independent accounting firms. No PrimeGlobal member firm is an agent or partner of the association or of any other member firm. No PrimeGlobal member firm has the authority to enter into any legal obligations on behalf of the association or any other member firm. If Lance, Soll, & Lunghard LLP introduces you to another PrimeGlobal member firm, Lance, Soll, & Lunghard LLP specifically denies any liability for any work performed by that firm. You should make your own contractual arrangements with that firm for work that they perform. The fact that you may have been introduced to us by another PrimeGlobal member firm does not make that firm, its partners or its employees responsible for any of our acts or omissions. Lance, Soll, & Lunghard LLP is not the agent or partner of PrimeGlobal or any other member firm, and does not have the authority to enter into legal obligations on behalf of either the association or any other member firm thereof. You agree that Lance, Soll, & Lunghard LLP has the sole liability for any work performed under this engagement and you undertake not to make any claim or bring any proceedings against either PrimeGlobal or any other member of PrimeGlobal in relation to work covered by this engagement.



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You agree that any claim arising out of this Agreement shall be commenced within one (1) year of the delivery of the work product to you, regardless of any longer period of time for commencing such claim as may be set by law. A claim is understood to be a demand for money or services, the service of a suit, or the institution of arbitration proceedings against Lance, Soll, & Lunghard LLP.

If any dispute, controversy, or claim arises, either party may, upon written notice to the other party, request that the matter be sent to arbitration after attempting to resolve the dispute in accordance with Contract Number 4600002079, specifically Section 9.K.1 & 2. In the event of arbitration, the parties hereto agree that there shall be a single neutral Arbitrator who shall be selected by each party submitting five names of persons acceptable to be appointed as Arbitrator. The parties shall mutually agree from this list on a single neutral Arbitrator. If the parties cannot agree from the names submitted, then the matter of selection shall be submitted to the San Bernardino County Superior Court pursuant to the Code of Civil Procedure Section 1281.6, or its successor. The costs of arbitration, including but not limited to reasonable attorneys' fees, shall be recoverable by the party prevailing in the arbitration. If this arbitration is appealed to a court pursuant to the procedure under California Code of Civil Procedure Section 1294, et. Seq., or their successor, the costs of arbitration shall also include court costs associated with such appeals, including but not limited to reasonable attorneys' fees which shall be recoverable by the prevailing party. Should any conflict exist between the contract and LSL's engagement letter, then the contract terms shall prevail.

Government Auditing Standards require audit organizations to provide a copy of their most recent external peer review report and any subsequent review reports during the period of the contract. Our 2016 peer review accompanies this letter.

If any portion of this Agreement is deemed invalid or unenforceable, said findings shall not operate to invalidate the remainder of the terms set forth in this Agreement.

Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

We appreciate the opportunity to be of service to the Agency and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Lance, Soll & Lunghard, LLP

RESPONSE:

This letter correctly sets forth the understanding of Inland Empire Utilities Agency.

Management signature: Christina Valencia

Title: Chief Financing Officer/Assistant General Manager

Date: 06-01-2017



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Akron, OH 44313

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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

SYSTEM REVIEW REPORT

October 26, 2016

To the Partners of
Lance, Soll & Lunghard, LLP
and the Peer Review Committee of the California Society of CPA's:

We have reviewed the system of quality control for the accounting and auditing practice of Lance, Soll & Lunghard, LLP (the Firm) in effect for the year ended May 31, 2016. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under Government Auditing Standards and audits of employee benefit plans.

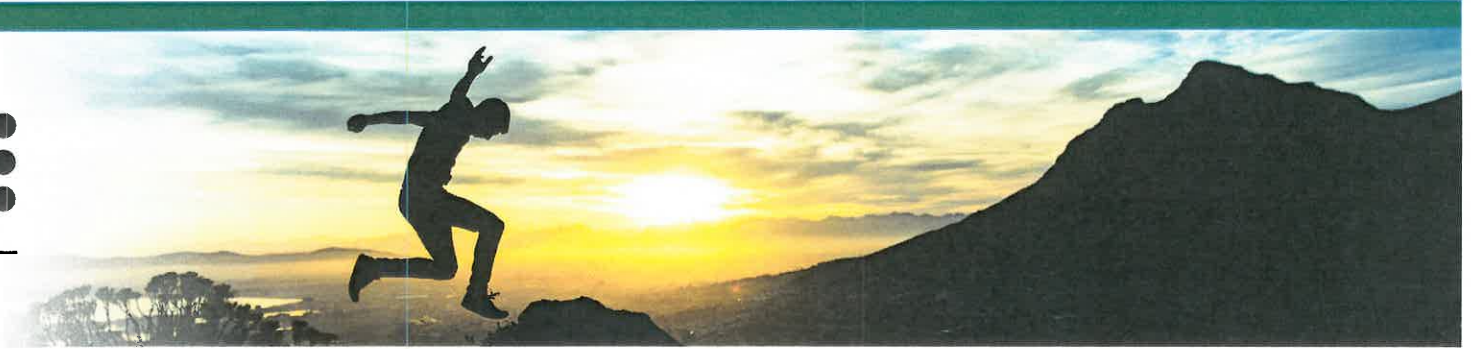
In our opinion, the system of quality control for the accounting and auditing practice of Lance, Soll & Lunghard, LLP in effect for the year ended May 31, 2016 has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Lance, Soll & Lunghard, LLP has received a peer review rating of *pass*.

Sikich LLP



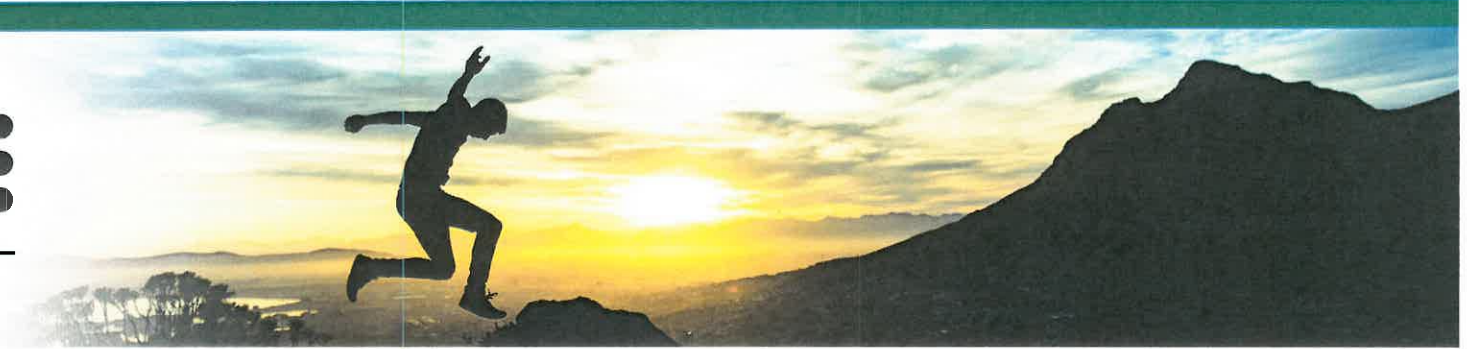
Communication with those charged with governance

- “Those charged with governance” = Board Members
 - Specifically Audit Committee (if established by the entity)
- External Auditors communicate through written or verbal communication
 - During Planning of the audit
 - At the Conclusion of the audit
- Board Members/Audit Committee Members can contact external auditor anytime during the course of the audit
 - Express concerns/ask questions
- Both parties are responsible for the audit



Purpose of the external audit report

- Provide an opinion based on Auditing Standards (financial audit requirements) and Uniform Guidelines (single audit requirements) that the financial report you receive is materially accurate.
- This provides:
 - Confidence in the financial reports provided in order to make financial decisions.
 - Understanding of future stability of the agency in a condensed format, Comprehensive Annual Financial Report



How does external audit provide that assurance

- Risk Based Audit Approach.
 - Reach out to Board Members/Audit committee for any feedback
 - Review management's policies and procedures related to their internal controls over the financial reporting
 - Assess whether those management controls have a risk to financial reporting having errors
 - Done through inquiry of employees responsible for implementing management policies and procedures
 - Spot testing transactions for adherence to the policies and procedures



How does external audit provide that assurance

- Based on assessment done by the auditors, an audit plan is formed which directs which areas need substantive testing.
- For example, if an agency had turn over in the payroll clerk position, and there is a new clerk. This would be part of our assessment as a higher risk area related to errors in financial reporting. Therefore, the auditor would lower the materiality threshold and select samples of transaction over that threshold to test for accuracy and proper reporting.



What is materiality?

- Materiality is a calculated amount computed each year based on the entities financial transactions.
 - An amount under this amount, would not substantially change the outcome of the financial report that would effect financial decisions.
- Materiality is specific to each Agency AND specific to each Fund.
 - Each Fund has their own Materiality Threshold based on their financial transactions.
- This “Planning Materiality” is further reduced by transaction class based on risk assessed to that area.
 - Cash transactions, Revenue Transaction , Payroll Transactions, etc.



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Communicating Results of the Audit


- Opinion Letter
- Report on Internal Control and Other Matters
 - Although our audit is NOT designed to audit the internal controls, we evaluate them for our audit purposes.
 - Therefore, if during the course of our audit we identify any internal control deficiencies or compliance findings we would communicate them
- Audit Communication Letter (SAS 114 – conclusion)
 - Significant accounting estimated used in the financial statements
 - Changes in accounting principles or practices
 - New pronouncements implemented this year and what's to come

**INFORMATION
ITEM
2F**

Date: June 21, 2017

To: The Honorable Board of Directors

Through: Audit Committee (06/12/17)

From: Teresa V. Velarde 
Manager of Internal Audit

Subject: Audit Committee Financial Advisor – Request for Proposal Process

RECOMMENDATION

This is an information item for the Board of Directors.

BACKGROUND

Best practices and the Board-approved Audit Committee Charter, state that “The Audit Committee shall have access to at least one financial expert, an outside party, with no voting rights, who will provide advisory and consulting duties.” Additionally, the Audit Committee Charter requires the financial expert to possess expertise and experience in understanding generally accepted accounting principles and financial statements; auditing comparable entities; internal controls; and an understanding of audit committee functions.

Since 2008, the Audit Committee has relied on the advisory services of Travis C. Hickey, CPA, a consultant with Rogers, Anderson, Malody & Scott. Mr. Hickey has provided accounting and auditing services to governmental agencies since 1997, including experience with water/wastewater activities. Mr. Hickey attends the Agency's Audit Committee Meetings and provides consulting and advisory services to both the Audit Committee and the Internal Audit Department to ensure the responsibilities of the Audit Committee and Internal Audit Department, as outlined in the approved Charters, are fulfilled. Mr. Hickey is a Certified Public Accountant in the State of California and is in good standing. He is a member of the American Institute of Certified Public Accountants (AICPA), Government Finance Officers Association (GFOA) and the California Society of Municipal Financial Officers (CSMFO).

Over the past ten years, Mr. Hickey has established himself as a valuable resource to the Audit Committee and the Internal Audit Department by providing professional auditing advice and information. Mr. Hickey has gained extensive knowledge of the Agency's operations, has established professional working relationships with the Audit Committee and the Agency has been satisfied with his services.

After an original contract with extensions expired on December 31, 2012, the Agency's General Manager approved a sole source justification to enter into a new agreement with Mr. Hickey's firm. The sole source contract was partly to provide continuity due to an unanticipated change in external auditors and the low cost of the services, which the Agency felt warranted saving the time and expense of a full procurement process. The new agreement was established for a three-year term with two possible one-year extensions, the last of which will expire on December 31, 2017.

If the Audit Committee chooses to retain the services of a financial advisor to assist with Audit Committee responsibilities, Internal Audit suggests the following timetable for the procurement process:

Anticipated Timeline for Proposal

July	Advertisement of AC Advisory Services in IIA, AICPA, GFOA and PlanetBids
August	Complete oral interviews of the most qualified, responsive proposals. A selection committee will evaluate proposals and conduct interviews.
September	Selection and Recommendation to the Audit Committee

Request Direction from the Audit Committee

At this time, IA requests direction from the Audit Committee regarding the Request for Proposal Process if the Audit Committee chooses to continue having the role of the Audit Committee Advisor serve on the Audit Committee as stipulated in the current Audit Committee Charter.

IA suggests that there are three potential courses of action:

1. Direct staff to engage in a procurement process. This option will open competition, both in costs and style of services to be provided.
2. Direct staff to negotiate a sole source contract. With this option, IA will work closely with the Contracts and Procurement Department to secure the best contractual agreement.
3. Direct staff to extend the current contract. Procurement Ordinance #101 provides for a maximum initial contract term of 7 years including extensions. The latest agreement was a 5-year term, with an original 3-year contract and 2 single year extensions. Under the current Ordinance, it is permissible to negotiate two additional one-year extensions of the current contract.

The Audit Committee Financial Advisor Services contract is consistent with the *Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices* by following recommended practices for the procurement of such services to provide advisory services and independent oversight of Agency financial statements and the operational effectiveness of the Audit Committee.

PRIOR BOARD ACTION

On March 15, 2017, the Board of Directors approved the Audit Committee and the Internal Audit Department Charters.

On December 21, 2016, the Agency approved Contract Amendment No. 4600000886-002 with Rogers, Anderson, Malody & Scott, LLP, exercising option 2 of 2 to extend advisory audit services in the amount of \$6,190.00 through calendar year 2017.

On September 16, 2015, the Agency approved Contract Amendment No. 4600000886-002 with Rogers, Anderson, Malody & Scott, LLP, exercising option 1 of 2 to extend advisory audit services in the amount of \$6,190.00 through calendar year 2016.

On September 19, 2012, the Agency approved Contract Amendment No. 4600000886-002 with Rogers, Anderson, Malody & Scott, LLP to extend contract services for 3 years, with two single-year options in the amount of \$6,190.00 per calendar year.

IMPACT ON BUDGET

There is no significant impact on the Agency's Fiscal Year 2017/2018 Budget due to this item, since audit committee advisory services are already budgeted in the Administrative Services (GG) Fund as part of the Agency's two-year budget. If the proposals and subsequently a new contract is at a higher rate than the current rate, the budget will be amended as necessary; there is currently a conservative amount allowed for audit services.

When additional outside auditing or consulting services are required for assistance to the IAD or to fulfill the responsibilities of the Audit Committee, a proposal with proposed fees will be submitted through the Audit Committee for appropriate action; the IAD budget has budgeted sufficient funds for the services.