



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

**TUESDAY, SEPTEMBER 11, 2018
9:00 A.M.**

CALL TO ORDER

PUBLIC COMMENT

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

ADDITIONS TO THE AGENDA

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

1. ACTION ITEM

A. MINUTES

The Committee will be asked to approve the Audit Committee meeting minutes of June 11, 2018.

2. INFORMATION ITEMS

A. WAREHOUSE ANNUAL PHYSICAL INVENTORY – INTERNAL AUDIT INVENTORY OBSERVATION REPORT (WRITTEN)

B. AGENCY VEHICLE OPERATIONAL FOLLOW-UP AUDIT: AUTOMOBILE INSURANCE REQUIREMENTS AND REVIEW OF VEHICLE SECURITY PROCEDURES (WRITTEN/POWERPOINT)

- C. INTER-FUND TRANSACTIONS AUDIT REPORT (WRITTEN/ POWERPOINT)
- D. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR SEPTEMBER 2018 (WRITTEN)
- 3. GENERAL MANAGER'S COMMENTS
- 4. AUDIT COMMITTEE ADVISOR COMMENTS
- 5. COMMITTEE MEMBER COMMENTS
- 6. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS
- 7. ADJOURN

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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: jh

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 Thursday, September 6, 2018.

Sally H. Lee
Sally H. Lee

**ACTION
ITEM**

1A



**MINUTES
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
MONDAY, JUNE 11, 2018
9:00 A.M.**

COMMITTEE MEMBERS PRESENT

Kati Parker, Chair
Steven J. Elie

COMMITTEE MEMBERS ABSENT

None

STAFF PRESENT

Halla Razak, General Manager
Christina Valencia, Executive Manager of Finance & Administration/AGM
Kathy Besser, Executive Manager of External Affairs & Policy Development/AGM
Sapna Nangia, Senior Internal Auditor
Peter Soelter, Senior Internal Auditor
Teresa Velarde, Manager of Internal Audit
Sally Lee, Executive Assistant

OTHERS PRESENT

Debbie Harper, LSL CPAs and Advisors
Travis Hickey, Audit Committee Advisor

The meeting was called to order at 9:00 a.m. There were no public comments received or additions to the agenda.

ACTION ITEMS

The Committee:

- ◆ Approved the Audit Committee meeting minutes of March 12, 2018.
- ◆ Recommended that the Board:
 1. Approve the FY 2018/19 Annual Audit Plan; and
 2. Direct the Manager of Internal Audit to finalize the FY 2018/19 Annual Audit Plan;as a Consent Calendar Item on the June 20, 2018 Board meeting agenda.

INFORMATION ITEMS

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

- ◆ FY 2018/19 Financial Audit – Communication Required by SAS 114
- ◆ Garden in Every School Program Review
- ◆ Report of Open Audit Recommendations
- ◆ Internal Audit Department Quarterly Status Report

GENERAL MANAGER'S COMMENTS

General Manager Halla Razak had no comments.

AUDIT COMMITTEE ADVISOR COMMENTS

Audit Committee Advisor Travis Hickey had no comments.

COMMITTEE MEMBER COMMENTS

There were no Committee Member comments.

COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

There were no Committee Member requested future agenda items.

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

Respectfully submitted,

Sally Lee
Executive Assistant

*A Municipal Water District

APPROVED: SEPTEMBER 11, 2018

Audit Committee

INFORMATION
ITEM
2A

Date: September 19, 2018

To: The Honorable Board of Directors

From:  Teresa Velarde, Manager of Internal Audit

Committee: Audit

09/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Warehouse Annual Physical Inventory - Internal Audit Inventory Observation Report

Executive Summary:

The Internal Audit Department (IA) observed and participated in the year-end annual physical inventory at the Agency's Warehouse. The purpose of the annual physical inventory is a best practice control to ensure the accuracy of the total inventory assets reported in the financial statements. IA noted that warehouse and accounting staff applied best practices and controls to conduct the inventory count and safeguard assets. IA identified opportunities to improve:

- Warehouse staff should continue their efforts to evaluate more recent inventory for obsolete items and communicate with appropriate FAD staff about their estimates of obsolete items.
- To ensure that the financial statements reflect the best estimate value of usable inventory, accounting staff should communicate with warehouse staff to determine the best estimate of usable inventory and make adequate financial adjustments and the appropriate accounting entries to ensure the financial statements accurately reflect inventory value.
- Controls over receiving processes should be reinforced and followed at all times.
- The warehouse staff is in the process of moving excess overflow electronic waste, awaiting proper disposal, to an appropriate area separate from regular inventory and to mitigate risk or losses.

The attached report provides details of the recommendations.

Staff's Recommendation:

This is an information item.

Budget Impact *Budgeted* (Y/N): N *Amendment* (Y/N): N *Amount for Requested Approval:*

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On June 20, 2018, the Board approved the Internal Audit Annual Audit Plan. The Warehouse review was approved in the Annual Audit Plan.

Environmental Determination:

Not Applicable

Business Goal:

Warehouse Annual Physical Inventory - Internal Audit Inventory Observation Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by ensuring that IA's recommendations foster a strong control environment, safeguard assets, ensure financial transactions are accurate and assist management in achieving organizational goals and objectives.

Attachments:


Attachment 1 - Warehouse Annual Physical Inventory - Internal Audit Inventory Observation Report



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

DATE: August 22, 2018

TO: Halla Razak
General Manager


FROM: Teresa V. Velarde
Manager of Internal Audit

**SUBJECT: Warehouse Annual Physical Inventory –
Internal Audit Inventory Observation Report**

Audit Authority

The Internal Audit Department (IA) observed and participated in the year-end annual physical inventory at the Inland Empire Utilities Agency's (IEUA or Agency) Warehouse. The observation was performed under the authority given by the IEUA Board of Directors as documented in the IA Charter.

Audit Objective and Scope

The annual inventory count is a process performed before the completion of the Comprehensive Annual Financial Report (CAFR) to validate the total inventory asset dollar amount posted to the financial statements. More importantly, the annual inventory count is a recommended best practice and internal control.

IA performs an annual quality control review of the Agency's CAFR prepared by the Finance and Accounting Department (FAD). Each year, IA observes the Agency's annual physical inventory count at the Agency's Warehouse. Additionally, from time to time, the external financial auditors may ask about the annual physical inventory count or schedule a separate spot check as part of their annual financial audit. This report describes the results of the inventory count and provides recommendations for consideration.

Discussion with Management and Responses to Internal Audit

IA provided the results of this review to Finance and Accounting, and the Warehouse Department management on August 15, 2018 and on August 21, 2018 for their review and comments and their responses have been incorporated where applicable.

TV:ps

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Steven J. Elie
President

Michael E. Camacho
Vice President

Jasmin A. Hall
Secretary/Treasurer

Paul Hofer
Director

Kati Parker
Director

Halla Razak
General Manager

Warehouse Annual Physical Inventory – Internal Audit Inventory Observation Report

Background

The Warehouse operates from an 8,000-square foot corrugated metal building on the grounds of Regional Plant No. 1. The main function of the warehouse is to act as a repository, control point, central receiving and storage location for the Agency's "critical spares" inventory. The warehouse stocks items ranging from plumbing and electrical items to computer paper and janitorial supplies.

Inventory Process

The inventory count was conducted on June 18, 2018. The physical inventory count process proceeded effectively as the inventory team used numerous "best practices", including the following steps:

- FAD staff who participated, used their own written inventory procedures with steps to follow during the inventory count.
 - The Warehouse staff had suspended all receipts and deliveries as of the end of the prior week to ensure the Accounting records would be synchronized with the physical quantities on hand.
 - FAD staff printed pre-numbered count sheets from SAP organized by aisle, row and drawer/shelf column to facilitate the count.
 - The pre-numbered count sheets did not provide any information about quantities on-hand, so all counts were performed without knowledge of expected totals.
 - The inventory counts were completed by two-person teams.
 - The count numbers were entered into SAP as the inventory count progressed, providing real-time feedback of variances.
 - The pre-numbered count sheets were reconciled for completeness at the end of the count to ensure all pages had been returned.
 - An SAP-generated exception report with a listing of significant high-dollar exceptions along with recount sheets was used to perform a second count and reconcile differences.
- ❖ In addition to the annual physical inventory count, Warehouse staff have now established written procedures for monthly cycle counts. Warehouse staff will randomly select 50 inventory items each month and perform a physical count as an additional inventory management function. Any inaccuracies noted during the cycle counts will be adjusted in the Agency's accounting records with the goal of continually improving inventory accuracy. This is another example of a "best practice".

Internal Audit Observations and Recommendations

Internal Audit noted observations during the physical count and provides recommendations for consideration.

Obsolete Inventory:

The Warehouse carries inventory valued at approximately \$106,000 that has not moved or has not been used since 2007 and is considered by Warehouse staff to be “obsolete”. These items have been tagged with a label marked “OBS”. Warehouse staff has budgeted \$125,000 for potential write-offs of these obsolete items and other items in the 2018/2019 Fiscal Year.

Warehouse staff has noted that they plan to evaluate inventory that has not moved for the periods from 2008 to 2010 in the current year. Each year, Warehouse staff intends to evaluate more recent inventory and determine any obsolete inventory.

Accounting principles require that inventory items be carried at the lower of cost or market value in the Agency’s CAFR. In addition to the obsolete items not used since 2007, the Agency should also make an estimate of additional potential obsolete items purchased more recently (since the beginning of 2008) that are no longer used or useful.

Recommendations:

1. *Warehouse staff should continue their efforts to evaluate more recent inventory for obsolete items and communicate with appropriate FAD staff about their estimates of potentially obsolete items.*

Warehouse Response:

Warehouse staff agrees and indicated that they have a process to review obsolete items on an annual basis prior to preparing/updating the next fiscal year’s budget. Once items have been tagged as obsolete, the warehouse updates its budget for the following year to support the write-off/scrap value of items to be disposed.

2. *Finance and Accounting staff should communicate with Warehouse staff about their professional estimate of potentially obsolete inventory and accrue adequate reserves against inventory to reflect this decrease in inventory value (and thereby decrease in total assets), this procedure will ensure that the financial statements reflect the value of usable inventory.*

Finance and Accounting Response:

The Finance and Accounting Department stated that they would prepare a loss accrual for the amounts considered obsolete from 2007 and prior and would also make and include an estimate for potentially obsolete items since 2008. The Accounting Department stated that they will also include a step to perform an inventory loss accrual review in future fiscal closing processes.

Inspection of Inventory during Receiving:

One item included in inventory stated that 1,500 items were received, but the physical count showed only 1,330 items, an error rate of over 10% and the box appeared unopened before the physical inventory count. Warehouse staff has since provided their receiving instructions that require validation of the physical quantities received.

Recommendation:

- 3. Warehouse staff should provide clear documentation and evidence of what steps have been taken to verify that receipts are complete and intact when taken into inventory and ensure that their receiving instructions are followed in all instances.*

Warehouse Response:

Warehouse staff indicated that they do have a process in place to check the shipment and the packing slip. The variance that was discovered during the inventory count is a very rare instance and this does not normally happen.

Computer Waste Storage:

A separate locked cage contained several pallets of computer waste such as circuit boards, computer panels and other items in addition to regular Warehouse inventory. The Warehouse staff has an agreement with the Agency's Integrated Systems Services group to store obsolete computer waste until enough can be gathered to justify their disposal.

Recommendation:

- 4. In addition to the separate established storage area for computer waste, Warehouse staff should ensure that any overflow electronic waste be stored somewhere that remains separate from Warehouse inventory rather than storing it together with inventory items as a best practice and internal control.*

Warehouse Response:

Warehouse has a separate storage area for e-waste, however, if a large amount of waste accumulates between scheduled removals, the waste has been stored temporarily in the cage location. Warehouse staff will now store overflow electronic waste in the unused former auto shop area. In addition, the Agency has recently added another e-waste storage container at HQ, which will support proper storage away from inventory.

Audit Committee

INFORMATION
ITEM
2B

Date: September 19, 2018

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

09/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Agency Vehicle Operational Follow-Up Audit: Automobile Insurance Requirements and Review of Vehicle Security Procedures

Executive Summary:

The Internal Audit Department Charter, requires Internal Audit (IA) follow-up on outstanding recommendations to determine if corrective actions have been taken. IA performed a follow-up review of 5 outstanding recommendations related to the Agency Vehicle Operational audits completed in 2014, which fall under the responsibility of the Contracts and Procurement Department and the Records Management Department. This follow-up review found that 2 recommendations have been implemented, 1 recommendation is no longer applicable, and 2 recommendations are in progress of being implemented. This review noted the following:

- All Agency vehicle Certificates of Title are now safeguarded in one central location and are available if needed.

- Controls over the accountability and inventory of gate transmitters that provide access to Agency facilities require improvement to prevent unauthorized access and potential risk to facilities, public and employees. The database used to track the transmitters requires it to be complete, up-to-date and accurate to ensure only those individuals that require a gate transmitter have been issued one. The review noted there were transmitters not accounted for or recorded, and policy procedures are not always followed to ensure inventory controls are implemented. The attached report provides details of the observations and outstanding recommendations.

Staff's Recommendation:

This is an information item.

Budget Impact *Budgeted (Y/N):* N *Amendment (Y/N):* N *Amount for Requested Approval:*

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On June 20, 2018, the Board approved the IA Annual Audit Plan, the Vehicle Operational follow-up review was scheduled through the Annual Audit Plan.

Environmental Determination:

Not Applicable

Business Goal:

The Vehicle Operational Follow-Up audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that the audit evaluations provide recommendations to foster a strong control environment, safeguard assets, provide a safe work environment, and assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Agency Vehicle Operational Follow-Up Audit: Automobile Insurance Requirements and Review of Vehicle Security Procedures Audit Report
Attachment 2 - PowerPoint



DATE: August 30, 2018

TO: Halla Razak
General Manager

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Agency Vehicle Operational Follow-Up Audit: Automobile Insurance Requirements and Review of Vehicle Security Procedures

Audit Authority

The Internal Audit (IA) Department Charter and the Fiscal Year 2018/19 Annual Audit Plan require that IA follow-up on the status of audit recommendations to determine if corrective actions have been taken. The audit was performed under the authority given by the IEUA (IEUA or Agency) Board of Directors. IA completed a follow-up review of five outstanding recommendations related to the following audit reports:

- Automobile Insurance Requirements, dated March 3, 2014, and
- Review of Vehicle Security Procedures, dated March 3, 2014.

Audit Objective and Scope

The purpose of this follow-up review was to evaluate if corrective actions were implemented for the five outstanding recommendations from the 2014 audits, or if alternate controls have been implemented to mitigate the risks originally identified. This report provides the status of the five recommendations, which fall under the purview of the Contracts and Procurement (CAP) Department.

Audit Techniques:

Audit techniques included:

- Interviews of Agency staff
- Review of Agency policies, procedures, and practices
- Review of supporting documents
- Analysis of transactions

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Audit Results – Executive Summary

Of the five recommendations provided in the 2014 audit report, this review found that two recommendations have been implemented, one recommendation is no longer applicable, two recommendations are in progress of being implemented. The attached report provides details of the observations and recommendations:

- **Automobile Insurance Requirements:** The original audit found that the Agency policies related to vehicle insurance requirements needed to be reviewed, consolidated and updated to clarify the required automobile insurance limits for employees that drive personal vehicles to conduct Agency business. As an additional control, IA suggested an Acknowledgement Statement be developed to outline the insurance requirements and have employees sign to acknowledge their responsibility for maintaining specific insurance limits.

In response to these recommendations, CAP reviewed the related Agency Policies and eliminated one and determined that the current policy related to insurance requirements, specifies the appropriate insurance requirements for all drivers. In addition, CAP worked closely with the Human Resources Department to update the Safety/Human Resources Tailgate Attendance Sheet to include language that states the employees read, understand, and will comply with the requirements of the Agency's policies, the employees' signature is the acknowledgement to the insurance requirements.

One recommendation is considered No Longer Applicable because no updates to the policy are needed at this time. One recommendation is now implemented because a separate acknowledgement was put into place.

- **Gate Transmitters:** Gate Transmitters provide access to IEUA facilities. The original audit noted instances where the gate transmitters were not properly inventoried or accounted for and instances where the required forms that document who the transmitters have been issued to were not on file or available for review. IA recommended that gate transmitters be properly inventoried and accounted for, and the required forms be retained on file as required by Agency Policy A-24. Additionally, IA recommended that CAP work with department managers to periodically review the access granted and make any necessary updates.

The Agency has over 500 active gate transmitters issued to employees, contractors or Agency vehicles. This review found that controls and processes should be strengthened and improved to ensure maintaining accountability and a complete inventory of all gate transmitters. IA noted that the inventory spreadsheets created by CAP are not always current, complete, accurate or reconciled. IA noted several transmitters have been issued without obtaining the required documentation and/or without updating the inventory spreadsheet timely.

Because CAP is addressing the recommendations, the two recommendations related to gate transmitters are considered In Progress of being implemented.

- Certificates of Title (vehicle pink slips): The prior audit noted instances where the Certificates of Title for Agency-owned vehicles were missing or could not be located. IA recommended that the Certificates of Title be verified and procedures be implemented to ensure these legal documents are properly filed and retained. The Records Management Department now retains the documentation. This review found that Certificates of Title for all recent Agency vehicles purchases are accounted for and available for review. This recommendation is considered Implemented.

The Vehicle Operational Follow-Up audit 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, safeguard assets, provide a safe work environment and assist management in achieving organizational goals and objectives.

Acknowledgements

IA would like to extend our appreciation to the CAP and the Records Management Departments for their cooperation and assistance during this review.

Discussions with Management

This audit report was provided to Manager of CAP and Executive Manager of Finance and Administration/Assistant General Manager on August 23rd and 28th, 2018 for their review and input, their comments have been incorporated prior to finalizing this report.

Background

In March 2014, three separate reviews were completed related to the Agency Vehicle Operational audits. Two audit reports were under the responsibility of the Contracts and Procurement (CAP) Department, while one audit report is under the responsibility of the Maintenance & Operations Department (Maintenance). The purpose of the original audits was to evaluate the processes and controls for the Agency's fleet/utility vehicles, determine whether operations are in accordance with established policies and procedures and identify opportunities to improve the efficiency and effectiveness of the program. A total of 18 recommendations were provided through the original audits, 13 recommendations are being evaluated under a separate audit and IA is working with Maintenance to evaluate the status of those recommendations. This report summarizes the implementation actions of the five outstanding recommendations that fall under the oversight of CAP.

Internal Audit (IA) refers readers to each of the respective Agency Vehicle Operational audit reports, which were received and filed by the Board of Directors at the time of issuing the original audit reports, these reports can also be accessed through the Agency's Intranet or requested from the Manager of Internal Audit:

- Automobile Insurance Requirements, dated March 3, 2014,
- Review of Vehicle Security Procedures, dated March 3, 2014, and
- Review of Vehicle Inventory Procedures, dated March 12, 2014.

Automobile Insurance Requirements Follow-up review to the Audit Report dated March 3, 2014

Original Recommendation # 1 from the 2014 Audit Report:

CAP 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" and/or other related vehicle use policies. 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.

Status: No Longer Applicable

Agency Policy A-36 is no longer an active Agency policy, according to CAP, the policy was eliminated resulting from the Agency's adoption of the Agency's Administrative Code.

Agency Policy A-14 (A-14) *Vehicle Use Policies and Procedures* (effective date: September 11, 2008) Section 2. A. 2 states: "To receive the authorized vehicle allowance, employees must maintain valid automobile insurance with limits of at least \$100,000/\$300,000".

According to A-14, employees who receive a vehicle allowance are required to maintain the insurance limits specified, currently, there is no verification process to ensure these limits are carried. Employees are aware of the policy and each year must sign to acknowledge the policy requirements through the Safety Tailgate program.

Employees who do not receive a vehicle allowance and are authorized to use their personal vehicles to conduct Agency-related business are able to request mileage reimbursement for expenses incurred. A-14, Section 2.D.2 states that: "...employees who occasionally need to use their personal vehicle... in order to fulfill their job responsibilities,... shall:" "Obtain automobile public liability and property damage insurance, providing the minimum coverage required by the State of California of all vehicle owners in the State". Therefore, the Agency requires employees that do not receive a vehicle allowance to only have the State of California minimum automobile liability insurance policy limits of:

- Bodily Injury: \$15,000 per person/\$30,000 per accident, and
- Property Damage: \$5,000.

The automobile insurance limits required by the Agency for employees who receive a vehicle allowance are much higher than the insurance coverage required for other employees. *IA recommends that from time to time, CAP evaluate the limits required and determine if the coverage continues to be adequate to mitigate any potential liability for the Agency.*

IA discussed with the Manager of CAP whether there is a potential risk to the Agency if employees do not have sufficient coverage and if they are involved in an at-fault accident while conducting Agency-related business. The Manager of CAP stated that the Agency has accepted this standard requirement. Additionally, the Manager noted that in the past 15 years, only two employees have been involved in auto accidents while driving personal vehicles, one who received a vehicle allowance and the other a mileage reimbursement employee. One case was determined to be the employee's fault and in both cases the employees' personal insurance covered the full liability of the incidents; no expenses were incurred by the Agency resulting from these accidents.

Agency Policy A-14 was last updated in 2008, in consideration of this follow-up review, the risks have been considered and accepted, with regards to the insurance requirements established under the current Agency policy as discussed above; therefore, this recommendation is considered No Longer Applicable since changes to the policy are not planned to be made.

Original Recommendation #2 from the 2014 Audit Report:

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.

Status: Implemented

During this follow-up review, CAP worked with the Human Resources Department to update the Agency's Safety/Human Resources Tailgate Meeting attendance sheet with language that states, "*The employee's signature below confirms he/she has received the training materials for this topic, read, understands and agrees to comply with the requirements and information provided*". As of August 14, 2018, tailgate topics are a combination of reviewing Agency Policies or other required safety-mandated material, the topics must be reviewed annually; therefore, there is a requirement that employees annually review Agency Policy A-14 and sign the Attendance Sheet to document their acknowledgement.

According to CAP, the addition of the disclaimer agreement to the Safety/Human Resources Tailgate Meeting attendance sheet will allow for an efficient administration process because staff will not have to track and maintain another record. This recommendation is considered implemented.

Review of Vehicle Security Procedures
Follow-up review to the Audit Report dated March 3, 2014

A gate transmitter is a remote control that opens the gates that lead to Agency secured areas such as treatment plants, facilities, parking lots etc. Gate transmitters provide access to all IEUA facilities 24 hours a day, 7 days a week (excludes access to IERCF). It should be noted that gate transmitter access during non-operating hours will also require the use of an alarm code to prevent the perimeter alarm from being triggered. Gate transmitters should be safeguarded and accounted for because of the potential risk to Agency facilities, employee and public safety.

Gate transmitters are issued to a designated department manager, project manager, an employee, a contractor or an Agency vehicle. Issuance and inventory of gate transmitters is governed by Agency Policy A-24 (last revised 7/24/15) and CAP has the oversight responsibility. CAP is responsible for the acquisition, inventory, deactivation, and/or disposal of all Agency gate transmitters.

Original Recommendation # 1 from the 2014 Audit Report:

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.

Status: In Progress

Original Recommendation # 2 from the 2014 Audit Report:

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.

Status: In Progress

Initial Follow-Up Review completed by IA:

IA noted that at the time of our initial review, CAP relied on multiple excel spreadsheets to track and account for the Agency's gate transmitters. Based on the excel spreadsheets provided on August 14, 2018 and audit procedures applied initially, the following was noted (represents a "snapshot" of the information that was reviewed at the time the initial audit information provided was evaluated):

There are between 565 and 568 gate transmitters under the custody of CAP. The specific number was not clear due to the differences between the worksheets and the total was not confirmed. With the information that was available, the approximate distribution of gate transmitters, as noted on the database, was:

- 364 issued to an employee(s), location, or Agency contractor, or other,
- 111 assigned to an Agency vehicle/equipment,
- 47 are not assigned and are secured by CAP (on August 22, 2018), and
- 44 have were issued by CAP, but no documentation was provided for IAs review (Agency Policy A-24 requires a signed form be retained for all assignments)

Additionally, during the initial review, IA selected 19 gate transmitters from the 364 gate transmitters issued to an employee, location, or contractor, to verify that the appropriate form is on file and noted that in five (5) instances CAP did not retain the signed form as required by Agency Policy A-24. Two (2) transmitters were issued to a contractor and three (3) transmitters were issued to employees. Therefore, it was determined that issuances are made without retaining the proper form on file as required by the policy.

Subsequent & Additional Follow-Up IA Review completed by IA:

Due to the initial results of this follow-up review, CAP worked to reconcile and update only one spreadsheet to serve as the main database to inventory and account for all gate transmitters. Additional information was provided for IA's review on August 27, 2018, and the following was noted:

- CAP has not confirmed the total assigned number of gate transmitters that should be accounted for, the total is between 565 – 568.
- The main and only updated spreadsheet now shows 87 gate transmitters listed as “Not Assigned” and broken down as follows:
 - 49 gate transmitters are “Not assigned” to any employee, contractor or vehicle and kept in a secure, locked location with CAP (the initial review showed 47).
 - 34 gate transmitters initially listed as “Not Assigned” have now been identified as assigned to either an employee or a contractor. The required forms for the transmitters were subsequently provided for review. IA noted the gate transmitter forms were signed/dated by the requestor between January 4 and August 13, 2018, *up to 7 months prior to this review, but the spreadsheet had not been updated with this information.* The 34 were shown as “unassigned” in the initial spreadsheet and CAP is now working to update the spreadsheet to document who the transmitters were assigned to per the information on the forms.
 - 4 gate transmitters are still unaccounted for. IA recommends CAP deactivate the transmitters to mitigate any risk to the Agency.

CAP continues to improve their controls related to gate transmitters, but challenges continue to exist as observed during the original audit. In the 2014 audit, IA identified that several gate transmitters were not accounted for, additionally, that the required forms were not always available. This follow-up review noted similar observations.

Tighter/stricter controls are needed to properly account for all gate transmitters. At the time of our initial review, IA noted that CAP relied on various excel spreadsheets to track the gate transmitters. The spreadsheets record the gate transmitter #, employee/contractor name or a vehicle/equipment #, and sometimes the date of the issuance. CAP places reliance on multiple spreadsheets, instead of keeping just one database; CAP was not able to explain the reason for having different spreadsheets and why they did not reconcile, why there is incomplete and/or inconsistent information and why there is no accurate total count of transmitters. IA recommends one complete database be maintained and consider adding other useful information, for example: reason for request/issuance, approximate length of time the gate transmitter should be

issued if known/anticipated, specify or note "employee" or "contractor" to specify who the name refers to, the date the transmitter was returned, etc. It was also discussed that if, for efficiency and time's sake, transmitters are issued without a signed form, the appropriate notes should be made on the database to ensure proper inventory and accountability and tracking of the transmitters. Forms should be requested as a follow-up action as soon as possible after the issuance.

Two controls and best practices adopted by CAP to account for gate transmitters are:

- *Continuous communication with Agency departments; and*
- *Proper return or deactivations for employees that leave Agency service*

Department Response:

The CAP Department noted that going forward only one spreadsheet will be used to account for gate transmitters.

Certificates of Title

Original Recommendation # 3 from the 2014 Audit Report:

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.

Status: Implemented

During the 2014 audit, IA found that the Certificates of Title ("Pink Slips") for five passenger vehicles were not accounted for and could not be located. Additionally, it was unclear who the responsible party was to retain these legal documents.

According to the CAP Department, the five missing Pink Slips were handled and resolved by the Records Management (RM) Department. In addition, the CAP Department no longer retains these documents in their files. After the prior audit, CAP put a process in place to transfer any Certificates of Title received to the RM Department for retention.

For the 2018 follow-up review, IA identified 31 vehicles that have been acquired by the Agency since the previous audit was completed in March 2014. For the 31 vehicles, IA verified that RM retains all Certificates of Title, and therefore, IA considers this recommendation to be implemented.

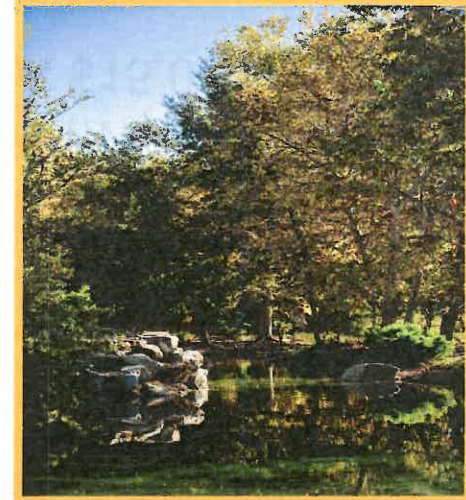
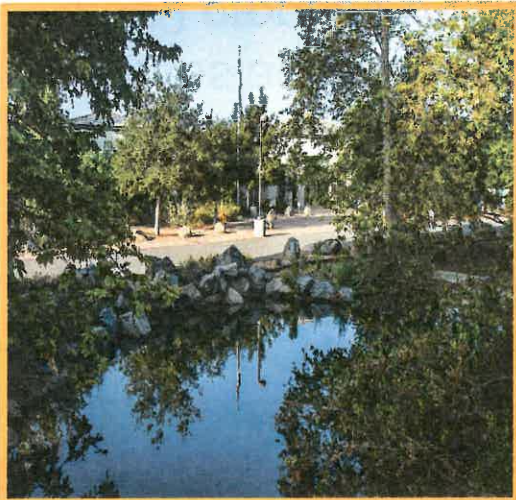
**Attachment 1 –
 Agency Vehicle Operational Audit: Automobile Insurance Requirements Recommendations, March 3, 2014**

Rec #	Recommendations	Implemented	In Progress	No Longer Applicable
1	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" and/or other related vehicle use policies. 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.			X
2	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.	X		
Totals		1		1

Agency Vehicle Operational Audit: Review of Vehicle Security Procedures Recommendations, March 3, 2014

Rec #	Recommendations	Implemented	In Progress	No Longer Applicable
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.		X	
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.		X	
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.	X		
Totals		1	2	
Totals for Follow-Up Review		2	2	1

Agency Vehicle Operational Follow-Up Audit



Automobile Insurance Requirements

Agency Policy A-14:

- Employees who receive a vehicle allowance are required to maintain insurance limits of: \$100,000/\$300,000
- Employees who receive mileage reimbursement for driving related to Agency-business are required to maintain insurance limits of: \$15,000/\$30,000 and \$5,000 property damage
 - (minimum required by the State of California)

• Potential Risks:

- If employee has an at-fault accident and their insurance does not cover, the Agency may or may not be liable.


Review of Vehicle Security Procedures

Gate Transmitters:

- Provide access to all IEUA facilities, and should be safeguarded and accounted for.
- Tighter controls are still needed to account for transmitters:
 - Databased relied on is not maintained current or accurate
 - Found instances where transmitters were not accounted for and transmitters were issued without proper documentation or a trail to identify issuance.

• Potential Risks:

- Employee and Public Safety



The End Questions or Comments?

The Vehicle Operational Follow-Up Audit 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, safeguard assets, provide a safe work environment and assist management in achieving organizational goals and objectives.

Audit Committee

INFORMATION
ITEM
2C

Date: September 19, 2018

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

09/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Inter-Fund Transactions Audit Report

Executive Summary:

Internal Audit (IA) completed an audit of inter-fund transactions as documented in the Agency's audited financial statements for FY 2016 and 2017 to evaluate whether inter-fund transfers comply with Agency policies, are documented properly and recorded accurately in the Agency's financial statements. The review found opportunities to improve information about inter-fund transactions and recommends the following:

- Finance and accounting staff should provide additional detail and information about inter-fund transfers in the notes to the audited financial statements including the methodology used to calculate and determine the amounts and the reasons for the transfers. This additional information will aid readers in understanding the reasons for transfers among funds.
 - Document a policy and/or procedure to provide clear guidance as to the methodology applied to calculate and process inter-fund transfers and transactions, including the purpose, authorization procedures and methodology applied.
 - Prepare an annual informational written/oral presentation for the Board of Directors that describes the reasons for past and/or anticipated inter-fund transfers, the amounts, how those amounts were calculated and how inter-fund transfers compare to prior years.
- The audit report attached provides details of the recommendations made.

Staff's Recommendation:

This is an information item.

Budget Impact *Budgeted (Y/N):* N *Amendment (Y/N):* N *Amount for Requested Approval:*

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On June 20, 2018, the Board approved the IA Annual Audit Plan. The Inter-Fund Transactions Audit was scheduled in the Annual Audit Plan.

Environmental Determination:

Not Applicable

Business Goal:

IAs Inter-Fund Transactions Audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by ensuring that IAs evaluations provide recommendations for improving and safeguarding the Agency's fiscal health, promoting a strong control environment and assisting management in achieving organizational goals.

Attachments:

Attachment 1 - Inter-Fund Transactions Audit Report
Attachment 2 - PowerPoint



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

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

DATE: August 30, 2018

TO: Halla Razak
General Manager

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Inter-fund Transactions Audit

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed an audit of inter-fund transactions as documented in the Agency's Comprehensive Annual Financial Reports (CAFR) for June 30, 2016 and 2017. The audit was performed under the authority given by the IEUA Board of Directors and the Fiscal Year 2018/19 Annual Audit Plan. Attached is the report which discusses IA's observations and recommendations.

Audit Scope

The audit objectives were to:

- Evaluate whether inter-fund transactions made by the Agency comply with all Agency policies,
- consider whether inter-fund transactions are documented appropriately, and
- determine if inter-fund transactions were recorded accurately in the Agency's financial statements.

Audit Techniques Applied

Audit techniques applied during the audit included:

- Interviews of Agency staff
- Walkthroughs of processes and transactions
- Review of supporting documents in SAP and in manual files
- Review of CAFR documentation and descriptions

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

Halla Razak
General Manager

Audit Results - Executive Summary

The Finance and Accounting Department (FAD) is responsible for inter-fund transfers and transactions under the direction of executive management. The audit found that FAD has effective controls in place to process transfers and transactions. Detailed observations and recommendations are included in the attached report. IA found opportunities to improve information about inter-fund transfers and transactions:

- ***FAD should provide additional, detailed information in the Notes to the Financial Statements to clarify what the inter-fund transfers represent, including the reasoning/methodology used to calculate and determine the amounts of the transfers. Although, complete information is provided through various financial and budget documents, the Financial Statements should stand alone to provide sufficient information that a reader can understand the details of the transfers.***
- ***FAD should document a Standard Operating Procedure and/or Inter-Fund Transfer policy that provides clear guidance as to the methodology applied to calculate and process inter-fund transfers, including the purpose, authorization procedures and methodology applied.***
- ***FAD should take the lead to provide an annual informational written and oral presentation for the Board of Directors that describes the reasons for past and/or anticipated inter-fund transfers, the amounts, how those amounts were calculated and how inter-fund transfers compare to prior years.***

The Inter-Fund Transactions Audit Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IAs evaluations provide recommendations foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Discussion with Management

Drafts of this audit report were provided to Christina Valencia, Executive Manager of Finance and Administration/Assistant General Manager, Javier Chagoyen-Lazaro, Manager of Finance and Accounting and Tina Cheng, Budget Officer on August 22, 2018 and August 28, 2018 for their review and comments prior to finalizing and their responses have been incorporated.

Acknowledgements

We would like to extend our appreciation to Finance and Accounting Department staff for their cooperation and assistance during this review.

Inter-fund Transactions

Background

The Agency's fund structure

The Agency has seven (7) funds which are described according to the Agency's Comprehensive Annual Financial Report (CAFR) as follows:

"The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflow of resources, liabilities, deferred inflow of resources, net position, revenues and expenses, as appropriate. The Agency's resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Agency accounts for its activities in Enterprise Funds. These funds are included in the financial statements and have been grouped into fund types described as 'Proprietary Fund Types.'"

According to the CAFR Enterprise Funds:

"are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges."

The funds used by the Agency (as described in the CAFR) are:

The Regional Wastewater Fund – Capital Improvements: Records the transactions for the acquisition, construction, and expansion of the Agency's municipal wastewater treatment plants, large sewer interceptors, and appurtenant facilities.

The Regional Wastewater Fund – Operations and Maintenance: Accounts for the revenues and operating expenses associated with the primary, secondary, and tertiary treatment of domestic wastewater delivered by the contracting agencies to the Agency's interceptors and water recycling facilities.

The Regional Wastewater Fund is made up of both the funds: The Regional Wastewater – Capital Improvements and Regional Wastewater – Operations and Maintenance funds.

The Recycled Water Fund: Records the revenues and expenses associated with the operations and maintenance of the facilities used to distribute recycled water supplied from the Agency's water recycling plants. Additionally, the Recycled Water Fund records the costs associated with the construction and financing of recycled water capital projects.

The Water Resources Fund: Records the transactions associated with providing water resources and water use efficiency programs within the Agency's service area. These programs include management and distribution of imported water supplies, development and implementation of regional water use efficiency initiatives, water resource planning and support for regional water supply programs including recycled, groundwater recharge, and storm drain management.

The Non-Reclaimable Wastewater Fund: Records the transactions for the acquisition, construction, expansion, replacement, and operations of the Agency's non-reclaimable wastewater sewer lines, interceptors and appurtenant facilities. It also accounts for the revenues and operating costs directly related to providing collection services, wastewater conveyance/transport, and wastewater treatment.

The Recharge Water Fund: Accounts for the revenues and expenses associated with the groundwater recharge operations and maintenance through the joint effort of the Chino Basin Watermaster (CBWM), the Chino Basin Water Conservation District (CBWCD), the San Bernardino County Flood Control District (SBCFCD), and the Inland Empire Utilities Agency.

The Administrative Services Fund: The Agency's costs of general and administrative expenses for various cost centers and staff labor pool are initially budgeted in the Administrative Services Fund. These costs include capital acquisitions for Agency-wide purposes, purchases of non-capital and non-project related materials, supplies, tools, and contract services. Throughout the year, pertinent expenses such as staff labor, equipment, and facilities maintenances and other indirect costs are allocated to the Agency's various programs, departments, and external clients on a cost reimbursement basis, based on either estimated staff work time, frequency of equipment usage, or full time equivalent (FTE) participation for specific program or activities.

Inter-fund Transactions

Inter-fund transfers are transactions to transfer funds between the different Agency Funds and are recorded as increases or decreases within the Agency's accounting records. Although they have an impact on the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position for the individual Agency Funds, they offset one another and do not impact the overall net position of the Agency.

The amounts transferred during each of the previous two fiscal years have varied in total and individually. In Fiscal Year 2016, the Agency recorded \$11,935,051 in inter-fund transfers, whereas in Fiscal Year 2017, the Agency recorded \$3,618,117. The amounts transferred were over \$8 million lower due to lower debt levels after the Agency refinanced and repaid bond debt in early 2017 and from lower allocations of connection fees amongst various fees.

Transfers are processed to transfer funds from revenue generating funds to offset the related expenses of other funds that support those programs. These transfers include:

- The Administrative Services fund has a limited revenue stream comprised of property taxes; but incurs agency-wide administrative expenses which are then allocated to other funds through inter-fund transfers. Examples of agency-wide expenses include; external auditing, landscaping, legal, janitorial, etc.
- Surcharge revenues are recorded in the Recycled Water fund. Surcharge revenues are transferred to the Recharge Water fund from Recycled Water as an operating transfer. The surcharge added to the recycled water rates supports the Agency's pro rata share of recharge groundwater basin operating and maintenance costs. These operating transfers from the Recycled Water fund to the Recharge Water fund are supported by agreements between the Agency and Chino Basin Watermaster.
- Wastewater and water connection fees transfers are based on studies performed by professional consultants for the Agency.
- Debt service transfers are based on pledged revenues in debt service documents.

As the CAFR describes, the Agency's use of multiple funds and inter-fund transfers is intended to provide a method to show details of the actions and results of the Agency's various activities:

"The Agency's resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled."

Inter-fund transactions are also made when needed loans or advances are made from one fund to another creating "inter-fund loans". All such inter-fund transfers and transactions are published in the Agency's Comprehensive Annual Financial Report which is the comprehensive stand-alone document that reports the financial activities and transactions of the Agency for the past two fiscal years. The Agency also notes it's plans for inter-fund transfers in the Agency's Budget Document.

Audit Approach

The CAFR provides details to all readers about transfers between funds in the individual and combined fund statements, as well as descriptive information in the Notes to the financial statements.

IA reviewed the Agency's FYs 2016 and 2017 CAFRs. In addition to the information provided by the financial statements themselves, descriptive information about inter-fund transfers is included in Notes 14 and 15 to the financial statements. Additionally, the CAFR includes the individual fund statements that show the transfers in and out of individual funds. For this review, IA reviewed the financial statements and the Notes and performed additional research through reports from SAP, interviews with staff, other supporting documentation and completed a separate reconciliation spreadsheet to

analyze inter-fund transfer activities. With the additional research and documentation, IA could obtain an understanding of all the transfers and verify that all reconciled. The steps below provide a summary of the audit approach to reconcile the inter-fund transfers:

1. Identified the transfer amounts in each fiscal year and reconciled them to the amounts shown in the Notes to the Financial Statements.
2. Downloaded a report from SAP report showing all transfers for each of the two fiscal years reviewed and compared to the information in the financial statements and reconciled all differences.
3. Discussed with FAD staff the purposes and reasoning for the transfers.
4. Compared several of the transfers to additional documentation maintained by FAD staff to understand and test the formulas and calculations used.

The information documented in the journal entries within the accounting records, sorts the inter-fund transfers and transactions by type of transfer, whereas the information shown in the notes to the financial statements sorts and summarizes the information about inter-fund transfers by totals per fund with general, summarized information about the nature of the transfers. IA recommends that additional information and detail be included in the Notes to the Financial Statements to describe the reasons and amounts of the individual transfers and transactions to ensure the Financial Statements stand alone and a reader has all the information in this document.

Inter-fund Transfer Tables

IA summarized the reconciled information from each of the formats in several tables. The tables highlight the variation in amounts from year to year and the different funds involved in transfers on a regular basis.

TABLE A: Two-year comparison of Inter-Fund Transfers by Journal Entry Description:

DESCRIPTION	2016 DETAILS	2016 Amounts	2017 DETAILS	2017 Amounts	Reason
Debt Service Transfer	<i>From: Regional Wastewater (Capital Improvements)</i> <i>To: Recharge Water & Recycled Water</i>	1,771,654	<i>Same as 2016</i>	916,813	Proportionate allocation of debt service to projects being financed
Capital Transfer	<i>From: Non-Reclaimable Wastewater, Recycled Water & Regional Wastewater (Capital Improvements)</i> <i>To: Administrative Services and from Regional Wastewater (Capital Improvements) & Recycled Water to Regional Wastewater (Operations & Maintenance) and Recharge Water</i>	5,116,100	<i>From Non-Reclaimable Wastewater, Recycled Water & Regional Wastewater (Capital Improvements) to Administrative Services and from Regional Wastewater (Operations & Maintenance) to Regional Wastewater (Capital Improvements) & from Recycled Water to Recharge Water</i>	1,098,882	Reimburse Administrative Services fund for capital projects on behalf of other funds and support Recharge Water fund capital costs In 2017, the original transfer was \$2,024,280 and was adjusted with a subsequent transfer "Adjust Capital Transfer" by \$925,398. In 2016, an additional capital transfer of \$1,150,450 was an adjustment to an original \$3,965,650.
Capital One Water Connection Fee Transfer	<i>From: Recycled Water</i> <i>To: Administrative Services, Recharge Water & Water Resources</i>	386,417	<i>same as 2016</i>	148,519	Allocate One Water Fee revenues to funds being benefited
Capital Wastewater Connection Fee Transfer	<i>From: Regional Wastewater (Capital Improvements)</i> <i>To: Administrative Services, Non-Reclaimable Wastewater, Regional Wastewater (Operations & Maintenance)</i>	4,194,880	<i>From Regional Wastewater (Capital Improvements) to Administrative Services & Non-Reclaimable Wastewater</i>	957,403	Allocate Wastewater Connection Fees against funds engaged in capital projects
Operating Transfer	<i>From: Recycled Water</i> <i>To: Recharge Water</i>	466,000	<i>same as 2016</i>	506,500	Reimburse Recharge Water fund for costs
Gross Total of Transfers by Year		11,935,051		3,628,117	

TABLE B: 2016 Inter-Fund Transfers, includes the CAFR Note Description:

Fund Transferred "From"	Fund Transferred "To"	Amount	2016 Note Description
Regional Wastewater-Capital Improvement	Regional Wastewater-Operations & Maintenance	\$3,544,706	The Regional Wastewater Operations & Maintenance (RO) Fund received capital support from the Regional Wastewater Capital Improvement (RC) Fund and the Recycled Water (WC) Fund in the amount of \$3,555,238 and \$3,429,650, respectively.
Regional Wastewater-Capital Improvement	Regional Wastewater-Operations & Maintenance	\$10,532	The Regional Wastewater Operations & Maintenance (RO) Fund received capital support from the Regional Wastewater Capital Improvement (RC) Fund and the Recycled Water (WC) Fund in the amount of \$3,555,238 and \$3,429,650, respectively.
Recycled Water	Regional Wastewater-Operations & Maintenance	\$3,429,650	The Regional Wastewater Operations & Maintenance (RO) Fund received capital support from the Regional Wastewater Capital Improvement (RC) Fund and the Recycled Water (WC) Fund in the amount of \$3,555,238 and \$3,429,650, respectively.
Regional Wastewater-Capital Improvement	Recycled Water	\$1,389,654	The Recycled Water Fund received \$1,389,654 from the Regional Wastewater Capital Improvement Fund for debt service support.
Recycled Water	Water Resources	\$294,955	. . . and the Water Fund received \$294,955 from the Recycled Water Fund for capital support.
Regional Wastewater-Capital Improvement	Administrative Services (non-major)	\$358,324	Non-Major enterprise funds received transfers in the amount of \$3,265,554. . . These transfers included 917,793 in capital support from various funds to the Administrative Services Fund . . .
Regional Wastewater-Capital Improvement	Administrative Services (non-major)	\$527,339	Non-Major enterprise funds received transfers in the amount of \$3,265,554. . . These transfers included 917,793 in capital support from various funds to the Administrative Services Fund . . .

Regional Wastewater-Capital Improvement	Administrative Services (non-major)	\$60	Non-Major enterprise funds received transfers in the amount of \$3,265,554. . . These transfers included 917,793 in capital support from various funds to the Administrative Services Fund . . .
Recycled Water	Administrative Services (non-major)	\$13,072	These transfers included 917,793 in capital support from various funds to the Administrative Services Fund . .
Recycled Water	Administrative Services (non-major)	\$5,926	These transfers included 917,793 in capital support from various funds to the Administrative Services Fund . .
Non-reclaimable Wastewater	Administrative Services (non-major)	\$13,072	Non-Major enterprise funds received transfers in the amount of \$2,878,668. . . These transfers included 917,793 in capital support from various funds to the Administrative Services Fund . . .
Regional Wastewater-Capital Improvement	Non-reclaimable Wastewater (non-major)	\$122,775	Non-Major enterprise funds received transfers in the amount of \$3,265,554. . . and \$122,775 to the Non-Reclaimable Wastewater (NRW) Fund.
Regional Wastewater-Capital Improvement	Recharge Water (non-major)	\$382,000	Non-Major enterprise funds received transfers in the amount of \$3,265,554. . . The remaining amount consisted of \$382,000 in debt service support . . .
Recycled Water	Recharge Water (non-major)	\$466,000	Non-Major enterprise funds received transfers in the amount of \$3,265,554. . . \$466,000 in operating support . . .
Recycled Water	Recharge Water (non-major)	\$1,150,450	Non-Major enterprise funds received transfers in the amount of \$3,265,554. And \$1,376,986 in capital support to the Recharge Water (RW) Fund
Recycled Water	Recharge Water (non-major)	\$85,536	Non-Major enterprise funds received transfers in the amount of \$3,265,554. And \$1,376,986 in capital support to the Recharge Water (RW) Fund
Recycled Water	Recharge Water (non-major)	\$141,000	Non-Major enterprise funds received transfers in the amount of \$3,265,554. And \$1,376,986 in capital support to the Recharge Water (RW) Fund
	Total Transfers	\$11,935,051	

TABLE C: 2017 Inter-Fund Transfers sorted by CAFR Note Description:

Fund Transferred "From"	Fund Transferred "To"	Amount	2017 Note Description
Regional Wastewater-Operations & Maintenance	Regional Wastewater-Capital Improvement	\$181,160	The Regional Wastewater Capital Improvement Fund received capital support from the Regional Wastewater Operations and Maintenance Fund in the amount of \$181,160
Regional Wastewater-Capital Improvement	Recycled Water	\$509,313	The Recycled Water Fund received transfers in the amount of \$509,313 from the Regional Wastewater Fund for the fund's share of the 2017A debt service payment.
Recycled Water	Water Resources	\$58,976	The Water Resources Fund received \$58,976 from the Recycled Water Fund for capital support.
Regional Wastewater-Capital Improvement	Administrative Services (non-major)	\$1,346,060	Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included 1,444,271 in capital support from various funds to the Administrative Services Fund.
Regional Wastewater-Capital Improvement	Administrative Services (non-major)	(\$862,472)	<i>(Adjust (reduce) amounts of transfer.)</i> Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included 1,444,271 in capital support from various funds to the Administrative Services Fund.
Regional Wastewater-Capital Improvement	Administrative Services (non-major)	\$903,646	Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included 1,444,271 in capital support from various funds to the Administrative Services Fund.
Recycled Water	Administrative Services (non-major)	\$49,105	Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included 1,444,271 in capital support from various funds to the Administrative Services Fund.
Recycled Water	Administrative Services (non-major)	-\$31,463	Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included 1,444,271 in capital support from various funds to the Administrative Services Fund.
Recycled Water	Administrative Services (non-major)	\$21,753	Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included 1,444,271 in capital support from various funds to the Administrative Services Fund.

Non-reclaimable Wastewater	Administrative Services (non-major)	\$49,105	Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included 1,444,271 in capital support from various funds to the Administrative Services Fund.
Non-reclaimable Wastewater	Administrative Services (non-major)	(\$31,463)	<i>(Adjust (reduce) amounts of transfer.)</i> Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included 1,444,271 in capital support from various funds to the Administrative Services Fund.
Regional Wastewater-Capital Improvement	Non-reclaimable Wastewater (non-major)	\$53,757	Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included . . . capital support from various funds, . . . \$53,757 to the Non-Reclaimable Wastewater Fund . . .
Recycled Water	Recharge Water (non-major)	\$67,790	Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included . . . capital support from various funds, . . . and \$466,640 to the Recharge Water Fund.
Recycled Water	Recharge Water (non-major)	\$398,850	Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included . . . capital support from various funds, . . . and \$466,640 to the Recharge Water Fund.
Regional Wastewater-Capital Improvement	Recharge Water (non-major)	\$407,500	Non-Major enterprise funds received transfers in the amount of \$2,878,668. The remaining \$914,000 was in operating and debt service transfers to the Recharge Water Fund.
Recycled Water	Recharge Water (non-major)	\$506,500	Non-Major enterprise funds received transfers in the amount of \$2,878,668. The remaining \$914,000 was in operating and debt service transfers to the Recharge Water Fund.
	Total Transfers	\$3,628,117	

Other inter-fund transactions:
Debt Forgiveness between Agency Funds

On June 15, 2016, the Board of Directors approved the forgiveness of advances from the Administrative Services Fund to the Water Resources Fund totaling \$4,308,104. The loans to the Water Resources Fund had originally been made to fund Water Use

Efficiency programs including providing matching amounts to the Metropolitan Water District Turf Removal Program.

Other inter-fund transactions:
Inter-fund Loans and Advances - Current loans outstanding between funds

Advances to Other Funds	Advances from Other Funds	Amount
Regional Wastewater Capital Improvement Fund	Recycled Water Fund	\$13,500,000
Non-Reclaimable Wastewater Fund	Recycled Water Fund	\$15,000,000
TOTAL		\$28,500,000

According to the Agency's CAFR these loans were made to fund the Agency's Recycled Water Business Plan adopted in December 2007. The advances support the capital construction expenditures related to the Regional Recycled Water Distribution System and repayment is expected over several years from increased recycled water deliveries. The CAFR mentions that interest on the advances is applied using the average monthly LAIF rate for the fiscal year.

These inter-fund loans are shown as both noncurrent assets and noncurrent liabilities on the Agency's overall Statement of Net Position. Therefore, both total noncurrent assets and total noncurrent liabilities are \$28,500,000 larger than if no inter-fund loans were outstanding.

Outside investors that are interested in purchasing the Agency's bonds on the open market may use ratios to make their decisions. The larger asset and liability balances can impact asset, equity and some other financial ratios used by potential investors in the Agency's debt. Ratios that are affected by the inter-fund obligations include the following:

RATIO	DESCRIPTION	YEAR	Including Inter-Fund	Excluding Inter-Fund
Debt Ratio	Total Liabilities / Total Assets	2017	39.43%	37.53%
		2016	44.19%	42.43%
<i>Debt Ratio measures the extent of the Agency's leverage. It can represent the proportion of the Agency's assets that are financed by debt; therefore, the larger the percentage, the more debt the Agency has.</i>				
Debt to Equity	Total Liabilities / Total Equity	2017	63.08%	58.22%
		2016	77.89%	72.52%
<i>Debt to Equity measures the Agency's financial leverage (debt), it indicates how much debt the Agency is using to finance its assets to reserves; therefore, the larger the percentage the more debt to reserves.</i>				
Equity Multiplier	Total Assets / Total Equity	2017	1.60 times	1.55 times
		2016	1.76 times	1.71 times
<i>Equity Multiplier measures the Agency's financial debt and indicates whether the Agency has been using more debt than reserves to finance its asset purchases; therefore, the larger the percentage, the more debt is used.</i>				

Finance and Accounting staff noted that the main ratio used by credit rating agencies is the debt coverage ratio which measures the cash flow available to pay current debt obligations and is calculated using net operating income divided by current debt service obligations. This ratio is not affected by the inter-fund loan balances because there are no short-term repayment obligations for the inter-fund debt. Therefore, the Agency's credit rating is not affected by the inter-fund loans.

Observations and Recommendations

Observation #1:

IA's analysis of the documentation of inter-fund transfers provided in the CAFR determined that there is not enough information provided in the Notes to the Financial Statements for readers to reconcile the transfer amounts. In addition, although the Notes describe the reasons for transfers (capital support, operating, debt service) there is little information to provide context for the calculation of amounts or the necessity for the transfers. Although there is information in the Agency's Budget Document and information available through other communications presented to the Board the audited Financial Statements included in the CAFR represent the Agency's Fiscal Year "snapshot" to investors, constituents, the public and other readers about its financial position and results of operations.

The overall financial statements, notes and other documents included in the CAFR are clear and descriptive. The Agency has consistently received an unmodified ("clean") opinion from their external auditors and has received the Government Finance Officers Association "Certificate of Achievement for Excellence in Financial Reporting for multiple years for the presentation of the Agency's financial statements. There is no accounting guidance requiring a specific amount of detail about inter-fund transfers that the Notes should include. Consistent with the Agency's approach to promote transparency and accountability, IA suggests that additional information be included, not only in the Budget Document, but specifically in the Notes to the Financial Statements about transfers between Agency funds so the CAFR "stands on its own" and provides adequate details to ensure clear and transparent information is provided.

Recommendation #1:

FAD should provide additional, detailed information in the Notes to the Financial Statements to clarify what the inter-fund transfers represent, including the reasoning/methodology used to calculate and determine the amounts of the transfers. Although, complete information is provided through various financial and budget documents, the Financial Statements should stand alone to provide sufficient information that a reader can understand the details of the transfers.

DEPARTMENT RESPONSE:

The Finance and Accounting Department agree that additional information and description about the inter-fund transfers will be provided in the CAFR.

Additional Comments by FAD: As recommended, going forward FAD will expand information historically provided in the Notes related to inter-fund loans in subsequent annual financial reports. Additional information will be provided to more clearly define the purpose and methodology of inter-fund transfers.

Inter-fund transfers and related Notes have been part of the audited financial statements presented to the Board and reviewed by our external and internal auditors. The same format has been in place for the last 20 years. While no recommendations or comments to improve communication of these transactions have been provided during this time, FAD agrees the current format can be adjusted to incorporate additional information.

During the presentation of the biennial budget document for FY 2017/18 and 2018/19 at the Regional Technical Committee meeting, member agencies, requested additional breakdown of the budgeted inter-fund transfers associated with the Regional Wastewater program. As requested, FAD provided additional details for each inter-fund category in the Sources and Uses of Fund report for the individual funds.

Observation #2:

Documented policies and/or standard operating procedures provide guidance on financial procedures, are a best practice and ensure effective internal controls.

Inter-fund transfers and transactions are an important activity for fund management for the Agency and are an annual recurring part of finalizing the Agency's accounts for the year. Currently the Agency does not have policies or standard operating procedures to guide the processing of inter-fund transfers and transactions and document the nature and substance of inter-fund transfers and transactions. In the event of employee illness or turnover, it would be difficult for a temporary or replacement employee to prepare the necessary entries without documented procedures to follow.

Without guidance from policies and procedures, inter-fund transfers and transactions can appear arbitrary. The lack of written guidance can also result in a lack of consistency between fiscal years. Without such guidance, new or temporary staff would not have sufficient guidance to prepare the journal entries.

Recommendation #2:

FAD should document a Standard Operating Procedure and/or Inter-Fund Transfer policy that provides clear guidance as to the methodology applied to calculate and process inter-fund transfers, including the purpose, authorization procedures and methodology applied.

DEPARTMENT RESPONSE:

The Finance and Accounting Department agreed that a documented standard operating procedure should be implemented. FAD indicated that all staff are cross-trained and can perform each other's responsibilities with regards to inter-fund transfers and transactions.

Additional Comments by FAD: FAD will prepare a standard operating procedure to document the methodology and processing of inter-fund transfers.

There is minimal to no risk in the preparation of inter-fund transfers. Finance and Accounting staff is cross trained to support the calculation and execution of these transactions. Additionally, there is ongoing consistent communication among staff to ensure that the information reported at the individual fund level is reconciled.

Observation #3:

The Board of Directors should be provided with complete information to understand the nature of the Agency's different operating and capital funds and the impact that inter-fund transfers and transactions have on those individual funds' reserve balances. Currently, there is no requirement that the Board be provided with written or oral communications that describe the details of annual inter-fund transfers.

Throughout the year, the Board is provided with a variety of information about planned allocations between funds and the related inter-fund transfer requirements or other inter-fund transactions at the time the item/initiative is discussed. For example, when Bond issuances, capital projects, fees and other items are originally discussed or approved the transfers and transactions are presented. Additionally, the Board approved budget document provides information about the planned/proposed inter-fund transfers and transactions. Finance and Accounting staff stated they would provide additional information at the request of the Board, IA recommends that an annual presentation be provided to summarize the activities about all Agency inter-fund transfers and transactions for review/discussion by the Board.

Recommendation #3:

FAD should provide an annual informational written and/or oral presentation for the Board of Directors that describes the reasons for past and/or anticipated inter-fund transfers, the amounts, how those amounts were calculated and how inter-fund transfers compare to prior years.

DEPARTMENT RESPONSE:

The Finance and Accounting Department stated that additional information will be presented to the Board of Directors at the request of the Board.

Additional Comments by FAD: Inter-fund transfers, including prior year and future forecasts, are reported to the Board during the budget document preparation and during the presentation of the audited annual financial statements, consolidated and in the individual fund financial statements.

Outside Research about Inter-Fund Transfers

During IA's research related to potential risk areas about inter-fund transfers, IA located an article about inter-fund transfers and potential risks related to such. The December

2015 issue of the “Journal of Governmental & Nonprofit Accounting” study by Robert Felix, an Assistant Professor at Saint Joseph’s University titled: The Use of Inter-Fund Transfers to Manage the “Bottom Line” in the Municipal Context”. The article states that any governmental agency with multiple funds is subject to the risk that inter-fund transfers could be used to manage the operating results of individual funds to create artificial trends and/or justify rate increases or new debt financing. The complete article is included in IA’s audit files and the article can also be accessed online.

IA’s review of inter-fund transfers included considering whether the transfers were being used to manage individual fund results and or the Agency is at risk of being perceived of appearing to manage fund results. IA did not note instances that indicated that the Agency relies on the practice of using inter-fund transfers to manage fund results. The risk of any perception or interpretation by a reader may be there. As noted, IA does not consider this a risk at the Agency.

Inter-Fund Transactions Audit



Comprehensive Annual Financial Report

Notes to the Financial Statement

Fiscal Year 2017

(15) Interfund Transfers

The Regional Wastewater Capital Improvement Fund received capital support from the Regional Wastewater Operations & Maintenance Fund in the amount of \$181,160.

The Recycled Water Fund received transfers in the amount of \$509,313 from the Regional Wastewater Fund for the fund's share of the 2017A debt service payment.

The Water Resources Fund received \$58,976 from the Recycled Water Fund for capital support.

Non-Major enterprise funds received transfers in the amount of \$2,878,668. These transfers included \$1,444,271 in capital support from various funds to the Administrative Services Fund, \$53,757 to the Non-Reclaimable Wastewater Fund, and \$466,640 to the Recharge Fund. The remaining amount of \$914,000 was in operating and debt service transfers to the Recharge Water Fund.

The following table reflects the interfund transfer balances in and out by fund as of June 30, 2017.

Transfers Out:	Transfers In:				Total
	Regional Wastewater Capital	Recycled Water	Water Resources	Non-Major Enterprise Funds	
Regional Wastewater Capital Improvement Fund		\$509,313		\$ 1,846,491	\$ 2,357,804
Regional Wastewater Operations & Maintenance Fund	\$ 181,160				181,160
Recycled Water Fund			\$ 58,976	1,012,535	1,071,511
Non-Major Enterprise Funds				17,642	17,642
Total Transfers	\$ 181,160	\$509,313	\$ 58,976	\$ 2,878,668	\$ 3,628,117

Comprehensive Annual Financial Report Presentation

Fiscal Year 2016

(15) Interfund Transfers

The Regional Wastewater Operations & Maintenance (RO) Fund received capital support from the Regional Wastewater Capital Improvement Fund (RC) Fund and the Recycled Water (WC) Fund in the amount of \$3,555,238 and \$3,429,650, respectively.

The WC Fund received \$1,389,654 from the RC Fund for debt service support and the Water Fund (WW) Fund received \$294,955 from the WC Fund for capital support.

Non-Major enterprise funds received transfers in the amount of \$3,265,554. These transfers included \$917,793 in capital support from various funds to the Administrative Services (GG) Fund and \$122,775 to the Non-reclaimable Wastewater (NRW) Fund. The remaining amount consisted of \$382,000 in debt service support, \$466,000 in operating support, and \$1,376,986 in capital support to the Recharge Water (RW) Fund.

The following table reflects the interfund transfer balances in and out by fund as of June 30, 2016.

Transfers Out:	Transfers In:				Total
	Regional Wastewater (RO)	Recycled Water (WC)	Water Resources (WW)	Non-Major Enterprise Funds	
Regional Capital Improvement (RC) Fund	\$ 3,555,238	\$ 1,389,654		\$ 1,390,498	\$ 6,335,390
Recycled Water (WC) Fund	3,429,650		294,955	1,861,984	5,586,589
Non-Major Enterprise Funds	-			13,072	13,072
Total Transfers	\$ 6,984,888	\$ 1,389,654	\$ 294,955	\$ 3,265,554	\$ 11,935,051

Recommendation #1

IA recommends additional detailed information be included in the Notes to the Financial Statements to clarify what the inter-fund transfers represent, including the reasoning and methodology used to calculate and determine the amounts of the transfers.

Items to consider/discussion points:

- CAFR presentation of enterprise funds
- Notes to the Financial Statements
- Additional Information for the Board of Directors

Audit Recommendations:

Recommendation #2

- *FAD should document a Standard Operating Procedure and/or Inter-Fund Transfer policy that provides clear guidance as to the methodology applied to calculate and process inter-fund transfers, including the purpose, authorization procedures and methodology applied.*

Recommendation #3

- *FAD should take the lead to provide an annual informational written and oral presentation for the Board of Directors that describes the reasons for past and/or anticipated inter-fund transfers, the amounts, how those amounts were calculated and how inter-fund transfers compare to prior years.*

Questions/Comments

The Inter-Fund Transactions Audit Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IAs evaluations provide recommendations foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Audit Committee

INFORMATION
ITEM
2D

Date: September 19, 2018

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

09/11/18

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for September 2018

Executive Summary:

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.

During this quarter, Internal Audit staff worked primarily on the Inter-Fund Transfers audit, performed a follow-up review of two of the three Vehicle Operational audits, and observed the Agency's annual Warehouse inventory count, among other administrative projects. The report attached provides the results of our review and highlights other on-going audit projects.

IA continues to assist with any requests for audit work, review of Agency policies and procedures and recommendations for internal controls, as well as, work on routine audit projects as specified in the Annual Audit Plan. The attached report provides details and information.

Staff's Recommendation:

This is an information item.

Budget Impact Budgeted (Y/N): N Amendment (Y/N): N Amount for Requested Approval:

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Full account coding (internal AP purposes only): - - - Project No.:

Prior Board Action:

On December 20, 2017, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

The Status Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing IA's progress in providing independent evaluations and audit services of Agency financial and operational activities and making recommendations for improvement, to promote a strong control environment, safeguarding assets and fiscal health and to assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Internal Audit Department Status Report for September 2018

Internal Audit Department Status Report for September 2018

Projects Completed This Period

Project: **Inter-Fund Transactions/Transfers Audit**

Status: **Completed**

Scope: To evaluate whether the Agency's Inter-Fund Transactions and Transfers comply with Agency policies and whether they are documented appropriately and recorded accurately in the Agency's accounting records and financial statements.

The Finance and Accounting Department (FAD) is responsible for inter-fund transfers under the direction of executive management. The audit found that FAD has effective controls in place to process transfers. IA found three opportunities to improve information about transfers to improve clarity and transparency and provides three recommendations related to the following:

- Provide additional information in the Notes to the Financial Statements
- Document Standard Operating Procedures and/or Policies
- Provide the Board with an annual update/presentation on inter-fund transactions and transfers

Detailed observations and recommendations are included in the complete audit report, presented under separate cover.

Project: **Warehouse Annual Physical Inventory – Internal Audit Inventory Observation Report**

Status: **Completed**

Scope: The annual inventory count is a process performed before the completion of the Comprehensive Annual Financial Report (CAFR) to validate the total inventory asset dollar amount posted to the financial statements. More importantly, the annual inventory count is a recommended best practice and internal control.

Each year, IA observes the Agency's annual physical inventory count at the Agency's Warehouse. Additionally, from time to time, the external financial auditors may ask about the annual physical inventory or schedule a separate spot check as part of their annual financial audit. This report describes the results of the inventory count and provides three recommendations for consideration:

- Evaluate obsolete inventory and ensure the financial statements reflect the value of usable inventory
- Ensure documented inventory receiving processes are followed
- Store e-waste separately from inventory

Detailed observations and recommendations are included in the complete audit report, presented under separate cover.

Project: **Vehicle Operational Follow-Up Audit: Automobile Insurance Requirements and Review of Vehicle Security Procedures (5 Recommendations)**

Scope:

IA completed a follow-up evaluation to determine the status of 5 of the 18 outstanding recommendations provided in two of the three Vehicle Operational Audit Reports (Automobile Insurance Requirements and Review of Vehicle Security Procedures) completed in March 2014. The 5 recommendations reviewed fall under the oversight of the Contracts and Procurement (CAP) Department.

Status: **Complete**

IA found that 1 recommendation has been implemented, 2 recommendations are no longer applicable and 2 recommendations are in progress. The 13 remaining recommendations are the primary responsibility of the Maintenance & Operations department and will be evaluated separately and reported on in a separate report. Detailed observations and recommendations are included in the attached report.

Internal Audit Department Status Report for September 2018

Project: Report on Outstanding Recommendations as of September 2018 *

Status: **Completed** - This is a status report – Recommendations that are outstanding; include those recommendations where final review/evaluation by IA is required before closing out.

Scope: The Internal Audit Department Charter requires the Internal Audit Department (IA) to follow-up on the status of outstanding recommendations to determine if corrective actions have been implemented. The follow-up reviews are scheduled through the Board-approved Annual Audit Plan. Executive Management supports the implementation efforts of the recommendations previously provided and/or the development of alternative controls to address the original risks identified.

The table below provides the number of recommendations outstanding as of this Status Report. Additional details about each of the outstanding recommendations is submitted with the Annual Audit Plan in June each year. This summary is to provide an update on the status of follow up audits and the related outstanding recommendations. This summary includes new recommendations provided during this calendar year as well as considers any recommendations cleared during the year. Follow up reviews are part of the on-going monitoring activities IA performs according to the requirements of the IAD Charter. Follow up review is typically scheduled between 12 – 18 months from the date of the original audit, to allow time for full implementation. If a recommendation is deemed not to be implemented, the recommendation remains outstanding or alternate controls to mitigate any risks are evaluated to determine if the risk has been addressed and the recommendation is no longer applicable. Follow up review is also scheduled if requested sooner by the Audit Committee or Executive Management. The audited business units are encouraged to submit additional information for IA review if they determine the recommendation has been satisfied.

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	FY 2019
SCE Utility Payments	August 28, 2013	1	FY 2019
Accounts Payable Follow-Up	August 29, 2013	9	FY 2019
Automobile Insurance Requirements *	March 3, 2014	2	FY 2019
Vehicle Security Procedures *	March 3, 2014	3	FY 2019
Vehicle Inventory Procedures	March 12, 2014	13	FY 2019
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2020
Master Trade Contracts	September 1, 2016	6	FY 2020
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2020
Audit of Master Services Contracts	December 5, 2016	3	FY 2020
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2020
Water Use Efficiency Programs Audit	June 5, 2017	6	FY 2020
Contracts and Procurement Follow-Up Audit	August 30, 2017	1	FY 2020
Payroll Operations Audit	August 30, 2017	6	FY 2020
Procurement Card Audit	March 1, 2018	7	FY 2021
Wire Transfers Audit	March 1, 2018	5	FY 2021
Garden in Every School	May 31, 2018	7	FY 2022
Total Outstanding Audit Recommendations		88	
Recommendations related to the Regional Contract Review (these recommendations are planned for full implementation with the renegotiation of the Regional Contract IA will not follow up on these items until the renegotiation has been finalized)			
Regional Contract Review – Final Audit Report	December 16, 2015	31	Pending – Renegotiation of the Regional Contract

*Table above does not include the status of and/or any new recommendations resulting from the three audit projects completed during this quarter (as noted in this Status Report). The status of those recommendations will be added to this table once all items have been received by the Audit Committee and the Board of Directors.

**Internal Audit Department
Status Report for September 2018**

Planned/Future/Additional Projects

Project: **Water Connection Fee Audit**

Status: **Initial Research in Progress**

Scope:

To ensure adequate Water Connection Fees internal controls are in place and functioning as intended over:

- Collection and recognition of revenue.
- Adequate segregation of duties
- Procedures to reconcile new water connections to the fees being paid
- Completeness of all water connection fees being collected

The objectives of the audit will be to:

- To determine whether Agency and departmental goals have been met,
- To determine compliance with Agency policies and procedures, and
- To identify improvements for the effectiveness and efficiency of operations.

A final report is anticipated in December 2018.

Project: **Fleet Management & Fuel Card (Voyager Card) Program Audit**

Status: **Initial Research in Progress**

Scope:

To evaluate the internal controls over the procurement, accountability, issuance and maintenance over the Agency's fleet vehicles, along with the controls over the Voyager Fuel Card program to ensure it meets the requirements of the Agency's policies, and there are sufficient controls in place to ensure it is safeguarded from loss, theft, misuse, or abuse and it is used in the most effective manner. In addition, to determine whether the program meets the Agency business goals and identify opportunities to improve the effectiveness and efficiency of operations.

A final report is anticipated to be completed by December 2018.

On-going Projects

Project: **Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures**

Scope:

IA is in the progress of performing a follow-up audit to determine the status of the 13 open recommendations provided in the Vehicle Operational Audit: Review of Vehicle Inventory Procedures, dated March 12, 2014. The Maintenance & Operations department are primarily responsible for the 13 recommendations.

Status: **IN PROGRESS**

IA is currently in the planning phase of this project and has met with key representatives from the Maintenance & Operations department to discuss the outstanding recommendations. The 13 recommendations require follow-up procedures to be performed to verify if corrective actions have been implemented and/or alternative controls have been implemented to address the original risks identified.

IA will report on the status of the outstanding recommendations in a final report that will be submitted under a separate cover through the Audit Committee. Anticipated date for completion is December 2018.

Internal Audit Department Status Report for September 2018

Project: FY 2017/18 Financial Audit by External Auditors & IA Quality Control Review of CAFR

Status: In Progress

Scope:

The CPA firm Lance, Soll and Lunghard, CPAs (LSL) are engaged by IEUA to complete the financial audit of the Agency's operations. IEUA's Fiscal Ordinance requires that a financial audit be completed by a CPA by December 31st (6 months after the close of the fiscal year).

LSL have been working closely with Agency staff to prepare for the FY 2018 Financial Audit. They were in-house conducting preliminary fieldwork during the last week of May 2018. They plan to return in September/October to complete fieldwork and finalize the audit. IA stays involved and has on-going communication and coordination with LSL and Accounting staff working directly with the auditors. As required by the IA Charter, IA performs a quality control review of the Comprehensive Annual Financial Report (CAFR) documents and financial documents prior to finalizing the audit and the CAFR for Board approval.

LSL will be attending the Audit Committee Meeting on December 10 to discuss the audit. This is the third year, LSL will perform the required financial audit. The current contract allows for two optional years. The optional years will be discussed during the September Audit Committee Meeting.

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 the requested assistance without having to delay/defer scheduled audits and priority projects. The scope of each review is agreed upon between the department manager requesting the evaluation/review/analysis/assistance and the Manager of IA and when deemed appropriate by Executive Management.

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

- Participated in Meetings related to the Network Security/Vulnerability Assessment, specifically, during this quarter IA worked closely with BIS and IT to determine, evaluate and rank the different types of Agency systems and data to evaluate the potential impact.
 - Provided updated information from the Regional Contract Review about fee collections since the reports were completed. Continue to assist with requests related to the findings and recommendations from the Regional Contract Review.
 - Continue to assist in the evaluation to upgrade the P-Card processes
 - Continued to assist with policy language interpretation.
 - Participated in IT Security Committee
-

Project: Special Projects

Scope:

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

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

Internal Audit Department Status Report for September 2018

Internal Audit Department Staffing:

The Internal Audit Department is staffed as follows:

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

Internal Audit Staff Professional Development Activities:

As required by the *International Standards for the Professional Practice of Internal Auditing*, and the IA Charter, auditors should continue to enhance their knowledge, skills, and other competencies through continuing professional development. During the past quarter, IA staff has continued to stay abreast of industry developments through review of industry periodicals and participation in free IIA sponsored, on-line webinars. One IA member completed his required continuing professional education (CPE) and renewed his Certified Public Accountant (CPA) license for the next two years.

The Internal Audit Manager is a member of the governing board of the Inland Empire Chapter of the Institute of Internal Auditors (IIA). The governing board sets direction for the chapter.

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.

In August, the Manager of IA passed the examination for the Certification in Control Self-Assessment® (CCSA®) designation and will be certified by the IIA as a CCSA®. The Certification in Control Self-Assessment® certification program is designed for auditors that have knowledge of the CSA fundamentals, processes and other topics such as risk, controls, and business objectives.

The Manager of IA has a Master's degree in Public Administration. One Senior Auditor is a Certified Public Accountant (CPA). The Manager of IA and One Senior Auditor are Certified Government Audit Professionals (CGAP). The Certified Government Auditing Professional® (CGAP®) certification program is designed for auditors working in the public sector and demonstrates government knowledge and expertise.

Future Audit Committee Meetings:

- Monday, December 10, 2018 – Regularly Scheduled Audit Committee Meeting
- Monday, March 11, 2019 – Regularly Scheduled Audit Committee Meeting
- Monday, June 10, 2019 – Regularly Scheduled Audit Committee Meeting