



## **AGENDA**

### **MEETING OF THE BOARD OF DIRECTORS**

**WEDNESDAY, SEPTEMBER 17, 2014  
10:00 A.M.**

**INLAND EMPIRE UTILITIES AGENCY\*  
AGENCY HEADQUARTERS  
6075 KIMBALL AVENUE, BUILDING A  
CHINO, CALIFORNIA 91708**

#### **CALL TO ORDER OF THE INLAND EMPIRE UTILITIES AGENCY BOARD OF DIRECTORS MEETING**

#### **FLAG SALUTE**

#### **PUBLIC COMMENT**

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

#### **ADDITIONS TO THE AGENDA**

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

#### **1. CONSENT CALENDAR**

**NOTICE:** All matters listed under the Consent Calendar are considered to be routine and non-controversial and will be acted upon by the Board by one motion in the form listed below. There will be no separate discussion on these items prior to the time the Board votes unless any Board members, staff or the public requests specific items be discussed and/or removed from the Consent Calendar for separate action.

**A. MINUTES**

The Board will be asked to approve the minutes from the August 20, 2014 Board meeting.

**B. TREASURER'S REPORT ON GENERAL DISBURSEMENTS**

It is recommended that the Board approve the total disbursements for the month of July 2014, in the amount of \$23,450,803.58.

**C. ENROLLMENT IN COUNTY SUPERVISORS' ASSOCIATION OF CALIFORNIA EXCESS INSURANCE AUTHORITY (CSAC EIA) POOL**

It is recommended that the Board:

1. Approve enrollment in the County Supervisors' Association of California Excess Insurance Authority (CSAC EIA) pool for dental, life insurance/accidental death and dismemberment, and long-term disability benefits through Delta Dental and Cigna; and
2. Adopt Resolution No. 2014-9-1, to join the CSAC EIA pool.

**D. BUDGET AMENDMENT FOR FISCAL YEAR 2013/14 ENCUMBRANCE CARRY FORWARD**

It is recommended that the Board approve the carry forward of open encumbrances and related budget in the amount of \$19,353,882 from FY 2013/14 to FY 2014/15.

**E. INTERNAL AUDIT DEPARTMENT ANNUAL AUDIT PLAN FOR FISCAL YEAR ENDING JUNE 30, 2015**

It is recommended that the Board:

1. Approve the FY 2014/15 Internal Audit Department Annual Audit Plan; and
2. Direct the Manager of Internal Audit to finalize the FY 2014/15 Annual Audit Plan.

**F. CEQA FOR THE WINEVILLE EXTENSION RECYCLED WATER PIPELINE SEGMENT B**

It is recommended that the Board:

1. Adopt an Addendum to the Facilities Master Plan Program Environmental Impact Report; and
2. Authorize the General Manager to file the Notice of Determination with the San Bernardino County Clerk of the Board.

**G. AMENDMENT TO MWD DRY YEAR YIELD AGREEMENT**

It is recommended that the Board:

1. Approve Amendment No. 8 to Agreement No. 49960 Groundwater Storage Program Funding Agreement between the Metropolitan



Water District of Southern California, Inland Empire Utilities Agency, Three Valleys Municipal Water District, and Chino Basin Watermaster;

2. Approve the Amendments to the Dry Year Yield Agency Agreements between IEUA and the Operating Parties to revise Exhibit G of the Agreement; and
3. Authorize the General Manager to execute the Amendment to the Dry Year Yield Agreement and the Local Agency Agreements with its Operating Parties.

**H. RP-1 DIGESTER NO. 4 COATING REPAIR PROJECT**

It is recommended that the Board:

1. Award the service contract to repair the internal coating of Digester No. 4 for Regional Water Recycling Plant No. 1 (RP-1), to Industrial Coatings and Restoration Services, for a not-to-exceed amount of \$158,390 including sales tax, payment and performance bond, and contingency cost; and
2. Authorize the General Manager to execute the contract.

**2. ACTION ITEMS**

**A. SUPPORT FOR PROPOSED WATER BOND**

It is recommended that the Board support Proposition 1, "Water Quality, Supply and Infrastructure Improvement Act of 2014," for the November 2014 ballot.

**B. APPROVAL OF COMPENSATION AGREEMENT AND MOU WITH THE CITY OF RANCHO CUCAMONGA AND CVWD**

It is recommended that the Board:

1. Approve the Compensation Agreement with the City of Rancho Cucamonga (City) approving the transfer of real property from the City's Successor Agency to the City for governmental use;
2. Approve the Memorandum of Understanding (MOU) between the City, Cucamonga Valley Water District (CVWD), and the Agency to work collaboratively to promote and enhance water conservation measures to ensure water sustainability and reliability now and in the future; and
3. Authorize the General Manager to execute the Compensation Agreement and MOU.

C. CONSTRUCTION CONTRACT AWARD FOR THE RP-2 DRYING BEDS REHABILITATION

It is recommended that the Board:

1. Award the construction contract for the RP-2 Drying Beds Rehabilitation, Project No. EN14012, to Environmental Construction, Inc. for their low bid of \$714,822; and
2. Authorize the General Manager to execute the construction contract.

3. INFORMATION ITEMS

- A. 2014 STATE LEGISLATIVE TRACKING MATRIX (WRITTEN)
- B. ENGINEERING AND CONSTRUCTION MANAGEMENT FY 2014/15 MONTHLY UPDATE (POWERPOINT)
- C. ANNUAL WATER USE REPORT FOR FISCAL YEAR 2013/14
- D. MWD UPDATE (ORAL)

RECEIVE AND FILE INFORMATION ITEMS

- E. TREASURER'S REPORT OF FINANCIAL AFFAIRS (WRITTEN/ POWERPOINT)
- F. PUBLIC OUTREACH AND COMMUNICATION (WRITTEN)
- G. LEGISLATIVE REPORT FROM INNOVATIVE FEDERAL STRATEGIES (WRITTEN)
- H. LEGISLATIVE REPORT FROM THE DOLPHIN GROUP (WRITTEN)
- I. LEGISLATIVE REPORT FROM AGRICULTURAL RESOURCES (WRITTEN)
- J. CALIFORNIA STRATEGIES, LLC MONTHLY ACTIVITY REPORT (WRITTEN)
- K. 2014 FEDERAL LEGISLATIVE TRACKING MATRIX (WRITTEN)
- L. RECYCLED WATER UPDATE (POWERPOINT)
- M. FY YEAR 2013/14 FINANCIAL AUDIT SCOPE OF WORK (POWERPOINT)
- N. INTERNAL AUDIT DEPARTMENT STATUS REPORT FOR SEPTEMBER 2014

O. **REGIONAL CONTRACT REVIEW UPDATE – INTERIM AUDIT REPORT (WRITTEN)**

Materials related to an item on this agenda submitted to the Agency, after distribution of the agenda packet, are available for public inspection at the Agency's office located at 6075 Kimball Avenue, Chino, California during normal business hours.

4. **AGENCY REPRESENTATIVES' REPORTS**

A. **SAWPA REPORT (WRITTEN)**

B. **MWD REPORT (WRITTEN)**

C. **REGIONAL SEWERAGE PROGRAM POLICY COMMITTEE REPORT**  
(September 4 meeting was cancelled. Next meeting scheduled October 2)

D. **CHINO BASIN WATERMASTER REPORT (WRITTEN)**

5. **GENERAL MANAGER'S REPORT (WRITTEN)**

6. **BOARD OF DIRECTORS' REQUESTED FUTURE AGENDA ITEMS**

7. **DIRECTORS' COMMENTS**

A. **CONFERENCE REPORTS**

This is the time and place for the Members of the Board to report on prescheduled Committee/District Representative Assignment meetings, which were held since the last regular Board meeting, and/or any other items of interest.

8. **CLOSED SESSION**

A. **PURSUANT TO GOVERNMENT CODE SECTION 54956.9(a) –  
CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION**

1) Chino Basin Municipal Water District vs. City of Chino, Case No. RCV51010

2) Martin vs. IEUA, Case No. CIVRS 1000767

3) Shields vs. IEUA, Case No. CIVRS 1301638

4) Desaddi vs. IEUA, Case No. CIVRS 1304617

5) Kaveh Engineering and Construction Inc. Corp. vs. IEUA, Case No. CIVRS 1402048

B. **PURSUANT TO GOVERNMENT CODE SECTION 54956.9 –  
CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION**

One (1) Case

**C. PURSUANT TO GOVERNMENT CODE SECTION 54956.8 –  
CONFERENCE WITH REAL PROPERTY NEGOTIATOR**

- 1) Property: 117.509036, 34.076044 (Prologis Lagoon)  
Negotiating Parties: General Manager P. Joseph Grindstaff  
Under Negotiation: Price and Terms of Purchase
- 2) Supplemental Water Transfer/Purchase  
Negotiating Parties: General Manager P. Joseph Grindstaff  
Under Negotiation: Price and Terms of Purchase

**D. PURSUANT TO GOVERNMENT CODE SECTION 54957 – PERSONNEL  
MATTERS – PUBLIC EMPLOYEE PERFORMANCE EVALUATION**


Title: General Manager

**9. ADJOURN**

\*A Municipal Water District

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

**Declaration of Posting**

Proofed by: 

I, April Woodruff, Board Secretary 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. at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, September 11, 2014.

  
April Woodruff



**INFORMATION  
ITEM**

**3G**

# *Innovative Federal Strategies* LLC

Comprehensive Government Relations

## MEMORANDUM

**To:** Joe Grindstaff, Martha Davis and Kathy Besser, IEUA

**From:** Letitia White and Heather Hennessey

**Date:** August 25, 2014

**Re:** August Monthly Legislative Update

Congress departed Washington for the five-week August recess on August 1<sup>st</sup>, leaving DC all but deserted. With the November elections getting closer every day, the campaign season is now in full swing. Partisan tensions will be running high, and, given that fact, we do not expect for Congress to accomplish very much between now and the Lame Duck session scheduled for mid-November.

### *Outlook for September*

Congress will return from the August recess on September 8<sup>th</sup> and will have an urgent to-do item – provide for government funding past the end of the fiscal year on September 30<sup>th</sup>. The passage of a Continuing Resolution (CR) that covers all of the FY 2015 appropriations bills will be the top priority for policymakers during the two or three weeks of work that Congress will undertake in September. It is not yet clear how few or many policy or funding disputes could arise during the CR debate. Funding to address the migrant crisis at the southwestern border was not finalized during July, and neither was the additional funding to fight wildfires that was requested by the White House. Both of those issues could be addressed in the CR if Congress is able to reach agreement on them. The CR will likely provide funding for all federal programs until mid-December, at which time Congress will either need to pass the annual spending bills or extend the CR into 2015.

The length of time that the House and Senate will be voting during September is not yet known. Before the August recess began, Senate Majority Leader Harry Reid (D-NV) threatened that the Senate would have to work during weekends in order to complete its work on time. Meanwhile on the House side, rumors have circulated that Speaker John Boehner (R-OH) wants to have his Members out of Washington no later than September 19<sup>th</sup>!

Despite all of the uncertainty regarding the schedule, it is possible that agreement on a California drought bill could come during September. The progress with the state bond initiative during August has allowed some important puzzle pieces to fall into place regarding the state funding situation for water supply and drought relief projects. Press reports and conversations with Congressional staff indicate that discussions are going on behind-the-scenes between California's Senators and House members. Senator Feinstein was recently quoted as saying that she hopes to have an agreement on a federal drought bill "in the next couple of weeks."

INFORMATION  
ITEM

**3H**

**August 28, 2014**

**To:** Inland Empire Utilities Agency  
**From:** Michael Boccadoro  
President  
**RE:** August Legislative Report



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Overview:

In August, the Legislature returned from summer recess to finish the final month of the two-year legislative session. Hundreds of bills worked through the final appropriations committee and onto the Senate and Assembly Floor. Notably, the Legislature has passed, and the Governor has signed a \$7.5 billion water bond for the November ballot. The final bond includes \$725 million for water recycling and \$63 million for the Santa Ana Region for Integrated Regional Water Management.

As the session nears a close, groundwater management legislation continues to work its way to the finish line. Two policy bills, SB 1168 by Senator Fran Pavley and AB 1739 by Assemblyman Roger Dickinson, are the bills that are double joined and are the companion vehicles for groundwater management legislation. As of the deadline for this report, AB 1739 has passed on the Senate floor, while SB 1168 will likely take another round of amendments before a vote on the Assembly floor. While most municipal water agencies are in support of the legislation, the agricultural community is still not comfortable with the legislation and is lobbying hard against the bills. It is unclear if the rumored amendments to SB 1168 will alleviate the agricultural concerns. Irrespective, the legislation appears to have sufficient support for passage.

The California Energy Commission (CEC) has released a solicitation to award \$27 million in grants to technology demonstration and deployment projects for pre-commercial biomass conversion technologies, generation systems, and development strategies. There are opportunities for the wastewater community to apply for funds to set up demonstration projects.

Environmentalists have sent a 60-day notice of intent to sue the EPA to force it to increase the nonattainment status of the South Coast and San Joaquin Valley air basins. They allege that the Clean Air Act required the EPA to reclassify the regions to the serious status by mid 2012 because they had failed to attain the 1997 federal fine particulate matter (PM2.5) air standard by the end of 2011. A "serious" designation would require air regulators to impose stricter pollution control measures on industrial sources in order to reduce PM2.5 forming emissions and come into attainment.

Southern California Edison (SCE) has announced that the decommissioning of the San Onofre Nuclear Generating Station (SONGS) will come in significantly under the \$4.4 billion projected budget. This is welcome news to ratepayers who are potentially on the hook for significant replacement power costs as well..



# Inland Empire Utilities Agency

## Status Report – August 2014

### *Water Bond*

As widely reported, the Legislature has passed, and the Governor has signed the Water Quality, Supply and Infrastructure Improvement Act of 2014.

The final bill that passed and was signed by the Governor was AB 1471. The bill allocates \$7.545 as follows:

<b>Figure 1</b>	
<b>Uses of Proposition 1 Bond Funds</b>	
<i>(In Millions)</i>	
<b>Water Supply</b>	<b>\$4,235</b>
• Dams and groundwater storage—cost share associated with public benefits.	\$2,700
• Regional projects to achieve multiple water-related improvements (includes conservation and capturing rainwater).	810
• Water recycling, including desalination.	725
<b>Watershed Protection and Restoration</b>	<b>\$1,495</b>
• Watershed restoration and habitat protection in designated areas around the state.	\$515
• Certain state commitments for environmental restorations.	475
• Restoration programs available to applicants statewide.	305
• Projects to increase water flowing in rivers and streams.	200
<b>Improvements to Groundwater and Surface Water Quality</b>	<b>\$1,420</b>
• Prevention and cleanup of groundwater pollution.	\$800
• Drinking water projects for disadvantaged communities.	260
• Wastewater treatment in small communities.	260
• Local plans and projects to manage groundwater.	100
<b>Flood Protection</b>	<b>\$395</b>
• Repairs and improvements to levees in the Delta.	\$295
• Flood protection around the state.	100
<b>Total</b>	<b>\$7,545</b>

Included in Chapter 7, the Regional Water Security, Climate and Drought Preparedness chapter, is the allocation for Integrated Regional Water Management, specifically, \$63 million for the Santa Ana Region.

The bond has been placed on the November ballot as Proposition One. The official ballot title is Water Bond: Funding water Quality, Supply, Treatment, and Storage Projects. The ballot label written by the Legislative Analyst's Office notes that the bond will cost the state about \$360 million per year for the next 40 years in general fund costs to fund the debt service on the bond.

The Governor's Office has indicated that he will be taking the lead role in the campaign strategy and implementation in the coming months. Once the legislative session ends on August 31, it is likely that the campaign for the water bond will ramp up ahead of the November election.

### ***Groundwater***

The Legislature has been working to get groundwater management legislation to pass in the final days of the legislative session. Two companion aim for local agencies to monitor and regulate groundwater. SB 1168 by Senator Fran Pavley and AB 1739 by Assemblyman Roger Dickinson, which were originally identical, have been split to put half of the legislation into the Senate vehicle and other half in the Assembly vehicle. SB 1168 contains the part of the part of the overall policy that requires groundwater management plans to be drafted and submitted, while AB 1739 outlines how basins that do not comply, or need help complying, and designates powers to the State Water Resources Control Board and the Department of Water Resources should a basin not comply with the measures.

Most urban water agencies and broad stakeholder groups such as ACWA, have moved to a support position but the bills are still having trouble crossing the finish line. The agriculture community is still in an opposed position to the bills and several have joined together to introduce their own piece of groundwater legislation.

The Administration is working with opponents to alleviate concerns, but a final deal has yet to be reached. As of August 27, AB 1739 has passed the Senate and will move back to the Assembly. SB 1168 is still on the Assembly floor awaiting action. While additional amendments may be taken, the two measures are expected to pass and be sent to the Governor.

### ***CEC Releases Solicitation for EPIC Bioenergy Projects***

The California Energy Commission (CEC) has released a solicitation to award \$27 million in grants to technology demonstration and deployment projects for pre-commercial biomass conversion technologies, biogas generation systems, and development strategies.

The funds have been collected under the Electric Program Investment Charge (EPIC) by the Investor Owned Utilities, and are mostly administered by the CEC under the guidance of a Triennial Investment Plan.

The funding is allocated in the following categories and amounts:

Project Group	Available Funding	Minimum Award Amount	Maximum Award Amount
Group 1: Advanced pollution control equipment and low-emission generators	\$3,000,000	\$500,000	\$1,500,000
Group 2: Fuel Handling and delivery systems or technologies	\$4,000,000		\$2,000,000
Group 3: Biochemical conversion technologies or deployment strategies	\$10,000,000	\$1,000,000	\$5,000,000
Group 4: Thermochemical conversion technologies or deployment strategies	\$10,000,000		

The full solicitation can be found at <http://www.energy.ca.gov/contracts/PON-14-305/>  
Applications are due by November 7.

#### ***Suit Threatened Against EPA Over South Coast PM 2.5 Non-attainment***

Environmentalists have sent a 60-day notice of intent to sue the EPA to force it to increase the nonattainment status of the South Coast and San Joaquin Valley air basins. They allege that the Clean Air Act required the EPA to reclassify the regions to the serious status by mid 2012 because they had failed to attain the 1997 federal fine particulate matter (PM2.5) air standard by the end of 2011. A “serious” designation would require air regulators to impose stricter pollution control measures on industrial sources in order to reduce PM2.5 forming emissions and come into attainment.

It is unclear if both regions are already moving towards a process to extend the attainment date by bumping up to a “serious” classification by the end of 2014. If the districts intend to move to the serious classification voluntarily, it is likely that the lawsuit would be moot.

#### ***Stormwater Permits and Lawsuits***

As a response to US EPA shelving several new regulatory measures under consideration expected to tighten stormwater limits, environmentalists in several states, including California have filed lawsuits against industrial facilities and municipalities in an effort to strengthen stormwater permit requirements.

The environmentalists note that since the EPA has failed to take action, they are not only focusing on permit-by-permit litigation to establish retention standards after the EPA twice rejected regulatory measures that would have established regional or national standards. They are also urging municipalities to be more rigorous in their enforcement of MS4 permits.

Locally, the Inland Empire Water Keeper and the Orange County Coastkeeper filed separate suits against Forged Metals, Inc, and Maruhachi Ceramics of America for violations of California's general stormwater permit.

### ***SONGS Decommissioning***

Good news has been reported by Southern California Edison (SCE). They expect that the \$4.4 billion estimated cost to decommission the San Onofre Nuclear Generating Station (SONGS) is an excessive estimate and the actual final cost will be significantly lower. This is good news to ratepayers who are not only bearing the brunt of costs for decommissioning, but might have to pick up a chunk of the tab for replacement power and transmission investments need to offset the baseload power being lost.

### ***Legislative Update***

The Legislature is in the final four days of the legislative session with hundreds of bills still looking to pass onto the Governor's desk. August 31 is the deadline for all bills to pass and is the final date of the two-year legislative session.

Below are bills that IEUA has taken positions on.



**INFORMATION  
ITEM**

**31**

# *Agricultural Resources*

635 Maryland Avenue, N.E.  
Washington, D.C. 20002-5811  
(202) 546-5115  
[agresources@erols.com](mailto:agresources@erols.com)

August 28, 2014

## **Legislative Report**

**TO:** Joe Grindstaff  
General Manager, Inland Empire Utility Agency

**FR:** David M. Weiman  
Agricultural Resources  
LEGISLATIVE REPRESENTATIVE, IEUA

**SU:** Legislative Report, August 2014

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### **Snapshot – Congress on August Break**

- ***Congress on Recess – To Return After Labor Day.*** Congress is out for August – scheduled to return immediately after Labor Day.
- ***Foreign Policy Issues Dominating Political Landscape.*** International and foreign policy issues dominating the news and congressional attention during recess – Syria, ISIS, Middle East (tunnels/Gaza), Mexican border plus Russia's provocative actions in Ukraine. The Government in France (EU economy in trouble) just collapsed and the economy in Argentina is in serious trouble – either could have significant ripple impacts.
- ***Speaker Boehner Signals Modified Agenda.*** Speaker Boehner signaling a more active – and different (more expansive – legislative agenda in the near-term (but no one knows quite what that specifically means).

### **Snapshot – Looking Towards September**

- ***Legislative Days – September.*** Few legislative days scheduled in September.

- ***CR To Be Advanced to Fund the Federal Government for 2014-2015.*** A Continuing Resolution (CR) is to be passed (short-term – likely to sometime in December) to fund all departments and agencies (military, intelligence and international as well as domestic (housing, energy, transportation, ag, etc.)). Whether or not a “clean” CR can be enacted remains unclear and uncertain at this time.
- ***Lame Duck Session All But Assured After the Election.*** A lame duck session is all but certain. Its duration or scope – unknown (and likely dependent on the election’s outcome).
- ***Polarization Continues – House and Senate.*** Both chambers – House and Senate – remain deeply polarized. Anything and everything done in September will be colored by the impending election.
- ***Another Government Shutdown?*** Government shutdown possible? It is highly unlikely, and House and Senate R leadership have issued “no way” statements. That said, individual members and senators (Senator Mario Rubio (R-FL)) insist that if certain provisions are not included (such as an immigration “deportation mandate”), then a shut-down could occur.

#### **Snapshot on Water and Related Matters**

- ***Water Bond to Create Momentum for House-Senate Drought Bill?*** Agreement on the California Bond has created some short-term momentum. The key question – will the agreement on the bond compel agreement on a languishing drought bill here in Washington? All sorts of muted and mixed signals – talks still occurring, everyone sworn to secrecy, few details available, staff largely excluded but as of right now, little is known (or if there is progress, the key parties are not talking).
- ***Rep. Napolitano Asking Drought Bill Negotiators to Include Napolitano-Boxer-Feinstein Drought Bill in a Legislative Package.*** Rep. Napolitano informed IEUA that she is (a) talking to drought bill negotiators; and (b) asking that her bill be incorporated in a final package.
- ***Colorado River – Threat from Uranium Mining.*** A Federal judge advanced litigation against development of mining claims in the 1 million acre Colorado River no-mining-zone established by the Administration (but excluded pre-existing claims). The suit, brought by environmentalists and tribal interests is against the US Forest Service.
- ***Drought Conditions – California.*** The August 28 weekly Drought Monitor update shows almost all of California in either extreme or exceptional drought. Little has changed.
- ***Drought Conditions – Rest of the West.*** Drought is “easing” in the Dakotas, Montana, Wyoming and parts of Colorado and Nebraska. The Pacific Northwest, West Coast and

Southern Tier are still confronting a wide range of drought conditions.

- ***El Nino – Status.*** Current reports still indicate that the El Nino weather conditions for this Fall will be “weak to moderate.” Projected weather for the “wet season” beginning later this year remain uncertain.
- ***UC Davis Researchers at Center for Watershed Sciences – California Over-Allocated Water by Factor of Five.*** In a study receiving extensive media coverage throughout California and the West, UC Davis researchers concluded that the California State Water Resources Control Board has over-allocated California’s water and has called for a comprehensive overhaul of the Board and its policies. Lots of press attention.
- ***FERC Slapped Imperial Irrigation District (IID) with \$12 Million Fine for Role in September 2011 Energy Blackout.*** In September 2011, a multi-state energy blackout occurred impacting more than 5 million people, including those in Southern California. A lengthy investigation resulted in IID being fined. According to a published report, “*FERC enforcement staff and NERC found that the Imperial Irrigation District (IID) violated 10 requirements of four of its reliability standards on transmission operations and transmission planning, including a failure to coordinate its operations planning with neighboring systems. The violations “were serious deficiencies that undermined reliable operation of the bulk power system,” FERC said.*

*IID stipulated to the facts in the agreement and will pay a civil penalty of \$12 million. Of that, \$3 million will be evenly split between the U.S. Treasury and NERC, and \$9 million will be invested in reliability enhancement measures by IID that exceed the requirements of the mandatory reliability standards.”*
- ***California Coastal Waters Warmer – 3.6 – 7 Degrees.*** NOAA and other agencies are reporting an unusual warming trend south of the Golden Gate along the California Coast. Temperatures are jumping up and that’s creating confusion among fish species, including the endangered salmon – which, in turn, puts even more (indirect) pressure on the SF Bay Delta. This is another manifestation of “climate disruption.”
- ***Lake Mead – at Level 1075 – To Get More Water – Nevada and Arizona Face Colorado River Cut-Backs.*** Lake Mead is in dire shape. If it continues to drop and this Winter fails to replenish it, and it then drops down to 1000, hydro-power generation is jeopardized (two-pronged crisis – water AND power). The Bureau of Reclamation and impacted states are working to put additional water in Lake Mead – OR – at the very least, slow the rate of decline.
- ***Scripps (San Diego) and US Geological Survey – Drought Depletes 63 Trillion Gallons Across Western US.*** From the LA Times (based on the Report published in Science), “*A year and a half of drought has depleted 63 trillion gallons of water across the Western United States, according to a new study that documents how the parched conditions are*



*altering the landscape. The loss of groundwater, as well as surface water such as reservoirs, has been so extreme that it lifted the West an average of one-sixth of an inch since 2013, according to researchers from UC San Diego's Scripps Institution of Oceanography and the U.S. Geological Survey. The situation is even worse underneath the snow-starved mountains of California, where the Earth rose up three-fifths of an inch. Groundwater is very heavy, and its weight depresses the Earth's upper crust. Remove the weight, and the crust springs upward. The study, published online Thursday by the journal Science, showed how a lack of rain and snow cut water levels first in the U.S. Southwest and Central and Southern California before spreading into Oregon and Washington state. Water naturally evaporates, is absorbed by plants and is pumped by humans, so levels go down if the water is not replenished.”*

### **Snapshot on Financial, Tax or Economic Matters That Impact Water**

- ***Next Congress – Signal on Tax Reform by Incoming Chair, Rep. Paul Ryan.*** In a mid-month interview published in the Weekly Standard, Ryan made it clear that as incoming chair, House Ways and Means, he will seek to lower rates, particularly personal rates (Camp’s bill proposed to lower individual and corporate rates each to 25%). To achieve such rate reduction, wholesale elimination or modification of existing tax provisions will need to occur. Camp’s proposed bill includes changes to municipal bond tax deductibility (the infrastructure of money for water agencies, water utilities and municipalities). Rep. Ryan is signaling that he will be as or more aggressive than Mr. Camp.

### **Drought Humor (finally)**



### **Thank You.**

- This past month, I had the privilege of appearing before the Board. I thank you for the opportunity. Director Elie asked for a copy of the “Drought-in-Motion” presentation. I am working with the Drought Monitor to get a clean version of the presentation for posting on the IEUA web site.

**INFORMATION  
ITEM**

**3J**



CALIFORNIA STRATEGIES, LLC

Date: August 27, 2014  
To: Inland Empire Utilities Agency  
From: John Withers, Jim Brulte  
Re: August Activity Report

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Listed below is the California Strategies, LLC monthly activity report. Please feel free to call us if you have any questions or would like to receive any more information on any of the items mentioned below.

- Attended monthly meeting with IEUA Executive staff to review priority issues (Aug 4).
- Participated in discussions with County of San Bernardino and IEUA to discuss coordination of County and District legislative and public policy issue agendas.
- We continue to monitor Lafco staff on the status and key issues related to the MSR process currently underway for water conservation districts Countywide (Meeting w IEUA staff 8/27 to discuss in further detail)
- Support and advise on IEUA/SBVWD transfer transaction on an as needed basis.
- Provided an update on the recent filing of a Sphere of Influence amendment filing by the CVWRD.
- Facilitated Grindstaff contact and follow up with IRWD regarding facility master planning and fiscal modeling
- Continue to monitor statewide water issues including the BDCP, water bond, and drought relief act activities.
- Outreach to Board Directors as needed on issues of interest
- Monitor Santa Ana Regional Board agenda and issues of interest to IEUA.

INFORMATION  
ITEM

**3K**

**IEUA**  
**2014 Federal Legislation Tracking Matrix**

Bill ID	Description	Status	IEUA Position	Notes
HR 4923 and S 1245	<b>Energy and Water Appropriations for FY 2015</b>	Passed House floor the week of July 7th. The Senate bill has passed full committee.		The Senate bill is stalled due to expected Republican floor amendments on EPA issues, which are an election-year problem for vulnerable Senate Dems.
<u><a href="#">HR 3964</a></u> (Valadao)	<b>The Sacramento-San Joaquin Valley Emergency Water Delivery Act.</b> This bill would ensure that water is available to the Central Valley Project, provides for the restoration of the San Joaquin River, and protects state water rights law, including water rights senior to those belonging to CVP.	Passed House (229-191). Read twice in Senate and place on Senate legislative calendar – 2/10/14		MWD opposed 3/14; this is the bill that is being conferenced with the Senate bill S 2198
<u><a href="#">HR 3980</a></u> McClintock	<b>The Water Supply Permitting Coordination Act.</b> This bill would authorize the Secretary of the Interior to coordinate Federal and State permitting processes related to the construction of new surface water storage projects on lands under the jurisdiction of the Secretary of the Interior and the Secretary of Agriculture and to designate the Bureau of Reclamation as the lead agency for permit processing.	Heard in Subcommittee on Water and Power on 2/5/14 but no further action has been taken as of August 2014		
<u><a href="#">HR 3981</a></u> (Hastings)	<b>The Accelerated Revenue, Repayment, and Surface Water Storage Enhancement Act.</b>	Hearing held in Subcommittee		



**IEUA**  
**2014 Federal Legislation Tracking Matrix**

	This bill would direct the Secretary of the Interior to convert certain existing water service contracts between the United States and water users' associations to repayment contracts to allow for prepayment of such contracts, upon the request of the contractor. It specifies the manner of conversion and the terms and conditions of prepayment.	on Water and Power – 2/5/14 but no further action has been taken as of August 2014		
<u><b>HR 3988</b></u> (Huffman)	<b>The Fixing Operations of Reservoirs to Encompass Climatic and Atmospheric Science Trends Act, or the FORECAST Act</b> This bill would supplement the Secretary of the Army's existing authorities to review the operations of reservoirs.	Referred to the Subcommittee on Water Resources and Environment – 2/5/14 but no further action taken as of August 2014		
<u><b>HR 4039</b></u> (Costa)	<b>The California Emergency Drought Relief Act of 2014</b> This bill would authorization actions to provide additional water supplies and disaster assistance to the State of California due to drought. Provides max quantity of water possible by approving projects to provide additional water supplies to the state; makes financial assistance available; minimizes time spent on environmental reviews; provides drought planning assistance; makes emergency supplemental agriculture disaster appropriations. See SR 2016.	Referred to the Subcommittee on Environment and the Economy – 2/14/14 but no further action taken as of August 2014	Watch 4/14	

**IEUA**  
**2014 Federal Legislation Tracking Matrix**

<u><b>HR 4126</b></u> (Costa)	<b>The San Luis Reservoir Expansion Act of 2014</b> This bill would authorize the construction of the expansion of San Luis Reservoir	Referred to the Subcommittee on Water and Power – 3/7/14 but no further action taken as of August 2014	MWD support if amended 3/14
<u><b>HR 4239</b></u> (Huffman)	<b>Drought Assistance to California and other Western States</b> In response to the declaration of a state of drought emergency by the Governor of the State, the Secretaries shall provide the maximum quantity of water supplies possible to Central Valley Project and Klamath Project agricultural, municipal and industrial, and refuge service and repayment contractors, State Water Project contractors, and any other locality or municipality in the State consistent with existing law, including among other things applicable laws and regulations, water quality standards, biological opinions, and court orders.	Referred to the Committee on Natural Resources, and in addition to the Committees on Transportation and Infrastructure, the Budget, Agriculture, Energy and Commerce, and the Judiciary. Referred to four subcommittees on 3/14/14 and 4/16/14 but no further action taken as of August 2014	
<u><b>S. 2198</b></u> (Feinstein)	<b>The Emergency Drought Relief Act of 2014</b> To direct the Secretary of the Interior, the	Passed the Senate on May	This bill is a revision of the Senator's earlier California



# IEUA 2014 Federal Legislation Tracking Matrix

	Secretary of Commerce, and the Administrator of the Environmental Protection Agency to take actions to provide additional water supplies and disaster assistance to the State of California and other Western States due to drought	23 <sup>rd</sup> and will now go to conference with the House bill	Emergency Drought legislation. She expanded the bill to include westerns states and dropped the funding provisions. Feinstein
<b>S. 601</b> (Boxer) <b>H.R. 3080</b> (Shuster)	<b>Water Resources and Development Act of 2013</b> Provides funding for projects and programs authorized by Congress and the U.S. Army Corps of Engineers. Amends and redefines major elements of WRDA program.	Signed into law by President Obama	Agreement on final legislation expected to be announced in May. Bill is expected to include the proposed Water Finance and Innovation Act (WIFIA) provisions to provide the option of low interest loans or loan guarantees.
Boxer, Feinstein, Napolitano and DeFazio	<b>Water in the 21<sup>st</sup> Century (W21)</b>	Introduced on August 1, 2014; no bill number yet	This bill includes provisions addressing the EPA WaterSense program and funding to promote urban and agricultural water efficiency. It also changes some USACE reservoir operations practices.
U.S. Tax Code Reform Act of 2014	<b>Proposal by House Ways and Means Chairman David Camp to achieve a national 25% tax cut.</b> Proposal would have eliminated or reduced new tax-exempt Private Activity Bonds, eliminated the tax-exemption for advance refunding, and taxed some interest on currently tax-exempt bonds.		Not moving forward. David Camp will retire this year. Comprehensive reform of the tax code not likely this year. Paul Ryan expected to take up the initiative next year. Staff working on an "all-water-industry" letter to oppose modification of tax exempt

**IEUA**  
**2014 Federal Legislation Tracking Matrix**

				bonds that are used to help financial infrastructure projects.
S 2225 Udall	<b>Smart Water Resources and Conservation and Efficiency Act</b>	Introduced April 9, 2014 and referred to committee; subcommittee hearings held July 2014		This will be a package of 4 bills intended to promote water conservation and efficiency. The bills will (1) provide for the development/installation of a "smart grid" to measure and minimize water losses; (2) permanently authorize the EPA WaterSense Program, (3) provide a 30% taxcut up to \$2,000 for taxpayers that install WaterSense devices; and (4) provide grants to rural communities for water efficiency projects and programs.

INFORMATION  
ITEM

**3L**



*Inland Empire Utilities Agency*

A MUNICIPAL WATER DISTRICT

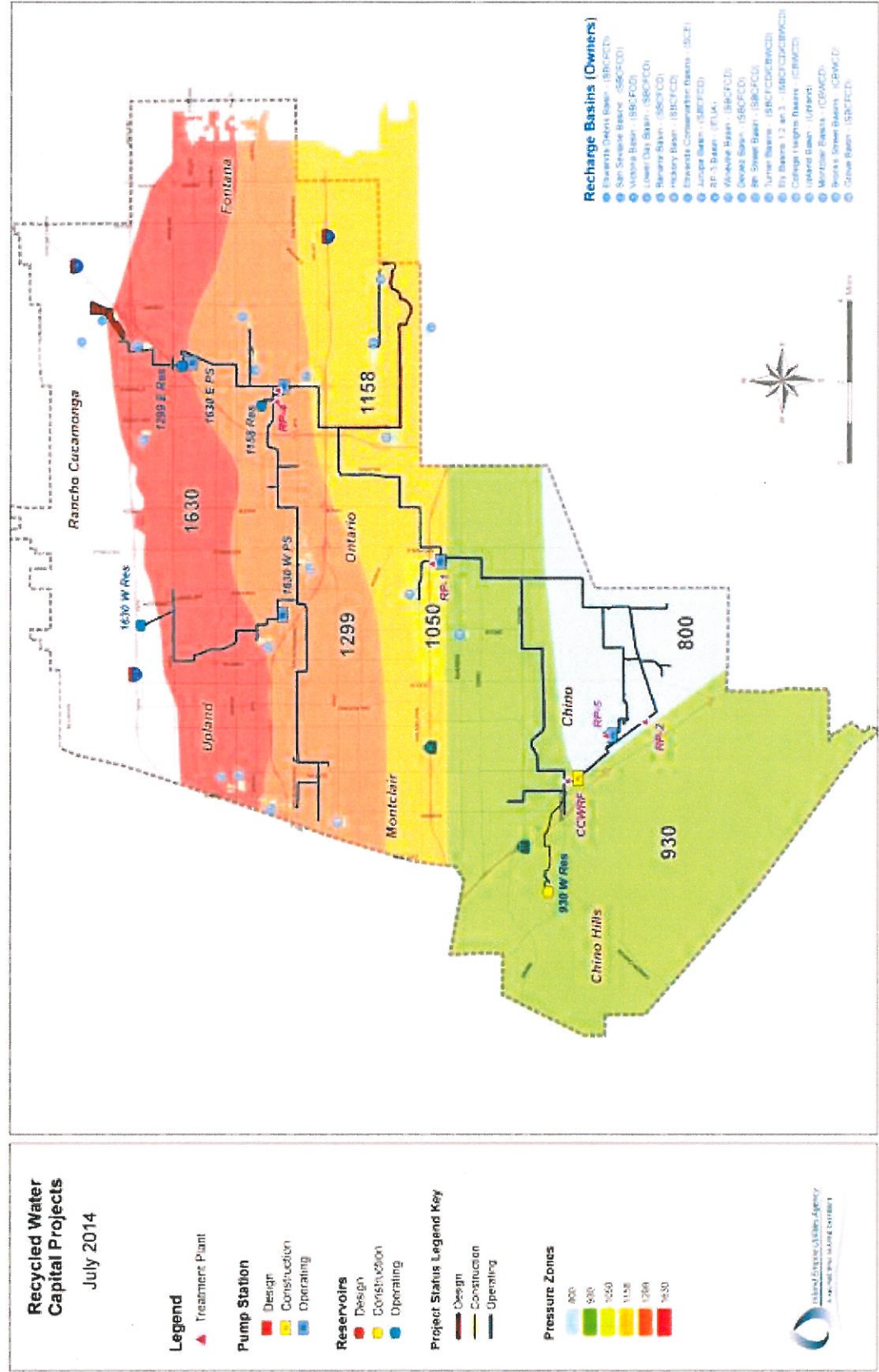
# RECYCLED WATER UPDATE

**Fiscal Year 13/14 Update**

**August 2014**



# REGIONAL RECYCLED WATER SYSTEM



# STATUS UPDATE: CAPITAL PROJECTS SUMMARY

Project	Design	Construction	Project Cost	Status	Demand AFY
Southern Area Regional Facilities	Complete	Fall 2014	\$31,000,000	Construction	500 – 3,000
Central Area Regional Facilities	Complete	Winter 2015	\$28,000,000	Construction	3,500
San Sevaine Basin Improvements	July 2015	July 2017	3,500,000	Pre-Design	500 – 4,500

# RECYCLED WATER DELIVERIES





# RECYCLED WATER DELIVERIES

## FY 2013/14

Agency	Pro Rata Share of Regional Flow (%)	Recharge Allocation (Acre-Feet) FY 13/14
Chino	10.67	1,396
Chino Hills	9.19	1,193
CVWD	24.37	3,176
Fontana	19.18	2,501
Montclair	4.33	595
Ontario	22.12	2,923
Upland	10.14	1,324
<b>Totals</b>	<b>100.00</b>	<b>13,108</b>
<b>JCSD's Allocation:</b>		<b>485</b>
<b>Total Amount Recharged:</b>		<b>13,593</b>



*Inland Empire Utilities Agency*

**A MUNICIPAL WATER DISTRICT**

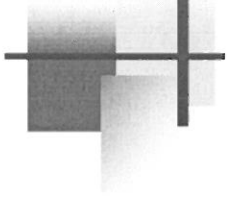
# Questions?

INFORMATION  
ITEM

**3M**

# **Inland Empire Utilities Agency**

## **FY 2013/14 Financial Audit Scope of Work**



**Prepared by:**

**White Nelson Diehl Evans**

# Auditor's Responsibilities

- Express an opinion on the financial statements
- Audit standards – GAAS and GAGAS
- Audit designed for reasonable assurance not absolute assurance
- Consideration of internal control for financial statement audit
- Communicate significant matters related to financial statement audit

# Management Responsibilities

- Preparation of financial statements
- Design and adherence to internal controls
- Providing information for audit including written representations at conclusion of the audit



## Audit Committee

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- **Oversee audit process**
- **Review of reports related to financial statement audit**



# Scope of Audit

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- Financial Statements of Inland Empire Utility Agency
- Single Audit of Federal Grants

## Timing



- Established audit calendar with management
- Final portion of year-end fieldwork – September 29 -October 10
- Exit Conference – October 10
- Final revisions to Financial Statement and Audit Opinion – November 10

# GASB Pronouncements

- FY 2014
  - GASB statement 66 – Technical Corrections, an amendment of GASB 10 and GASB 62.
  - GASB statement 70 – Accounting and Reporting for Nonexchange Financial Guarantees.

INFORMATION  
ITEM


**3N**

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Date: September 17, 2014

To: The Honorable Board of Directors

Through: Audit Committee (09/10/14)

From: Teresa V. Velarde   
Manager of Internal Audit

Subject: Internal Audit Department Status Report for September 2014

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### **RECOMMENDATION**

This is an information item for the Board of Directors.

### **BACKGROUND**

The Audit Committee Charter requires that a written status report be prepared and submitted each quarter. The Internal Audit Department Status Report includes a summary of significant internal and external audit activities for the reporting period. Attached is the Status Report for September 2014.

### **PRIOR BOARD ACTION**

On November 20, 2013, the Board of Directors approved the FY 2013/14 amended annual audit plan.

On December 18, 2013, the Board of Directors approved the Agency's Audit Committee Charter and the Internal Audit Department Charter.

### **IMPACT ON BUDGET**

None.

**Internal Audit Department  
Status Report for September 2014**

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***Projects Completed This Period***

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**Audit:     Regional Contract Review****Scope:**

The objectives of the Regional Sewage Service Contract audit (Regional Contract Review) are to evaluate how each of the seven Regional Contracting Agencies (RCA or Contracting Agency) apply the Regional Contract provisions, determine whether processes are in compliance with Regional Contract requirements, determine opportunities to improve processes and procedures and identify opportunities and make recommendations for possible provisions to consider as part of the Regional Contract renegotiation. The review covers the period from July 1, 2012 through December 31, 2013 and where possible considers events subsequent to that period.

The results of the overall Regional Contract review are being documented in three separate sections to segregate the observations and recommendations by subject as follows:

1. The audit report titled "Regional Contract Review – Review of the Ten Year Forecast" was completed in June 2014. The scope of the Ten Year Capacity Demand Forecast (TYCDF) review was to evaluate the TYCDF prepared by each of the seven Contracting Agencies and how that information is subsequently compiled and utilized by IEUA to prepare the IEUA Ten Year Capital Improvement Plan (TYCIP). The audit considered the requirements of the Regional Contract and how those requirements are met through the TYCDFs prepared by the Contracting Agencies and the TYCIP prepared by IEUA.

This report was Completed and presented to the Audit Committee and the Board of Directors in June 2014.

2. The audit report titled "Regional Contract Review – Survey of Comparable Agencies" was completed in June 2014. The audit compared IEUA's Regional Contract and program with four similar agencies/programs in California. The review evaluated the structure used to bill and collect initial Connection and Sewer Service fees from residential, commercial, industrial and public service users. The review considered whether greater efficiencies could be gained from adopting different applications and methodologies in administering the contract and collecting fees as applied at other agencies.

This report was Completed and presented to the Audit Committee and the Board of Directors in June 2014.

3. In addition, IA is presenting a "Survey of Comparative Information" that provides a comprehensive side-by-side comparison of the preliminary responses received from each Contracting Agency about how the Regional Contract provisions are applied.

This report is Complete and is presented under separate cover under this agenda.

**Internal Audit Department  
Status Report for September 2014**

4. The final section will evaluate compliance with the Regional Contract, Exhibit J rate provisions for the various types of land uses (public service, industrial, commercial, residential and extra-territorial).

This portion of the Regional Contract Review will encompass a comprehensive audit of each of the seven Contracting Agencies. Each audit will be documented in a separate report. Under separate cover, IA is presenting two of the seven Contracting Agencies' reports; which are finalized and completed and presented under separate cover under this agenda. The remaining five are currently in progress. Below is a summary of each.

A separate report will be issued for each of the seven member agencies. The following sections provide a status on each of the seven Contracting Agencies review/evaluation.

**City of Upland**

**COMPLETED**

Refer to the final report under separate cover for a complete report that details the observations and recommendations. IA was able to evaluate each of the audit areas planned. Following is a summary of observations noted:

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

**City of Montclair**

**COMPLETED**

Refer to the final report under separate cover for a complete report that details the observations and recommendations. IA was able to evaluate each of the audit areas planned. Following is a summary of observations noted:

- Initial Connection Fees: In most cases the calculations made by the City were materially accurate. IA has included multiple recommendations to improve the Initial Connection Fees calculation and collection processes, including recommendations about fixture unit values and categorization.
- Public Service Facilities: The City does not always collect connection fees from construction at schools in the community. IA has included recommendations suggesting



## Internal Audit Department Status Report for September 2014

enhanced communication and collaboration with the School Districts in the community as a means of encouraging connection fee payments.

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

### **City of Chino**

### **IN PROGRESS**

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

- Connection Fees: Testing of Initial Connection Fees has been substantially completed. In most cases the calculations made by the City were materially accurate. Prior to the June 19, 2013 revision of Exhibit J there was only limited guidance about translating the California Plumbing Code into EDUs. As a result, the City (like all Contracting Agencies) had improvised their own calculation worksheets resulting in fewer categories and varying fixture counts than that shown in the revision to Exhibit J. Even with the guidance of the Exhibit J revision, with changing trends, some types of enterprises have been difficult to categorize, such as fast-casual sit-down restaurants and community centers/swimming pool facilities in private residential communities.
- Public Service Facilities: Recent construction information was obtained from a variety of public records for testing. Per City of Chino staff there is no record of fees being paid for a new classroom wing with restrooms that was recently completed at Howard Cattle Elementary School. There is also no record of fees being paid for the new Chaffey College campus that opened in Chino in 2008.
- Commercial Volumetric Sewerage Accounts: This is currently in process. IA has begun detailed testing of items from the Initial Connection Fees testing to their inclusion in the regular sewer billing system and ultimately the total EDU amounts provided to IEUA. The City recently went through an upgrade of their computer systems, complicating the completion of this step.

### **Cucamonga Valley Water District**

### **IN PROGRESS**

IA is in the beginning of the testing phase of the audit. IA has met and discussed all audit areas with the assigned representatives. IA has made a selection of items for testing and is in the process of obtaining information requested. In summary:

- Connection fees and Public Service Facilities: IA is currently waiting for the supporting documentation to be provided for the items selected for review.

**Internal Audit Department  
Status Report for September 2014**

- Commercial Volumetric Sewerage Accounts: IA has been provided some financial information, however, IA is currently waiting for other requested information.

**City of Fontana****IN PROGRESS**

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

- Connection Fees: Testing of Initial Connection Fees is currently in process. In most cases the calculations made by the City were materially accurate. Certain items selected for review require further investigation.
- Public Service Facilities: Recent construction information was obtained from a variety of public records for testing. The City generally does collect initial connection fees for Public Service Facilities. IA observed categorization differences used in calculating initial connection fees.
- Commercial Volumetric Sewerage Accounts: This is currently in process. IA has begun detailed testing of items from the Initial Connection Fees testing to their inclusion in the regular sewer billing system and ultimately the total EDU amounts provided to IEUA. Certain items selected for review require further investigation.

**City of Chino Hills****IN PROGRESS**

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

**City of Ontario****IN PROGRESS**

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

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**Project: Annual Audit Plan FY 2014/15**

**Scope:** As required under the IAD Charter, annually, the Manager of IA must develop a comprehensive and flexible annual audit plan of audits/projects. The plan should be developed using an appropriate risk-based methodology, including any risks or control concerns identified by Management, the Audit Committee, the Board or the external auditor and submit that plan, as well as periodic updates, to the Audit Committee and the Board for review and approval.

**Status: Complete**

## Internal Audit Department Status Report for September 2014

The Annual Audit Plan is complete and is presented under separate cover in this month's Audit Committee Agenda. The plan is flexible and was developed using an appropriate risk-based methodology. In planning for the IA projects the following were considered: The Internal Audit Department Charter, the Audit Committee Charter, communications with the Audit Committee and the Board of Directors, communications with Executive Management and key Agency personnel, communications with the External Financial Auditors, communications with the Audit Committee Independent Advisor, prior audit findings and recommendations, assessed risks in operations, Agency's goals and objectives, including activities, developments and changes, Agency policies & procedures, key areas that affect revenue and expenses, identified opportunities to improve operations and add value to services, Audit Department resources, and new audit requirements.

The FY 2014/15 Annual Audit Plan proposes the following audits/projects:

- Regional Contract Review – Review of the Seven Contracting Agencies
- Master Rotating Contracts
- Follow-Up on Outstanding Recommendations
- All IA on-going projects

Refer to the Annual Audit Plan presented under separate cover.

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### ***On-Going Projects***

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

##### **Scope:**

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

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

During this quarter, IA provided a brief report to the Planning and Environmental Compliance Department about Initial Connection Fees related to additional agreed-upon-procedures related to the Regional Contract Review and expanded scope of work. Additionally, IA has been requested to serve on the Agency's Steering Committee for Managing Records and Information. Additional requests related to IA's interpretation or recommendations have been responded to and IA participates in various Agency-wide meetings and training sessions.

## **Internal Audit Department Status Report for September 2014**

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

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

The Internal Audit Department is staffed as follows:

- 1 Manager of Internal Audit
- 1 Regular/Full-time Senior Internal Auditor
- 1 Contract/Full-time Senior Internal Auditor

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

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

During the past quarter, IA staff continues to stay abreast of industry developments through review of industry periodicals. One Professional Development session was attended. Two IA members continue to study for the 3-part Certified Internal Audit certification, the only globally-recognized certification for internal audit professionals. Additional professional development education will be scheduled in the near future.

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

- Wednesday, December 10, 2014 – Regularly Scheduled Audit Committee Meeting
- Wednesday, March 11, 2015 – Regularly Scheduled Audit Committee Meeting

**INFORMATION  
ITEM**

**30**

Date: September 17, 2014

To: The Honorable Board of Directors

Through: Audit Committee (09/10/14)

From: Teresa V. Velarde  
Manager of Internal Audit

Subject: Regional Contract Review Update – Interim Audit Report

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### **RECOMMENDATION**

This is an information item for the Board of Directors.

### **BACKGROUND**

As requested by the Board and Executive Management, Internal Audit (IA) is evaluating how each of the seven Regional Contracting Agencies implements the Chino Basin Regional Sewage Service Contract (Regional Contract). The objectives of the Regional Contract review include:

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

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

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

The results of the overall Regional Contract review are documented in separate audit reports to segregate the observations and recommendations by area reviewed and by subject. The first two reports, including the “Regional Contract Review – Review of the Ten Year Forecast” and the

“Regional Contract Review – Survey of Comparable Agencies” were completed and submitted in June 2014.

In the final section of this Regional Contract Review, IA is evaluating compliance with the Regional Contract provisions by each of the seven Regional Contracting Agencies (RCA). The seven Contracting Agencies are the Cities of Chino, Chino Hills, Fontana, Montclair, Ontario, Upland, and the Cucamonga Valley Water District (serving primarily the City of Rancho Cucamonga). The attached “Survey of Comparative Information” (Exhibit D) provides a comprehensive side-by-side comparison of the responses received from each Contracting Agency about how the Regional Contract provisions are applied. These are initial responses, as provided to IA by the assigned representatives from each of the agencies. Most of the responses provided to IA will be tested and verified through the audit procedures. Additional discussions and review of supporting information will be necessary. IA will be providing the Board with separate reports for each Contracting Agency’s observations and recommendations as they are completed.

Reports for the City of Montclair and the City of Upland have been completed and are attached. IA identified several observations and recommendations to strengthen administrative, accounting, recording, and reporting controls to ensure the intent of the Regional Contract is achieved. Most of the recommendations provided could be applied to all Contracting Agencies on a going-forward basis, as part of an amendment and/or as part of the Regional Contract review and renegotiation process; in order to ensure all Regional Contracting agencies apply and administer the Regional Contract in a similar and consistent manner. A summary of IA’s recommendations are attached in Exhibit A for IEUA’s Executive Management to consider and the attached reports provide details of the findings. IA found several areas where IEUA could strengthen contract oversight and process to ensure Regional Contract requirements and provisions are satisfied.

IEUA sewerage revenue from the seven RCA’s totaled over \$39 million for Fiscal Year 2012/2013, the audit noted that IEUA relies entirely on a one-page self-reported monthly EDU count from the contracting agencies without any other supporting information, to generate invoices for the revenues with no significant oversight or reconciliation of the reported information. The City of Upland actually provides more information than other member agencies in providing totals by type of use in their monthly report. The City of Montclair only provides the number of EDU’s summarized by Single-family residential and commercial, and Multi-family residential. Once these self-reported EDU totals are provided to IEUA (generally approximately 15 days after the end of the month), IEUA generates invoices that are mailed to each of the Contracting Agencies. The Contracting Agencies have 45 days to remit their payments. Recommendations are intended to improve and make the monthly volumetric sewer service fees process more efficient, a summary of these recommendations can be found in Exhibit A.

Although this is not a financial audit, and IA makes no recommendations to the Cities, the Regional Contract review identified the need for each City to have tighter controls and stronger reconciliation procedures and greater oversight to ensure items are recorded, reported and collected are appropriate, and to ensure the contract is administered and applied properly. IA’s



suggestions to the cities can be found in Exhibit B. Because the observations noted impact the fees owed/paid to IEUA, IEUA's Planning and Environmental Compliance Department staff should work closely with the City of Montclair and the City of Upland's staff to ensure the observations and recommendations provided are resolved.

IA would like to extend its appreciation to the City of Upland and City of Montclair staff and the IEUA Planning and Environmental Compliance Department for their cooperation and assistance during this review.

### **PRIOR BOARD ACTION**

On November 20, 2013, the Board of Directors approved the FY 2013/14 Amended Annual Audit Plan.

On December 18, 2013, the Board of Directors approved the Agency's Audit Committee Charter and the Internal Audit Department Charter.

### **IMPACT ON BUDGET**

None

Attachments:

Exhibit A – Internal Audit Recommendations for IEUA's Executive Management for the City of Montclair and City of Upland

Exhibit B – Internal Audits Suggestions for the City of Montclair and the City of Upland

Exhibit C – Interim Audits Reports for the City of Montclair and City of Upland

Exhibit D – Survey of Comparative Information for the 7 Contracting Agencies

## Exhibit A - Internal Audit Recommendations for Audits the of City of Montclair and City of Upland

No.	Findings	City of Upland	City of Montclair
1.	IEUA and City staff must work together to resolve the identified differences and over/under collected amounts and the unreported equivalent dwelling units (EDU) and service fees. The audit identified several businesses that are not reported to IEUA in the monthly volumetric sewer fee report; therefore fees are not paid for the services provided by IEUA. Details are provided in the attached report.	X	X
2.	IEUA should consider developing a standardized calculation worksheet to assist all contracting agencies in the initial connection fee calculations. Currently, each contracting agency has its own different calculation worksheet and sometimes it is not consistent with the regional contract Exhibit J. The standardized calculation worksheet should mirror the fixture unit types in Exhibit J and provide additional clarification and uniformity to the fixture count process. The worksheet should be flexible enough to allow for multiple components of a business to be calculated at different commercial categories when necessary, when there is more than one type of business at the same location, for example, a gas station with a mini-mart. The standardized calculation worksheet would provide assistance in computing the initial connection fees so that contracting agencies' would not each need to develop their own tools individually, creating a lack of consistency and uniformity. IA noted varying application of fixture counts because the agencies calculation worksheet is not consistent with Exhibit J requirements.	X	X
3.	Require that contracting agencies provide copies of the initial connection calculation worksheets for all nonresidential entities included on their monthly building activity reports (BAR). The calculation worksheets would provide additional support to justify the connections reported and the initial connection fees collected. This would provide IEUA staff greater visibility and documented support for the application of the category types and the fixture counts utilized. This process would also allow IEUA staff to contact the contracting agency if any questions or discrepancies are noted at the time that connections are reported rather than identifying these later on.	X	X
4.	IEUA should work with the contracting agencies to establish, as part of the permitting and plan check process, the requirement to have an IEUA representative provide a final sign-off and approval, prior to the contracting agency issuing a permit to a business or industry and allowing a connection to the regional system. This added approval step will ensure IEUA is in agreement with the interpretation of the contract and that the appropriate category type and sewage factor has been applied so that the correct connections are assessed and collected. This process would reduce or eliminate the different interpretations currently identified after the connection has been granted and after fees have been assessed, and through limited audits.	X	X
5.	Although Exhibit J was recently updated and now provides greater detailed definitions for many business types, there still appears to be some room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge and the regional contract should continually be updated to provide	X	X

## Exhibit A - Internal Audit Recommendations for Audits the of City of Montclair and City of Upland

No.	Findings	City of Upland	City of Montclair
	additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently. The audit identified there is still a need for additional detailed definitions, clarification and descriptive information for categorizing public service facilities in Exhibit J to expand and address the differences between publicly owned and publicly used. IEUA should consider documenting additional definitions and descriptions to the classification of businesses in Exhibit J. This would reduce the risk of misclassification of businesses and the potential under-collection of IEUA fees. Examples include; fast-casual restaurants (where orders are placed at a register near the entrance but the restaurant provides table service for the food and beverage service), animal hospitals or shelters and facilities that provide rehabilitative services.		
6.	Consider the City's cross-departmental approach to the development review process as a regional model for all contracting agencies to follow. The City has formed an inclusive group from all city departments that meets regularly to review new developments. The group includes representatives from the Planning, Building, Public Works, Police and Fire departments. Since planning for fire safety is required for new construction to ensure access and egress, Fire department representatives are often the first to know about new PSF construction. This will trigger Public Works and Building department representatives to be involved resulting in the assessment of connection fees, including those for IEUA in accordance with Exhibit J.	X	X
7.	Standardize and provide more detailed regular reporting of the ongoing sewerage charges. Requiring an automated itemized list of non-residential charges would provide information that could be reviewed and researched for anomalies and reconciled on a regular basis. Alternatively, an automated interface between IEUA and the contracting agencies would provide similar advantages.	X	X
8.	Evaluate the current process used for invoicing each contracting agency for monthly sewer fees collected. By establishing a contract for monthly payment instead of relying on the invoice process, each contracting agency could provide the EDU information and remit the funds collected to IEUA directly within a reasonable period of time; instead of waiting for an invoice that delays payment for up to 45 days. By reengineering the process, IEUA would receive the monthly sewer fees collected by the member agencies in a more efficient and timely manner.	X	X
9.	Add language in the regional contract regarding the recourse IEUA has when a regional contract agency over/under collects on the monthly volumetric sewer service fees	X	X
10.	Develop and provide additional clarification and descriptive information for the various types of appliances, appurtenances or fixtures in the descriptions included in Exhibit J. Examples include; defining the nature of an emergency drain, clarifying differences between lavatories, wash fountains, receptors, sinks and mop basins and defining whether a drinking fountain that includes a separate basin for handicapped access consists of one or two fountains. The audit revealed there were differences in interpretation.	X	X

# Exhibit A - Internal Audit Recommendations for Audits the of City of Montclair and City of Upland

No.	Findings	City of Upland	City of Montclair
11.	IEUA should take the lead to, hold workshops, meetings, plant tours and similar activities as an avenue where the Contracting Agencies' personnel can discuss and ask questions related to the application of the Regional Contract and the program. The workshops will provide a forum to discuss questions about the category types to apply, questions on definitions, other questionable items, individual situations, and foster cooperation and collaboration among all. One Contracting Agency may encounter certain questions or situations that could apply to all other Contracting Agencies. By having frequent and on-going dialogue about the application of the Regional Contract will benefit all Contracting Agencies and the Regional Program to ensure there is consistent application of the Regional Contract and current issues are addressed timely.	X	X
12.	Consider a two tier process of determining connection fees as part of Exhibit J that distinguishes between common features that are part of any commercial facility such as restroom toilets & sinks and those features that are unique to a specific site, such as a butcher shop drain or a restaurant dishwasher or washing sink, etc. This would create consistency in the treatment of same-type and same-use fixture units.	X	
13.	Clarify language describing the criteria for being classified a "Floor Drain, Emergency" in Exhibit J. In the City of Upland this category includes all California State Plumbing Code required drains such as in bathrooms, whereas some other contracting agencies charge two Fixture Units for these under the general "Floor Drain" category.	X	
14.	Develop significant expertise within IEUA in fixture count techniques and providing regular and ongoing training at the building departments of the individual contracting agencies to develop consistency in the IEUA fixture count process across the region.	X	
15.	Add language in the regional contract regarding the recourse IEUA has when a regional contract agency over/under collects on the initial connection fees		X



## Exhibit B – Internal Audit Suggestions for the City of Montclair and the City of Upland

No.	City of Montclair Suggestions
1.	The City should consider outlining the process for the assessment, collection, and reporting of initial connection fees and sewer service fees in a flow chart, which is a widely used tool to identify and describe the business processes involved. The flowchart visually displays the sequence of activities in the process and who is responsible for activities. Flowcharts are helpful with training, cross-training, during absences, and in the event of turn-over. The flowchart will also facilitate evaluating, from time to time, whether the current process is effective and efficient and meeting the intended goals and requirements.
2.	IEUA and the City of Montclair should work together to ensure the City modifies the "Sewer System Connection Fee" worksheet to ensure compliance with Table 1 of Exhibit J in the regional contract. The audit identified discrepancies in the application of Exhibit J creating differences in the fees assessed and the fixture units assigned.
3.	Due to the observations identified through this review, it is the auditors interpretation that the MVWD report may not be complete and may not capture all accounts that receive sewer services; therefore, IA recommends IEUA staff work closely with the City of Montclair to ensure a comprehensive reconciliation is completed to ensure all sewer service accounts are reported on the MVWD report and on the IEUA Volumetric report. As a good internal control, reconciliations of the various reports and accounts should be performed periodically to ensure the reports are synchronized. The City of Montclair should ensure all sewer service accounts are reported on the MVWD report and on the IEUA volumetric report, including its own city facilities, in accordance to the requirements of the regional contract.
No.	City of Upland Suggestions
1.	<p>The City of Upland's sewerage billing system requires multiple manual inputs to set billing rates, enter sewerage factors and generate information resulting in under-collections of sewerage revenue to the City. Since the EDU calculations provided to IEUA for calculation of amounts owed to IEUA rely on these same factors, IEUA receives less revenue than entitled to according to the regional contract. The City of Upland should consider performing additional reconciliations and analysis of billing factors to ensure the accuracy of their EDU calculations and the billing rates and amounts. Some ideas to consider include:</p> <ul style="list-style-type: none"> <li>• Sort the sewerage billing reports by the sewerage factor to search for anomalous sewerage factors.</li> <li>• Record IEUA sewerage revenues in a separate account based on the billed amount with a separate offsetting account for bad debts to allow for easy reconciliation between the IEUA sewerage revenue recorded by the City and the pass-through sewerage expense paid to IEUA.</li> <li>• Provide greater oversight to ensure that correct/appropriate rates are applied</li> </ul>
2.	Due to the observations identified through this review, it is the auditors interpretation that the City's sewerage billing system may not capture all accounts that receive sewer services; therefore, IA recommends IEUA staff work closely with the City of Upland to ensure a comprehensive reconciliation is completed to ensure all sewer service accounts are reported on the IEUA volumetric report. As a good internal control, reconciliations of the various reports and accounts should be performed periodically. The City of Upland should ensure all sewer service accounts are reported on the IEUA volumetric report.

**Exhibit C – Internal Audit Reports for the City of Montclair and City of Upland**

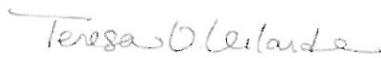




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DATE: September 8, 2014

TO: Joe Grindstaff  
General Manager

FROM:   
Teresa V. Velarde  
Manager of Internal Audit

SUBJECT: **REGIONAL CONTRACT REVIEW**  
**Interim Audit Report**  
**City of Montclair**

#### **Audit Authority**

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

#### **Audit Objective and Scope**

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

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

- Initial Connection Fees
- Public Service Facilities Connection Fees
- Monthly Volumetric Sewerage Charges

*Water Smart – Thinking in Terms of Tomorrow*

- Extra-Territorial Fees
- Reconciliations of fees collected and paid to IEUA
- Overall Recordkeeping

This report describes the results of the procedures performed at the City of Montclair.

### **City of Montclair - Background**

The City of Montclair (Contracting Agency or City) was incorporated on April 25, 1956 and is a municipal entity governed by an elected mayor and a four-member council. The City has a population 37,311<sup>1</sup> and is located at the westernmost edge of San Bernardino County. The City is spread over 5.2 square miles, which is 2.2% of the 242-square-miles covered by IEUA's service area.

The City provides trash and sewer service to residential and commercial properties within its boundaries, while water service is provided through the Monte Vista Water District (MVWD). For trash and sewer service, the City bills residential and commercial properties on a bi-monthly basis. The amount billed includes trash, local sewer services fees, and the IEUA Sewer Service Fees (Volumetric Sewerage Fees). For sewer service, Single-family residents, Multi-family complexes and certain other entities pay a flat fee, whereas commercial properties are billed according to the amount of water usage.

Water meter reading is performed by the MVWD, not the City of Montclair, and read on the same day every other month. MVWD provides the water meter reading information to the City's Finance Division. Any residents or businesses on a septic system and not connected to the Regional Sewerage System are assessed a stand-by fee by the City of Montclair.

### **Financial Information**

The City of Montclair is required to report operational and financial information to IEUA as part of the provisions of the Regional Contract. The financial information reported includes *Initial Connection Fees* and *Sewer Service Fees* and is reported on a monthly basis.

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

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

The amount of Connection Fees collected varies from year to year depending on the construction activity occurring within the Contracting Agency's boundaries. Equivalent Dwelling Units (EDU's) purchased and fees collected by the City during the last two fiscal years are:

City of Montclair Connection Fees		
Fiscal Year	EDU's	Fees collected
2012/13	432.6253	\$ 2,066,303
2013/14 <sup>(1)</sup>	52.4268	\$ 262,500

(1) = Unaudited information as of June 30, 2014.

EDU's and fees collected reflect the amounts reported in the BAR to IEUA's Planning and Environmental Compliance Department. In Fiscal Year 2012/13, the Connection Fees collected are substantially higher because of the construction of a new Apartment complex, *The Paseos at Montclair North*, with 385 units, pool house, and a clubhouse.

#### CCRA Account

Connection Fees are collected by the City and held in a Capital Connection Reimbursement Account (CCRA) until called by IEUA. The CCRA balance as reported by the City of Montclair in their June 30, 2013 CAFR was \$2,746,961.

**Sewer Service Fees (Volumetric Sewerage Fees)** are recurring fees assessed and collected from users that discharge into the Agency's Regional Sewage System. According to the Regional Contract, Contracting Agencies must pay IEUA for sewer services each month. The City of Montclair self-reports the total number of EDU's to IEUA on a monthly basis, based on which cycles of their bi-monthly sewer billing process have come due. The EDU's reported are comprised of the following: one EDU for residential, 0.7 EDU for multi-family, fixed EDU's for schools (based on student attendance), and variable EDU's for commercial entities (based on water consumption information received from MVWD).

The table below outlines the total number of EDU's reported and Volumetric Sewerage Fees paid to IEUA by the City of Montclair for the last two fiscal years. This information is reported in the Agency's financial system.

City of Montclair Sewer Service Fees		
Fiscal Year	EDU's	Fees
2012/13	144,094.96	\$ 1,785,337
2013/14 <sup>(1)</sup>	147,954.97	\$ 1,981,117

(1) = Unaudited information as of June 30, 2014.

As of April 29, 2014, the City of Montclair's total number of sewer accounts based on the assigned rate code consisted of the following:

Type of Account	Number of Accounts <sup>(1)</sup>	Percentage of Accounts
Single Family Residential (1 EDU per dwelling)	6,113	79.54
Multi-Family Residential (.7 EDU per dwelling)	1,019	13.26
Schools (recalculated annually based on attendance)	8	0.10
Commercial categories (based on water usage)	545	7.09
<b>Total</b>	<b>7,685</b>	<b>100 %</b>

(1) = Excludes Stand-by accounts, which are properties currently on a septic system.  
*This information is reported by the City of Montclair. IEUA does not verify these totals.*

### **Initial Connection Fees**

Each Contracting Agency is required to assess, collect, and report Connection Fees for any new development that connects to the Regional Sewerage System, or users who expand their fixture unit count. The fees are to be assessed and collected by the Contracting Agency in accordance with the provisions of Exhibit J in the Regional Contract.

IA selected various businesses to test whether Connection Fees were accurately calculated, collected and reported to IEUA in accordance with Exhibit J of the Regional Contract. IA judgmentally selected 43 different businesses from the following sources to verify the Contracting Agency applied and collected the correct EDU rate according to the Board-approved rates and to determine the accuracy of the categorization type used per Exhibit J of the Sewage Service Contract:

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

Based on the results of the review, it appears that in most cases the calculations made by the City of Montclair were materially accurate. IA noted the following discrepancies:

Calculation Worksheet does not match Exhibit J; therefore creating differences in the Connection Fees that should be collected: The review found that the City of Montclair's calculation worksheet, the "Sewer System Connection Fee" worksheet utilized to calculate Connection Fees does not always coincide with the descriptions and/or associated fixture unit values as outlined in Table 1 of Exhibit J of the Regional Contract. Montclair established a worksheet based on the Drainage Fixture Unit Values table as noted in the California Plumbing Code, however, some of the descriptions for the type of fixture installed and associated fixture unit value vary from the value

provided under Exhibit J creating differences in the Regional Contract required connection totals and fees as summarized below:

City of Montclair's Sewer System Connection Fee Worksheet <sup>(1)</sup>		Regional Contract Exhibit J (Table 1) <sup>(1)</sup>	
Type of Fixture	Unit	Type of Fixture	Fixture Unit
Drinking Fountain	1.0	Drinking Fountain/Water Cooler	0.5
Sink, Bar, Private (1.5 " Min. Waste)	1.0	Receptor, Indirect Waste Bar	2.0
Urinal Assembly Occupancy	5.0	Urinal	2.0

(1) = An example of the Sewer System Connection Fee Worksheet and Table 1 of Exhibit J are attached as Exhibits.

The impact of using fixture unit values that vary from Exhibit J affects the dollar amount of Connection Fees assessed and collected by the Contracting Agency. For each business tested, IA noted the connection fees over/under collected amount in the following discrepancies:

#### DaVita Dialysis Center

Audit Results	Category	Type of Commercial	Fixture Units	Sewage Factor	CCRA	Fees
Contracting Agency Sewer System Connection Fee Worksheet	I	Other	78	0.0444	\$ 5,007	\$ 17,340.24
Internal Audit Exhibit J-Verification	I	Other	79.5	0.0444	\$ 5,007	\$ 17,673.71
Under collected						\$ 333.47

#### Tilt up Building (5388 Arrow Highway Montclair, CA)

Audit Results	Category	Type of Commercial	Fixture Units	Sewage Factor	CCRA	Fees
Contracting Agency Sewer System Connection Fee Worksheet	I	Other	26	0.0444	\$ 5,007	\$ 5,780.08
Internal Audit Exhibit J-Verification	I	Other	25.5	0.0444	\$ 5,007	\$ 5,668.93
Over collected						\$ 111.15

**Gold's Gym**

<b>Audit Results</b>	<b>Category</b>	<b>Type of Commercial</b>	<b>Fixture Units</b>	<b>Sewage Factor</b>	<b>CCRA</b>	<b>Fees</b>
Contracting Agency Sewer System Connection Fee Worksheet	III	Health Spa w/ Pool	178	0.1780	\$ 5,007	\$ 158,641.79
Internal Audit Exhibit J-Verification	III	Health Spa w/ Pool	169.5	0.1780	\$ 5,007	\$ 151,066.20
<b>Over collected</b>						<b>\$ 7,575.59</b>

**National Core Housing**

<b>Audit Results</b>	<b>Category</b>	<b>Type</b>	<b>Fixture Units</b>	<b>Sewage Factor</b>	<b>CCRA</b>	<b>Fees</b>
Contracting Agency Sewer System Connection Fee Worksheet	I	Other	28	0.0444	\$ 4,909	\$ 6,102.87
Internal Audit Exhibit J-Verification	I	Other	27.5	0.0444	\$ 4,909	\$ 5,993.89
<b>Over collected</b>						<b>\$ 108.98</b>

Although the four (4) instances identified appear to be immaterial in comparison to the building activity that occurred during the period under review, these were observations noted only based on the items selected for this review. This observation indicates that there may be other instances where fixture values differ from Exhibit J, because the same calculation worksheet is used each time a new connection is made; therefore, creating differences in the fixture unit counts and the Connection Fees collected.

*IEUA and the Contracting Agency should work together to ensure the calculation of connection fees and fixture units is in compliance with Exhibit J of the Regional Contract in order to prevent over/under collections and to ensure all Contracting Agencies apply the values required under the Regional Contract in a consistent and uniform manner.*

*Additionally, IA recommends that calculation worksheets be standardized and that Contracting Agencies prepare separate calculation worksheets for the individual categories when businesses operate in multiple segments as described in Exhibit J.*

The interpretation of Exhibit J created overage/underage of Connection Fees collected:  
For the items selected, IA noted the following instances of varying interpretation and application of Exhibit J of the Regional Sewerage Service Contract. This created differences in categorization; therefore differences in the Connection Fees collected.



**Dragon 99 Restaurant**

<b>Audit Results</b>	<b>Category</b>	<b>Type</b>	<b>Fixture Units</b>	<b>Sewage Factor</b>	<b>CCRA</b>	<b>Fees</b>
Contracting Agency Classification	I	Restaurant (fast food)	6	0.0444	\$ 4,909	\$ 1,307.76
Internal Audit Interpretation	III	Restaurant (full-service)	6	0.1780	\$ 4,909	\$ 5,242.81
<b>Under collected</b>						<b>\$ 3,935.05</b>

Dragon 99 Restaurant appears to be a full-service restaurant, auditors observed:

- Restaurant utilizes non-disposable plates, silverware, and drinking glasses – requiring to be washed before reuse.
- Patrons place an order and typically pay after eating
- Restaurant staff serves the food to the patrons at their table
- Restaurant staff cleans up after the customer meal is done

**City of Montclair:  
Community Center Bathrooms**

<b>Audit Results</b>	<b>Category</b>	<b>Type</b>	<b>Fixture Units</b>	<b>Sewage Factor</b>	<b>CCRA</b>	<b>Fees</b>
Contracting Agency Classification	I	Other	87	0.0444	\$ 4,909	\$ 18,962.49
Internal Audit Interpretation	VI	Public Facility	87	0.0630	\$ 4,909	\$ 26,906.23
<b>Under collected</b>						<b>\$ 7,943.74</b>

**Splash Pad**

<b>Audit Results</b>	<b>Category</b>	<b>Type</b>	<b>Fixture Units</b>	<b>Sewage Factor</b>	<b>CCRA</b>	<b>Fees</b>
Contracting Agency Classification	I	Other	6	0.0444	\$ 4,909	\$ 1,307.76
Internal Audit Interpretation	VI	Public Facility	6	0.0630	\$ 4,909	\$ 1,855.60
<b>Under collected</b>						<b>\$ 547.84</b>

The bathrooms installed at the Community Center and Splash Pad are City owned and operated; however were classified as a Commercial Category I at the time of assessment and collection of Connection Fees. These should have been classified as Category VI Public Facility. This would have resulted in a fee calculation that would have been \$7,943 higher for the Community Center Bathrooms and \$547 higher for the Splash Pad. Exhibit J was recently updated to provide descriptions and examples of typical establishments. However, Exhibit J still provides limited guidance on public facilities and does not address the issue of publicly owned versus publicly used.

*It is IA's observation that although Exhibit J was recently updated and now provides detailed definitions for many business types, there still appears to be some room for*

*varying interpretation and application. Exhibit J of the Regional Contract should be revised to include additional guidance and more specific definitions for Public Facilities including publicly "owned" versus publicly "used." The current definition suggests that "publicly owned is defined as establishments typically operated by the local city or other government entities." However, the audit noted that the difference in interpretation and the question that should be clarified is not whether the entity is "operated" by the local city, but whether the new construction or expansion is "used" by the public or "available for public use." The audit found that some Contracting Agencies seem to feel that if the public entity has "new" or "expanded" facilities that are operated as a business and the public is typically not allowed in the facility; then it would appear to be similar to a Category 1 commercial entity because it is "used" only by those employed by the public entity and therefore, appears to be operated more like a private "commercial" business with no "public access". IEUA should work to clarify the definition and the intent for the classification of PSF.*

*IEUA and the Contracting Agencies should consider developing additional definitions and descriptions for the classification of commercial enterprises in Exhibit J. This would mitigate the risk of misinterpretation or misclassification of Exhibit J and the potential over/under collection of Connection fees.*

The observations resulting from this evaluation appear to be due to the Contracting Agency's staff misinterpretation of the Regional Contract and Exhibit J. Therefore, additional education and information to the Contracting Agencies is necessary. On-going meetings that foster an open communication and an on-going rapport between the contract administrators at IEUA and personnel at the Contracting Agencies' who are responsible for applying the Regional Contract requirements, should be consistently scheduled.

*IEUA should take the lead to, hold workshops, meetings, plant tours and similar activities as an avenue where the Contracting Agencies' personnel can discuss and ask questions related to the application of the Regional Contract and the program. The workshops will provide a forum to discuss questions about the category types to apply, questions on definitions, other questionable items related to individual situations, as well as foster cooperation and collaboration among all. One Contracting Agency may encounter certain questions or situations that could apply to all other Contracting Agencies. Having frequent and on-going meetings and discussions about the application of the Regional Contract will benefit all Contracting Agencies and the Regional Program to ensure there is consistent application of the Regional Contract and issues are addressed timely.*

*IEUA should work with the Contracting Agency to establish, as part of the permitting and plan check process, the requirement to have an IEUA representative provide a final sign-off and approval, prior to the Contracting Agency issuing a permit to a business or industry and allowing a connection to the system. This added approval step will ensure IEUA is in agreement with the interpretation of the Contract and that the appropriate*

*category type and sewage factor has been applied so that the correct Connection Fees are assessed and collected.*

### **Public Service Facilities**

The City of Montclair staff did not have a comprehensive list of all Public Service Facilities (PSF); therefore, IA performed research of various websites to ascertain whether there had been any new construction or expansions of PSF's such as schools, hospitals, and local city or other government facilities. The websites reviewed include Schools Districts along with the School Accountability Report Card for schools, Office of Statewide Health Planning and Development (OSHDP) for hospitals, and the Contracting Agency's for City facilities.

IA selected three (3) Public Service Facilities (PSF) to verify the Contracting Agency collected "Connection Fees" as required by Exhibit J of the Regional Contract. Exhibit J includes for purposes of fee calculation: *"All structures designed for the purpose of providing permanent housing for enterprises engaged in exchange of good and services. This shall include, but not be limited to, all private business and service establishments, **schools, churches, and public facilities.**"*

The Division of the State Architect's Office (DSA) of the State of California provides design and construction oversight for public schools (kindergarten through 12<sup>th</sup> grade), community colleges, and various other state-owned and leased facilities. The entities that fall under the DSA have a permit and plan check process that is separate and includes limited or no coordination with the local jurisdiction. The permitting process under the DSA does not include the collection of connection fees, even though the construction projects reviewed could be new construction or expansions that result in additional discharge into the regional infrastructure. It is the responsibility of each individual local jurisdiction to ensure collection of the connection fees from entities that fall under the DSA and reside within their service area.

IA noted Connection Fees were not collected for two schools that had new construction or expansions. The table below notes type of construction that occurred and the amount of connection fees collected from the PSF by the Contracting Agency.

PSF	Type of Construction	Fees Collected by Montclair
Howard Elementary School	Addition of a Multi-purpose room with a kitchen, stage, and seating for 500 occupants	\$ 102,387.98
Moreno Elementary School	Multiple rooms with restrooms	\$ -
Montclair High School	New building with 32 classrooms	\$ -

According to Montclair staff, they were not aware of any construction activity occurring at Howard Elementary School. The Contracting Agency's Public Works staff performed

an on-site inspection related to a separate issue and discovered the school was attempting to connect to the local City sewer without authorized approval. Montclair's staff worked with the School District to obtain the necessary permits and approvals to connect Howard Elementary School to the local Sanitary Sewer System, including payment and collection of the required fees.

The Contracting Agency's staff performed a walk-through of the school site and completed a fixture count worksheet, which required going into each room and counting all fixture units (i.e. drinking fountains, sinks, toilets, floor drains, etc.). Therefore, the walk-through of facilities was the support in calculating the initial connection fees, not the plumbing plans. The connection fees collected included older/ pre-existing fixtures that had previously not been collected in the amount of \$78,367.34 and for the new multi-purpose room recently added in the amount of \$24,020.64, for a total of \$102,387.98 and 341 fixture units/21.483 EDU's.

City of Montclair's staff indicated that the School District does not coordinate with the local jurisdiction for any new construction projects or additions to existing facilities. Because the plan check and permitting process is separate from the local jurisdiction, the City of Montclair noted they have had a difficult time in assessment and collection of Connection Fees from the School District. Currently, the City of Montclair does not appear to have a process in place to identify future construction or expansion for PSF's. Also, the City of Montclair staff does not appear to collaborate with the other City departments that may have knowledge of new construction or expansions for PSF's. Because there is no formal process in place to proactively research or identify new construction and/or expansion for PSF's the result is no collection of Connection Fees and noncompliance with Exhibit J of Regional Contract.

*IEUA should provide guidance and assistance to the Contracting Agency to adopt a collaborative approach and foster a relationship with the School District and any other PSF to ensure Connection Fees are charged and collected for any future planned projects with new construction or expansion. For example, the City of Montclair could consider and adopt the collaborative approach utilized at the City of Upland. The City of Upland has formed an inclusive group from all city departments that meets regularly to review new development. The group includes representatives from the Planning, Building, Public Works, Police and Fire departments. Since planning for fire safety is required for new construction to ensure access and egress, Fire department representatives are often the first to know about new PSF construction. This will trigger Public Works and Building department representatives to be involved resulting in the assessment of connection fees, including those for IEUA in accordance with Exhibit J.*



### **Plumbing Plans – Fixture Unit Recount**

IA reviewed the plumbing plans for five (5) of the originally selected 43 businesses to ascertain the accuracy of the fixture count. The recount was performed by the Contracting Agency's Building and Safety Division staff and witnessed/verified by IA. The results of the re-count were agreed upon by both parties.

During the review of the plumbing plans, IA observed that the type of the fixture (i.e. floor drain, sink, etc.) is not always clearly indicated or depicted in the plans submitted by the developer. However, the Building and Safety Division staff is certain that the type of fixture unit exists based on the architecture and design of the structure being built, requirements of the plumbing code, and the staff's experience. Without a clear indication on the plumbing plan of the type of fixture, this can make it difficult to reconcile or verify pre-existing or new fixture units installed at the physical location.

Although the recount was performed and re-verified without exception, and even though the fixture was not always clearly indicated on the plumbing plans, the Contracting Agency's Building and Safety Division indicated that the current process in place ensures all the fixture units at a physical location are accounted for and appropriate assessment and collection of Connection Fees.

### **Volumetric Sewerage Fees**

The City of Montclair's residents and businesses receive water services from MVWD, while local and regional sewer services are provided by the City and IEUA. All water customers are billed for the City's and IEUA's sewerage charges based on the "Procedures for Establishing a Regional Sewer Billing Formula" adopted by the Regional Technical Committee for monthly/bimonthly billing processes, except for those customers that are on a Septic system and assessed a stand-by fee by the City.

MVWD performs water meter reads for commercial properties to obtain the water use information for billing, whereas residential properties are always assessed a flat rate for sewer fees regardless of consumption. After the meter readings, MVWD provides a report to the City of Montclair with the following information: account number, customer name, service location and the quantity of water consumption for a two-month period.

The City will utilize this information and convert the water consumption for commercial properties from hundreds of cubic feet (HCF) to EDU's by applying the factor which is based on the assigned category. The City of Montclair will report the calculated EDU's to IEUA, itemizing Single-family residential, commercial and Multi-family. IEUA accepts the total EDU's reported without any additional supporting information that validates the totals reported and bills the City the volumetric rate per EDU self-reported.

For the 43 different commercial businesses originally selected, three (3) PSF, and the Contracting Agency's City facilities selected, IA tested the bimonthly sewerage in the

Utility Billing System to determine whether Montclair is paying and reporting to IEUA the appropriate categories and the corresponding rates for monthly volumetric fees.

Based on the review, it appears the categories assigned and the rates applied for the sewer service accounts reviewed were billed appropriately. However, the review found items that were not accounted for in the sewer billing information, and therefore, it is unclear if Montclair pays IEUA for sewer service in accordance to the Regional Contract. IA noted the following:

1. Sewer billing information could not be identified in six (6) instances. Upon completing audit procedures, it was not clear if the City of Montclair reports and pays IEUA for the six identified accounts from our sample. On September 3, 2014, after the original interim report was issued for the Audit Committee meeting, IA received additional information from the City's Finance Division related to the six addresses in question. The City's Finance Division noted the following response: four (4) of the businesses are included in the sewer billing system and MVWD report and reported to IEUA, for one (1) business no sewer account was established nor flow information reported, and one (1) business is on the Septic system therefore not required to be reported. Therefore, of the originally questionable six addresses, one is not reported to IEUA but should be.

Address	Business	Reported to IEUA
4681 Arrow Highway # F, Montclair	Inland Empire Autosense	Yes
5150 Moreno Street, Montclair	Gold's Gym	Yes
<b>9197 Central Ave # J, Montclair</b>	<b>Café Moderno</b>	<b>No</b>
9142 Monte Vista Ave, Montclair	DaVita Dialysis Center	Yes
5388 Arrow Highway, Montclair	Westpac/Tilt-up/Warehouse Building	Yes
4253 State Street, Montclair <sup>(1)</sup>	California Crown Industrial	N/A

(1) = This property is on the Septic System and does not have the ability to connect to the local sewer system.

*Although Montclair provided a response and the response has cleared five of the originally questionable six accounts, IA will follow-up with the City of Montclair's Finance Division in the forthcoming months to verify that the EDU's for the addresses are reported to IEUA as part of the monthly volumetric reporting. If there continues to be an issue, IA will report back on this observation in the comprehensive report, which is anticipated to be completed by March 2015.*

2. Sewer billing information could not be identified for *The Paseos at Montclair North*, a new Apartment complex with 385 units built In Fiscal Year 2012/13. According to the Contracting Agency's Finance Division the sewer billing is to the Property Management Company. IA attempted to verify if the City pays IEUA for these sewer services, but we were not able to verify on the list of active sewer accounts or in the water consumption report provided by MVWD. If all 385 units

are leased, that would equal to approximately 270 EDU's not reported nor Volumetric Fees collected, each month (385units x .7EDU).

On September 3, 2014, after the original interim report was finalized for the Audit Committee meeting, IA received confirmation from the City's Finance Division there are two accounts that exist in the Utility Billing system for this Apartment complex and sewer billing is based on the number of units. No flow information is provided by the MVWD because these are residential accounts and assessed a flat rate regardless of consumption.

*Auditors were able to confirm that the Apartment Complex is in the City's Utility Billing System, however, IA will follow up with the City of Montclair's Finance Division in the forthcoming months to verify the EDU's for the Apartment Complex are reported to IEUA as part of the monthly volumetric reporting. IA will report back on this observation in the comprehensive report, which is anticipated to be completed by March 2015.*

3. Sewer billing information could not be identified for the City of Montclair's facilities, City Hall and the Fire Department. IA requested from Montclair's Finance Division verification to determine whether the City pays IEUA for these sewer services. On September 3, 2014, after the original interim report was issued for the Audit Committee meeting, IA received confirmation from the City's Finance Division that flow information was reported for only two of the City facilities by the MVWD. The City's Finance Division noted this issued has been corrected and flow information for all City facilities will be reported by MVWD and then reported to IEUA as part of the monthly volumetric EDU's and fees.

*IA will follow up with the City of Montclair's Finance Division in the forthcoming months to verify the EDU's for the City facilities are included as part of the monthly volumetric reporting to IEUA. IA will report back on this observation in the comprehensive report, which is anticipated to be completed by March 2015.*

The City of Montclair bills for trash and sewer services, all customers should be set up in its Utility Billing System. *As an added control the Contracting Agency should periodically review and reconcile the accounts in their Utility Billing System and the MVWD report to ensure residential and commercial businesses are billed for sewer services and make any needed corrections. Additionally, the City of Montclair should ensure that City facilities are included in the EDU's reported to IEUA as part of the monthly EDU reporting as required by the Regional Contract.*

The City of Montclair Finance Division felt that the audit procedures applied were unnecessary and disagreed with our review and observations as they related to the above items. They stated that all flow information reported to the City of Montclair from MVWD is reported to IEUA and fees are paid for the same water consumption flows



reported to the City. Therefore, the City argued that whether the City bills its customers or not, should not be relevant to the flows reported and paid. However, it should be noted that IA's audit procedures were applied to verify that the selected customers that receive sewer services are included in the MVWD flow report and the Monthly Volumetric Sewer Service report and the appropriate Fees are paid to IEUA. This audit procedure is applied to test and verify that customers who should have a sewer account, have a sewer account and pay for sewer services; additionally to test and verify that customers who have a sewer account are listed on the MVWD flow report to ensure flows are captured and reported to IEUA.

Although, IA received a response from the City's Finance Division for the above selected items, there appears to be a weakness in the process currently employed by the City to pay IEUA for monthly sewer service. One item did not have active sewer account nor flow information reported, while City facilities were not included in the MVWD report for reporting to IEUA. This indicates there may be other customers/accounts which receive IEUA sewer services; however, the flow might not be captured by MVWD in their flow report, therefore not reported to IEUA and the appropriate Sewer Fees are not paid to IEUA for those accounts.

According to the Regional Contract, each Contracting Agency is responsible to pay IEUA for the services provided. Any properties connected to the local sewer system and discharging wastewater will ultimately go for processing to the Agency's wastewater treatment facilities, and should be billed for the services received.

*The City of Montclair should work with the MVWD to reconcile and ensure the water consumption report provided to Montclair captures all the customers connected to the Regional System and receiving IEUA sewer services to ensure all the EDU's are appropriately reported and paid to IEUA. Additionally, the Contracting Agency should ensure that its own facilities are included in the reporting of EDU's to IEUA as part of the Volumetric Sewerage Fees according to the requirements of the Regional Contract.*

*IEUA should consider including language in the Regional Contract regarding recourse for non-payment of services provided and work closely with the Contracting Agencies to ensure there are reconciliation and verification controls to ensure all sewer services are reported and paid accurately and according to the requirements of the Regional Contract.*

#### **Total Sewer Service Fee Billings/Revenue**

As part of the review, IA attempted to compare the Sewer Billing Revenues recorded by IEUA for agreement to the City of Montclair's general ledger information to determine if all sewer related collections/billings by the City are paid to (or "passed-through") and reported to IEUA. The City of Montclair records all Sewer Service Revenue into one fund, which includes IEUA's treatment fee, local sewer service fees, stand-by fees, and local sewer capital replacement fees.

IA was unable to reconcile Sewer Service Revenue recorded by IEUA with the Contracting Agency's general ledger information because of the multiple types of revenue combined into one fund. Because we were not able to reconcile with the records provided, IA applied an alternate audit procedure. IA performed a *ratio analysis* to evaluate the relationship between the fees collected by the City of Montclair on behalf of IEUA to the EDU volumetric fees reported to the Agency. The ratio analysis identified a difference that could be due to a combination of various reasons including stand-by fees, timing, calculation rounding, uncollectible accounts and so on. Overall, any difference noted does not affect nor impact the amount of Volumetric Sewerage Fees that have been paid and reported to IEUA.

The City of Montclair reports the number of EDU's to IEUA based on the *water (flow) consumption information* provided by the MVWD, not on the amount that has been billed or collected by the City. According to Montclair, the City absorbs any costs related to uncollectible debts on its service billings and does not net nor deduct such costs from the EDU's reported to IEUA. Per the Contracting Agency's Finance Division, the current process used to report the monthly EDU's ensures IEUA is paid for the services when they occur regardless of when the City collects from its residents or businesses within its service area. However, as noted in the previous section, due to the observations that identified several residential and commercial accounts not listed on the water consumption report, there is some question as the completeness and accuracy of the Sewer Fees paid to IEUA because there may be several accounts/customers that receive sewer services by are not reported, therefore fees are not paid to IEUA.

Other Contracting Agencies of the Regional Contract do maintain Sewer Service fees billed and collected on behalf of IEUA in a separate account. This approach is utilized to ensure the amounts billed are in agreement with the amounts reported and paid to IEUA as an additional verification to ensure revenues collected are passed-through for the services provided. Having a separate account for EDU Volumetric Fees allows for identification of variances and reconciliation of fees collected. For the City of Montclair, they may want to research this approach to determine if it is feasible considering all the various factors such as the structure of the Utility Billing System, water consumption information received from MVWD. This approach would provide a method to complete reconciliations to ascertain that all sewer billing received by Montclair is paid or "passed-through" to IEUA.

*Because of the observations identified, it is the auditors interpretation that the MVWD report may not be complete and may not capture all accounts that receive sewer services; therefore, IA recommends IEUA staff work closely with the City of Montclair to ensure a comprehensive reconciliation is completed to ensure all sewer service accounts are reported on the MVWD report and on the IEUA Volumetric report. As a good internal control, reconciliations of the various reports and accounts should be performed periodically.*

### **Extra-Territorial Fees**

The City of Montclair does not have any Extra-Territorial (ET) areas. The City does have some unincorporated areas to the south and southeast of the city that are within the Contracting Agency's sphere of influence. These are not considered ET as described in the Regional Contract.

### **CCRA Reconciliation**

IA verified the Capital Connection Reimbursement Account (CCRA) amount reported on the City's Annual Financial Report agree to what IEUA reported on its Comprehensive Annual Financial Report (CAFR) at June 30, 2013. No exceptions were noted.

<b>Fiscal Year</b>	<b>City's Annual Financial Report</b>	<b>IEUA CAFR</b>	<b>Variance</b>
2012/13	\$2,746,961	\$2,746,961	\$ -

IA verified the CCRA amount reported on the City's General Ledger (G/L) agrees to what IEUA has reported in their financial system as of December 31, 2013.

<b>Fiscal Year</b>	<b>City G/L</b>	<b>IEUA G/L</b>	<b>Variance</b>
2013/14	\$2,811,238	\$2,811,238	\$ -

### **Timeliness Testing**

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

The Sewer Service fees (Monthly Volumetric fees) are remitted to IEUA on a timely basis. The Building Activity Reports are submitted to IEUA, ranging between 1 day (lowest) and 35 days late (highest), and an average of **five (5) days late (after the report due date)** which is considered relatively immaterial.

### **Internal Audit Recommendations**

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

#### ***Recommendations relating to Connection Fees:***

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

- 1. Developing a standardized calculation worksheet to assist all Contracting agencies in the initial connection fee calculations. Currently, each Contracting Agency utilizes its own calculation worksheet, the audit found inconsistencies in the calculations worksheets when compared with the requirements of the Regional Contract Exhibit J. The standardized calculation worksheet should mirror the fixture unit types in Exhibit J and provide additional clarification and uniformity to the fixture count process. The worksheet should be flexible enough to allow for multiple components of a business to be calculated at different Commercial categories when necessary. The standardized calculation worksheet will facilitate computing the initial Connection Fees in a consistent and uniform manner.***
- 2. Requiring that Contracting Agencies provide copies of the initial connection calculation worksheets for all nonresidential building permits with their monthly Building Activity Reports. The calculation worksheets would provide additional support for the connections reported and the Initial Connection Fees collected. This would provide IEUA staff greater visibility and support over the application of the category types and the fixture counts utilized. This process would also allow IEUA staff to contact the Contracting Agency if any questions or discrepancies are noted at the time that connections are reported rather than identifying these later on.***
- 3. Collaborating to ensure connection fees are collected from any Public Service Facilities that have new construction or expansion that would result in a net increase of fixtures and additional flow into the Agency's wastewater treatment facilities. IEUA should discuss this and other approaches with the Contracting Agencies to find ways to obtain information about new Public Service Facilities construction. IEUA should provide guidance to ensure PSF's are identified and the appropriate fees are collected.***



- 4. Taking the lead and provide guidance to assist the Contracting Agencies in establishing and fostering a relationship with the School District to ensure that connection fees are collected by the City and appropriately remitted to IEUA for any future planned projects involving new construction or expansion. In addition, providing guidance in establishing a collaborative approach with the various key departments within the Contracting Agency that meets regularly to discuss new developments and growth to ensure the appropriate Connection Fees are assessed and collected for Public Service Facilities.**
- 5. Developing additional definitions and descriptions to the classification of businesses listed in Exhibit J. This would reduce the risk of misclassification of businesses and the potential under-collection of IEUA fees. Examples include; restaurants (fast food versus full-service) Although Exhibit J was recently updated and now provides greater detailed definitions for many business types, there still appears to be some room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge and the Regional Contract should continually be updated to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently.**
- 6. IEUA should take the lead to, hold workshops, meetings, plant tours and similar activities as an avenue where the Contracting Agencies' personnel can discuss and ask questions related to the application of the Regional Contract and the program. The workshops will provide a forum to discuss questions about the category types to apply, questions on definitions, other questionable items, individual situations, and foster cooperation and collaboration among all. One Contracting Agency may encounter certain questions or situations that could apply to all other Contracting Agencies. By having frequent and on-going dialogue about the application of the Regional Contract will benefit all Contracting Agencies and the Regional Program to ensure there is consistent application of the Regional Contract and current issues are addressed timely.**
- 7. IEUA should work with the Contracting Agency to establish, as part of the permitting and plan check process, the requirement to have an IEUA representative provide a final sign-off and approval, prior to the Contracting Agency issuing a permit to a business or industry and allowing a connection to the system. This added approval step will ensure IEUA is in agreement with the interpretation of the Contract and that the appropriate category type and sewage factor has been applied so that the correct Connection Fees are assessed and collected.**

- 8. Providing additional detailed definitions, clarification and descriptive information for categorizing Public Service Facilities in Exhibit J to expand and address the differences between publicly owned and publicly used.***
- 9. Adding language in the Regional Contract regarding recourse for non-collection, in addition to over/under collection of Initial Connection Fees.***

IEUA's Volumetric Sewerage Revenue from all of the seven Contracting Agencies totaled approximately \$39 million for FY 2012/2013, yet IEUA relies entirely on one-page self-reported monthly EDU counts from the Contracting Agencies to generate invoices for these revenues with no significant oversight or reconciliation. The City of Montclair only provides the number of EDU's summarized by Single-family residential and commercial, and Multi-family residential. Once these self-reported EDU totals are provided to IEUA (generally approximately 15 days after the end of the month), IEUA generates invoices that are mailed to each of the Contracting Agencies. The Contracting Agencies have 45 days to remit their payments. The following recommendations are intended to improve and make this process more efficient:

***Recommendations relating to Sewer Service Fees:***

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

- 10. Ensuring all current customers receiving sewer services are reported on the Monthly Volumetric report and the appropriate rates are paid to IEUA, according to the Regional Contract. Work together to resolve the questionable accounts identified in this audit, where there is no indication that monthly sewer fees are paid to IEUA for the several businesses and residences identified in this report.***
- 11. Standardizing and providing more detailed regular reporting of the ongoing sewerage charges. In particular an automated item by item detailed listing of non-residential charges would provide information that could be reviewed and researched for anomalies and reconciled on a regular basis. Alternatively, an automated interface between IEUA and the Contracting Agencies would provide similar advantages.***
- 12. Evaluating the current process used for invoicing each Contracting Agency for monthly sewer fees collected. By establishing a contract for monthly payment instead of relying on the invoice process, each Contracting Agency could provide the EDU information and remit the funds collected to IEUA directly within a reasonable period of time; instead of waiting for an invoice that delays payment for up to 45 days. By reengineering the process, IEUA would receive the monthly sewer fees collected by the member agencies in a more efficient and timely manner.***

***13. Adding language in the Regional Contract regarding recourse for non-payment of monthly sewerage services provided.***

Although this is not a financial audit, and IA makes no recommendations to the City of Montclair, the Regional Contract Review identified the need for tighter controls and stronger reconciliation procedures and greater oversight to ensure items are recorded, reported and collected are appropriate, and to ensure the contract is administered and applied properly. The following are suggested recommendations for the City of Montclair's consideration.

***Recommendations for consideration by the City of Montclair:***

***14. The City should consider outlining the process for the assessment, collection, and reporting of Initial Connection Fees and Sewer Service fees in a flow chart, which is a widely used tool to identify and describe the business processes involved. The flowchart visually displays the sequence of activities in the process and who is responsible for those activities. Flowcharts are helpful with training, cross-training, during absences, and in the event of turn-over. The flowchart will also facilitate evaluating, from time to time, whether the current process is effective and efficient and meeting the intended goals and requirements.***

Because the observations noted impact the fees owed/paid to IEUA, IEUA Planning and Environmental Compliance staff should work closely with the City of Montclair to ensure the observations and recommendations provided are resolved.

***IEUA and the City of Montclair should work together to ensure:***

***15. The City should consider modifying the "Sewer System Connection Fee" worksheet to ensure compliance with Table 1 of Exhibit J in the Sewage Service Contract.***

***16. The City should consider and adopt the collaborative approach utilized at the City of Upland to assess and collect Connection Fees from Public Service Facilities. The City of Upland has formed an inclusive group from all city departments that meets regularly to review new development. The group includes representatives from the Planning, Building, Public Works, Police and Fire departments. Since planning for fire safety is required for new construction to ensure access and egress, Fire department representatives are often the first to know about new PSF construction. This will trigger Public Works and Building department representatives to be involved resulting in the assessment of connection fees, including those for IEUA in accordance with Exhibit J.***



- 17. Because of the observations identified, it is the auditors interpretation that the MVWD flow report may not be complete and may not capture all accounts that receive sewer services; therefore, IA recommends IEUA staff work closely with the City of Montclair to complete a comprehensive reconciliation that ensures all sewer service accounts are reported on the MVWD report and on the IEUA Monthly Volumetric report. Work together to resolve any unreported accounts. As a good internal control, reconciliations of the various reports and accounts should be performed periodically. The City of Montclair should ensure all sewer service accounts are reported on the MVWD report and on the IEUA Volumetric report. Work together resolve any discrepancies identified.***
- 18. The City should ensure that its own facilities are included in the reporting of EDU's to IEUA as part of the Monthly Volumetric Sewerage Fees.***
- 19. The City should coordinate and ensure the Building Activity Reports are submitted to IEUA by the contractually required due date.***

#### **Acknowledgements**

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

#### **Discussions with the City of Montclair and Planning & Environmental Compliance**

We provided the result of this audit to Mr. Donald Parker, Finance Director, Ms. Merry Westerlin, Building Official, and Ms. Nicole deMoet, Environmental Manager, for review and comments, prior to finalizing this report. We also provided the report to Chris Berch, Executive Manager of Engineering/Assistant General Manager, Sylvie Lee, Manager of Planning and Environmental Compliance, Craig Proctor, Pretreatment and Source Control Supervisor, Pietro Cambiaso, Senior Engineer, and Kenneth Tam, Environmental Compliance Officer of the IEUA's Planning and Environmental Compliance Department prior to finalizing this report, for their review and comments.

#### **Action Items**

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

## "Sewer System Connection Fee" Worksheet



\$5,007

Number of Fixtures	Kind of Fixtures	Units Each	Totals
	Single Family Residence	1	0
	Dental Units or Cuspidors	1	0
1	Drinking Fountains	1	1
2	Floor Drains	2	4
	Laundry Tubs / Clothes Washers	3	0
	Floor Sinks - Indirect Waste (Low flow - ice machines, fridges, & similar)	1	0
	Floor Sinks - Indirect Waste (Heavy flow - dishwasher, comm sinks, etc)	3	0
	Sinks, Dishwashers (Residential)	2	0
	Sinks, Service (Mop sink)	3	0
	Sink, Bar, Private (1.5" min. waste)	1	0
	Sink, Bar, Commercial (3 compartment, prep areas, etc., 2" min waste)	2	0
1	Sink, Commercial (Industrial, schools, etc.)	3	3
	Sink, Clinic & Flushing Rim	6	0
	Showers Single Stalls	2	0
	Showers, Gang (Use this line for ea head over single shower above)	1	0
4	Lavatory - single wash basin	1	4
	Lavatory, wash basin 2 or 3 in sets	2	0
1	Urinal Public Facility	2	2
	Urinal Assembly Occupancy	5	0
3	Water Closet, Public Facility (tank or flushometer)	4	12
	Water Closet, Assembly Occupancy (tank or flushometer)	6	0
	Bathtubs / Bidets	2	0

**Exhibit J – Table 1 – Fixture Unit (FU) Values**

TABLE 1 - Fixture Unit (FU) Values<sup>1,2</sup>

Appliances, Appurtenances or Fixtures	Fixture Units
Bathtub or Combination Bath Shower	2.0
Clothes Washer, domestic, standpipe	3.0
High Efficiency Clothes Washer	2.0
Dental Unit, cuspidor	1.0
Dishwasher with independent drain	2.0
Drinking Fountain or Water Cooler	0.5
Food Waste Grinder (Commercial)	3.0
Floor Drain, Emergency	0.0
Floor Drain	2.0
Shower, single-head trap	2.0
Multi-head, each additional	1.0
Lavatory, single	1.0
Lavatory, In sets of two or three	2.0
Washfountain (1.5-in Minimum Fixture Branch Size)	2.0
Washfountain (2-in Minimum Fixture Branch Size)	3.0
Receptor, indirect waste <sup>3</sup>	
Bar	2.0
Clinical	6.0
Commercial with food waste (1.5-in Minimum Fixture Branch Size)	3.0
Commercial with food waste (2-in Minimum Fixture Branch Size)	4.0
Commercial with food waste (3-in Minimum Fixture Branch Size)	6.0
Kitchen, domestic (with or without food-waste grinder and/or dishwasher)	2.0
Laundry (with or without discharge from a clothes washer)	2.0
Service or Mop Basin	3.0
Service, flushing rim	6.0
Wash, each set of facets	2.0
Urinal	2.0
Waterless Urinal	1.0
Water Closet, 1.6 GPF	4.0
Water Closet, greater than 1.6 GPF	6.0



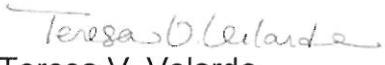
## *Inland Empire Utilities Agency*

A MUNICIPAL WATER DISTRICT

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P.O. Box 9020 • Chino, Hills, CA 91709  
TEL (909) 993-1600 • FAX (909) 597-8875  
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DATE: August 28, 2014

TO: Joe Grindstaff  
General Manager

FROM:   
Teresa V. Velarde  
Manager of Internal Audit

SUBJECT: **REGIONAL CONTRACT REVIEW**  
**Interim Report**  
**City of Upland**

### **Audit Authority**

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

### **Audit Objective and Scope**

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

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

- Initial Connection Fees
- Public Service Facilities Connection Fees

*Water Smart – Thinking in Terms of Tomorrow*

- Monthly Volumetric Sewerage Charges
- Extra-Territorial Fees
- Reconciliations of fees collected and paid to IEUA
- Overall Recordkeeping

This report describes the results of the procedures performed at the City of Upland.

### **City of Upland – Background**

The City of Upland (Contracting Agency, Upland or City) was incorporated on May 15, 1906 and utilizes a Council-Manager form of government. The City has a population of 74,907 as of December 2013 and encompasses 15.2 square miles which is 6.3% of the 242-square-miles covered by IEUA's service area<sup>1</sup>.

As well as other municipal services, the City provides water, trash and sewer service to residential, commercial and other properties within its boundaries. To provide some context to the discussion that follows some statistical and financial information is provided below:

#### **Financial Information**

The City of Upland is required to report operational and financial information to IEUA as part of the provisions for the Regional Contract. The financial information reported includes *Initial Connection Fees* and *Sewer Service Fees* and is reported on a monthly basis.

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

The amount of Connection Fees collected varies from year to year depending on the construction activity occurring within the Contracting Agency's boundaries. Equivalent Dwelling Units (EDU's) purchased and fees collected by the City during the last two fiscal years are:

**City of Upland  
Connection Fees**

<b>Fiscal Year</b>	<b>EDU's</b>	<b>Fees collected</b>
2012/13	144.1436	\$ 600,987
2013/14 <sup>(1)</sup>	100.9390	\$ 505,462

(1) = Unaudited information as of June 30, 2014.

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<sup>1</sup> Upland statistics from City of Upland Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013

EDU's and fees collected reflect the amounts reported in the BAR. The fees collected for fiscal year 2012/2013 include a \$105,071 credit given to a new senior residential community for pre-existing fixture units located at the site (The EDU amount was not calculated in the BAR, but would have amounted to a reduction of 21.4 EDU's). In addition, the total includes fees collected for the Upland High School gymnasium that are based on the fiscal year 2011/2012 Connection Fees rate.

#### CCRA Account

Connection Fees are collected by the City and held in a Capital Connection Reimbursement Account (CCRA) until called by IEUA. The CCRA balance as reported by the City of Upland in their June 30, 2013 CAFR was \$2,219,572.

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

As part of reporting Sewer Service Fees, the City of Upland provides significant detail making it possible to gather and analyze additional information. It should be noted that IEUA (through the Regional Contract) does not require the information be provided in a consistent manner for all Contracting Agencies and other Contracting Agencies merely provide the total number of EDU's to be billed for the month.

The table below outlines the total number of EDU's reported and Volumetric Sewerage Fees paid to IEUA by the City of Upland for the last two fiscal years. This information is reported in the Agency's accounting system (SAP).

City of Upland Sewer Service Fees		
Fiscal Year	EDU's <sup>(2)</sup>	Fees
2012/13	320,624	\$ 3,972,526
2013/14 <sup>(1)</sup>	320,751	\$ 4,294,863

(1) = Unaudited information as of June 30, 2014.

(2) = Calculated as Fees divided by Rate.

As of June 30, 2014 the City of Upland's total number of sewer accounts and EDU's consisted of the following (based on the sum of the May and June 2014 bimonthly billing information provided to IEUA):



Type of Account	Number of Accounts	% of Total	Number of EDU's	% of Total
Single Family Residential (1 EDU per dwelling)	14,838	88.03	15,047	56.31
Multi-Family Residential (.7 EDU per dwelling)	1,543	6.41	8,427	31.53
Industrial (recalculated annually based on attendance)	9	0.05	30	0.11
Schools (recalculated annually)	17	0.10	239	0.89
Commercial categories (based on water usage)	912	5.41	2,981	11.16
<b>Total</b>	<b>16,856</b>	<b>100%</b>	<b>26,724</b>	<b>100%</b>

*This information is reported by the City of Upland. IEUA does not verify these totals.*

### **Initial Connection Fees**

Each Contracting Agency is required to assess, collect, and report Connection Fees for any new development that connects to the Regional Sewerage System, or users who expand their fixture unit count. The fees are to be assessed and collected by the Contracting Agency in accordance with the provisions of Exhibit J in the Regional Contract.

IA selected various businesses to test whether Connection Fees were accurately calculated, collected and reported to IEUA in accordance with Exhibit J of the Regional Contract. IA judgmentally selected 51 different businesses from the following sources to verify the Contracting Agency applied and collected the correct EDU rate according to the Board-approved rates and to determine the accuracy of the categorization type used per Exhibit J of the Sewage Service Contract:

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

Based on the results of the review, it appears that in most cases the calculations made by the City of Upland were materially accurate. IA noted the following discrepancies:

1. Caremore Medical Enterprises: The permit information described this business as a "drug rehab treatment center" as well as "Healthcare Management Consultants". The permit also mentions a "gym" as part of the improvements. On the City of Upland's fee calculation worksheet, the business is classified as a Commercial Category I which includes retail, office, motel/hotel and similar businesses.

Since the descriptive information provided in Exhibit J may appear to overlap, these descriptions could have been interpreted differently and the business could have been classified as Commercial Category III, a convalescent home or

hospital; or as Commercial Category VII, a health spa without pool which would have resulted in higher connection fees.

Different interpretations for: Caremore Medical Enterprises

Exhibit J	Exhibit J Description	Sewage Factor	Fees
Category Type I	Retail, office, motel/hotel and similar businesses	0.0444	\$1,743.68
Category Type III	Convalescent home or hospital	0.1780	\$6,990.42
Category Type VII	Health spa without pool	0.1555	\$6,106.80

*It is IA's observation that although Exhibit J was recently updated and now provides detailed definitions for many business types, there still appears to be some room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge and the Regional Contract should continually be updated to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently. Additionally, the Contracting Agencies should look for IEUA's guidance.*

2. ARCO AM/PM at 1138 E. 20<sup>th</sup> Street: The permit information for a combination gas station, car wash and minimart included two separate calculations, one for the fixture units associated with the gas station and minimart and a separate calculation for the car wash. According to City of Upland staff "the developer produced plans from the car-wash in which most all of the wastewater would be recirculated back into the system for the initial rinse water. Since the discharge from the clarifier would be so minimal at 2.9 gallons per car wash the determination, at the City, was made to charge only one fixture unit at the Commercial Category V: Car Wash rate" (0.4910 Sewage Factor per Exhibit J). "The remaining 44 fixture units from the minimart were calculated at the Commercial Category I: Retail rate" (0.0444 Sewage Factor per Exhibit J).

It should be noted that at another Contracting Agency the calculation worksheet which is used to determine Initial Connection Fees is linked directly to the City's permitting system, allowing only one Category type to be selected per each new permit. Therefore, it is likely that another Contracting Agency would not have had the capacity to separate the two types of entities and therefore would have applied only one category type for this business, likely Category I. Because the City of Upland's system is not integrated, and their interpretation of the Contract is different, they were able to use their separate stand-alone calculation worksheet for each of the classifications used in order to determine Initial Connection Fees.

*IA recommends that calculation worksheets be standardized and that Contracting Agencies prepare separate calculation worksheets for the individual categories when businesses operate in multiple segments as described in Exhibit J.*

3. Nordstrom's Rack: This is a new department store in the City of Upland. IA noted that although the fixture units were calculated and reported correctly on the Building Activity Report to IEUA, the City had overcharged the developer by \$945.78. Subsequently, when the City made the refund to the developer, they erroneously credited (and reported to IEUA) the refund as a reduction to the CCRA balance rather than only to the City's accounts. As a result of IA's review, City of Upland staff noted the error and made a correction increasing the CCRA balance appropriately.

*Although this is not a financial audit, and IA makes no recommendations to the City of Upland, there appears to be a need for tighter controls, stronger reconciliation procedures and greater oversight to ensure items are recorded to the appropriate accounts.*

4. Rounding of EDU factors: The review found that the City of Upland's Building Department uses a stand-alone excel spreadsheet to calculate and collect the initial connection fees. For a period of time a version of this spreadsheet used rounded EDU factors creating Sewage Factors which extend to more digits, for instance .044444. This is inconsistent with Exhibit J, since the factor should have been .0444. The difference in the factor applied caused an immaterial difference in payments collected from developers. Because the City's general ledger is based on actual fees collected from developers, in order to reconcile to the City's general ledger for the differences, the City's Environmental Engineering staff hard-coded the BAR submissions resulting in BAR submissions that were generally slightly higher than the calculated total would have been.

Below is an example from Upland's January 2013 BAR submission showing Connection Fee amounts to match the City's general ledger (see Notes):

Type	Gallon/ Fixture	Sewage Factor	Fixture Units	Equiv. Dwelling Unit	Connection Fee	Notes
Retail Store	12	0.0444	3	0.1333	\$ 654.37	IEUA NOTE (2-21-13): EDU numbers are hard coded in to match Upland report
Office	12	0.0444	38	1.6888	\$ 8,290.32	IEUA NOTE (2-21-13): EDU numbers are hard coded in to match Upland report

The retail store Connection Fee was overbilled by \$0.49 and the office Connection Fee was overbilled by \$7.86. These differences occurred primarily over an approximately six month period during the 2012-2013 fiscal year and affected approximately 20 items.

*Although these findings appear to be immaterial based on dollar value; as mentioned under #3 above, IA notes that there appears to be a need for tighter controls, stronger reconciliation procedures and greater oversight to ensure items are recorded to the appropriate accounts and rates applied are accurate.*

#### **Plumbing Plans – Fixture Unit Recount**

IA reviewed the plumbing plans for five (5) of the originally selected 51 businesses to verify the accuracy of the fixture count and the application of the required fees. The recount was performed by the Contracting Agency's planning staff and witnessed/verified by IA. The results of the re-count were agreed upon by both parties.

The recount of the fixture units and review of the plumbing plans noted only minor count and calculation differences in two of the five items selected, resulting in fees being under-collected by \$440.00 (creating a CCRA shortfall). The results summarized below:

<b>Commercial Business</b>	<b>Under-Count</b>	<b>Over-Count</b>	<b>Total Connection Fees collected:</b>	<b>Total effect of fees: Over/(Under) collected</b>
Pet Time Animal Hospital	1 clothes washer valued at 3 fixture units	1 floor drain valued at 2 fixture units	\$ 5,335.68	\$ (222.31)
Arco AM/PM	1 lavatory (1 fixture unit)		\$ 9,590.22	\$ (217.96)
Total Tested:			\$35,726.27	\$ (440.27)
Error rate in percent:				1.23%

*IA noted that the building plans submitted for plan check vary widely in the amount of detail and description that they provide. Occasionally, a plumbing fixtures summary is provided. In other cases a sanitary riser (or water riser) graph (a 3-D representation of the water flows in the project) provides a better source for counting fixture units. Finally, in some cases a separate plumbing plan may not be available, thus requiring performing the fixture counts by relying on other plan documents. The difference in the documents used for fixture counts can create different totals creating inconsistencies in the fees collected.*

*IA also noted that there may be differences of opinion about how the fixture counts are made. One plan checker may count all drains in the plans and assign them fixture unit values. Another plan checker may believe that drains in bathrooms and janitor closets constitute emergency floor drains and should therefore be assigned a fixture unit count of "0" as provided in Exhibit J. This difference in interpretation creates inconsistencies in how counts are made and ultimately affects the amount of connection fees.*

### **Public Service Facilities**

Exhibit J includes for purposes of fee calculation: *“All structures designed for the purpose of providing permanent housing for enterprises engaged in exchange of good and services. This shall include, but not be limited to, all private business and service establishments, **schools, churches, and public facilities.**”*

The Division of the State Architect's Office (DSA) of the State of California provides design and construction oversight for public schools (kindergarten through 12th grade), community colleges, and various other state-owned and leased facilities. Likewise, the Office of Statewide Health Planning and Development (OSHPD) regulates hospital construction. Entities that fall under the DSA or OSHPD have a permit and plan check process that is separate and includes limited or no coordination with the local jurisdiction. The permitting process under the DSA and OSHPD does not include the collection of connection fees, even though the construction projects reviewed could be new construction or expansions that result in additional discharge into the regional infrastructure. It is the responsibility of each individual local jurisdiction to ensure collection of the connection fees from entities that fall under the DSA or OSHPD and reside within their service area.

For purposes of this review, the City of Upland provided IA a list of Public Service Facilities (PSF), which included public schools and administrative facilities, city offices and facilities and a local hospital. Based on the results of the review, it appears the City of Upland generally collects initial connection fees for PSF. The City utilizes a team approach to their Development Review Process which appears to work effectively in comparison to other Contracting Agencies. The City of Upland has formed an inclusive group from all departments that meets regularly to review new development. The group includes representatives from the Planning, Building, Public Works, Police and Fire departments. Since planning for fire safety is required for new construction to ensure access and egress, Fire department representatives are often the first to know about new PSF construction. This will trigger Public Works and Building department representatives to be involved resulting in the assessment of connection fees including those for IEUA in accordance with Exhibit J. Since PSF are not part of the regular permitting process, the fixture unit count varies by type of facility and is generally managed jointly by the Environmental Engineer and the Building Official. Schools and hospitals are permitted by separate State Agencies therefore, building and plumbing plans are not submitted to the City. In most cases the Environmental Engineer works with the Senior Building Official to jointly determine the total number of fixture units in cooperation with the school district or the hospital. The documentation that Upland retains is the Development Services Worksheet which only shows the total fees to be collected. No other supporting documentation to validate the total number of fixture units is retained. With City facilities, the building plans are submitted to the Building Department and a detailed fixture count can be made. Detailed calculation worksheets are not available for schools and hospitals since only the total EDU count is included in the Permits Plus building permits system used by the City of Upland.



IA noted the following:

1. Upland High School gymnasium: No detailed fee calculation worksheet was available for IA's verification. The City representatives prepared the Development Services Worksheet after inspecting the new gymnasium. The City of Upland reported 75 connections and \$22,506 for this project on the Building Activity Report.

*Exhibit J does not mandate a calculation worksheet, but states "EDU's shall be determined by multiplying the fixture units . . . shown on the approved building plans, by the appropriate sewage factors". There is no guidance in situations where a Contracting Agency may not have access to the building plans.*

*IEUA should consider the need for documented calculation worksheets to support total connections, EDU's and fees reported and whether those should be submitted with the BAR for nonresidential building activity.*

2. San Antonio Community Hospital: No detailed fee calculation worksheet was available. The City's representative indicated that the hospital's fees were calculated on the standalone excel spreadsheet from plans of the new hospital wing after meeting with the engineers and architect. Those plans and the spreadsheet are no longer available. The City of Upland reported a total of \$1,370,197 for this project on the Building Activity Report.

*Exhibit J does not mandate a calculation worksheet, but states "EDU's shall be determined by multiplying the fixture units . . . shown on the approved building plans, by the appropriate sewage factors". There is no guidance in situations where a Contracting Agency may not have access to the building plans.*

*IEUA should consider the need for documented calculation worksheets to support total connections, EDU's and fees reported and whether those should be submitted with the BAR for nonresidential building activity.*

3. Upland Animal Shelter: A City owned pet shelter, was classified as a Commercial Category I but could have been classified as either a Public Service Facility or as a hospital. Exhibit J does not provide examples of animal care facilities owned by the Contracting Agency and how they should be classified. The City of Upland applied the Commercial Category I classification and calculated \$36,761 in initial connection fees. Had the City of Upland classified the Upland Animal Shelter as a public facility since it was City owned, the fee calculation would have been \$15,347 higher. If the City had classified the Shelter as a medical facility because it may perform some medical procedures the fee calculation would have been \$110,467 higher (NOTE: a similar commercial facility not owned by the City, Pet Time Animal Hospital was also classified as a Commercial Category I):



	Category	Fixture Units	Sewer Factor	CCRA Rate	Initial Connection Fees
Upland's Interpretation	I: retail, office	177	.0444444*	\$4,673	\$36,761
PSF application	VI: school, public	177	.0630	\$4,673	\$52,108
Other possible interpretation	III: hospital	177	.1780	\$4,673	\$147,228

*\*factor used was inconsistent with Exhibit J, should have been .0444, which caused an immaterial difference*

*The IEUA Planning department determined that Upland's interpretation was appropriate, however, it is not always clear in what cases certain entities are a PSF and when not. It is IA's observation that although Exhibit J was recently updated and now provides detailed definitions for many business types, there still appears to be some room for varying interpretation and application. In this case and in #4 below, different interpretations for Public Service Facilities are possible. Exhibit J of the Regional Contract should be revised to include additional guidance and detailed definitions for Public Service Facilities.*

4. Upland Fire Station: The Initial Connection Fee calculation was based on the Commercial Category I rather than as a public service facility. The City of Upland calculated \$18,277 for this project. Had the public service facility factor been used the fee calculation would have been \$7,630 higher:

	Category	Fixture Units	Sewer Factor	CCRA Rate	Initial Connection Fees
Upland's Interpretation	I: retail, office	88	.0444444*	\$4,673	\$18,277
PSF application	VI: school, public	88	.0630	\$4,673	\$25,907

*\*factor used was inconsistent with Exhibit J, should have been .0444, which caused an immaterial difference*

*In this case Exhibit J does cite a fire station as an example of a Public Service Facility and it would appear that the higher level of Initial Connection Fees should have been charged.*

### **Volumetric Sewerage Fees**

The City of Upland performs bi-monthly meter readings for water usage of all customers for billing purposes. All water customers are also billed for the City's and IEUA's regular sewerage charges. For IEUA sewerage billing purposes EDU's are calculated in accordance with the "Procedures for Establishing a Regional Sewer Billing Formula" adopted by the Regional Technical Committee for monthly/bimonthly billing processes.

Customers are billed at the current monthly rate as follows: one EDU for residential, 0.7 EDU for multi-family residential, fixed EDU's for schools (based on student enrollment)

and industrial (recalculated annually), and variable EDU's for commercial entities (based on water consumption).

For the 51 commercial businesses originally selected, IA tested the bimonthly sewerage billing system to determine whether monthly billing is in fact taking place and the appropriate categories and rates for monthly volumetric fees are used.

IA noted the following:

1. Sewer billing information could not be identified in nine (9) instances. In other words, it is not clear if the City of Upland bills for the nine locations in question. The City's staff has researched and investigated, but cannot determine the reason for no sewer billing at these residential or commercial properties. Therefore, without verification, it appears that the following addresses are not reported to IEUA, nor fees paid for sewer services.

583 E. Foothill Blvd. Upland	Ashirwad, The Blessings Indian Cuisine
583 E. Foothill Blvd. Upland	Garden China Bistro
583 E. Foothill Blvd. Upland	Happy Fee Massage
583 E. Foothill Blvd. Upland	Acupuncture Herbs and Health
583 E. Foothill Blvd. Upland	Geo Lenex Barber and Beauty Salon
125 N. Second Ave Upland	Frangi-panni Nail Salon
235 E. Ninth Street Upland	No Business Name
1630 W. Foothill Blvd Upland	Tasty Goody Chinese Fast Food
1390 W. 11 <sup>th</sup> Street Upland	Residential

According to the Regional Contract, each Contracting Agency is responsible to pay IEUA for the services provided. Any properties connected to the local sewer system and discharging wastewater will ultimately go for processing to the Agency's wastewater treatment facilities and should be billed for the services received.

*As an added control, the Contracting Agency should review the Utility Billing System to ensure these businesses and the residential property identified in this review is billed for sewer services and make any needed corrections. The City of Upland should review the Utility Billing system from time to time to verify all the active sewer accounts have been captured and billing is in alignment with those receiving the sewer services. Additionally, the City of Upland should ensure that any residential or commercial properties connected the Sanitary Sewer System are included in the reporting of EDU's to IEUA as part of the Volumetric Sewerage Fees according to the requirements of the Regional Contract.*

*IEUA should consider including language in the Regional Contract regarding recourse for non-payment of services provided and work closely with the*

*Contracting Agencies to ensure there are reconciliation and verification controls to ensure all sewer services are reported and paid accurately and according to the requirements of the Regional Contract.*

2. Several addresses were found that either utilized an inaccurate billing formula or were not being billed for monthly sewerage fees at all. Although the findings below were confirmed only for the individual billing period examined (one bimonthly billing only), all of them, as described, become magnified over time. The first finding impacts only the City of Upland, but the remaining findings all impact both the revenues received by the City of Upland and the volumetric sewerage fees paid to IEUA. These are:
  - a. Rate change affects the City of Upland only: The City of Upland did not update the 2013-2014 monthly EDU rate increase for the commercial volumetric billings from \$12.39 to \$13.39 for the entire 2013-2014 fiscal year. Since the monthly sewerage billing information is provided to IEUA in EDU units rather than dollars, this error did not affect the amounts paid to IEUA. The error did affect billings by the City of Upland to their commercial customers. For the 2013 – 2014 fiscal year a total of 35,828 commercial EDU's were measured volumetrically resulting in a like amount of under-billed income for the City of Upland, not affecting IEUA.

*As discussed earlier in this report, although this is not a financial audit, and IA makes no recommendations to the City of Upland, there appears to be a need for tighter controls and stronger reconciliation procedures and greater oversight of the amounts applied and billed to ensure rates are billed/paid and recorded accurately.*

ARCO AM/PM at 1138 E. 20<sup>th</sup> Street: This business was never setup for sewer billing in the Utility Billing System. According to the City of Upland Public Works staff, this business is connected to the City sewer system and the Building Department noted the original connection fee permit date for this ARCO is 2/27/2013; therefore, this business should have been billed for sewer services since it began operations. Additionally, since no sewer billing occurred, no local or regional sewer services fees were ever billed or collected from this business.

*At the time of this report being issued, the City of Upland staff has billed this business for all Sewer Service Fees since the service start date of July 17, 2013. Per the City of Upland's staff, the Sewer Service Fees collected on behalf of IEUA by the City will be reflected in the monthly Volumetric Fee reporting to IEUA in the monthly of September/October 2014, pending verification by IEUA's Finance and Accounting staff.*

For comparison purposes a 7-Eleven market that was selected for testing had a bi-monthly bill of \$375 (\$188 approximate monthly amount). The ARCO was only billed \$13.39 per month, creating an approximate difference of \$175 per month or \$2,089 for a 12 month period.

Input error created an under-collection of Volumetric Fees: Per City of Upland staff, the incorrect factor applied is a result of an input error and there are other instances similar to this one which they have been in the process of researching as part of the City's internal review of the Utility Billing System.

- b. Crossfit Saber Inc.: This business should have been billed at a monthly sewer factor of .0364; however the City of Upland erroneously applied a factor of .0073. This created a difference of almost \$200 per bimonthly billing, because Upland only billed \$50.11, compared to the correct amount of \$249.85.
- c. Choice Market, LLC: This business should have been billed at a factor of .0364; however the City of Upland erroneously applied a factor of .0091. This created a difference of almost \$190 per bimonthly billing, because Upland only billed \$63.14, compared to the correct amount of \$252.56.
- d. Body Rituals: This business should have been billed at a factor of .0364; however the City of Upland erroneously applied a factor of .0164. This created a difference of almost \$81 per bimonthly billing, because Upland only billed \$66.24, compared to the correct amount of \$147.02.

The one year impact of incorrect billings that affect IEUA is summarized below (approximate/estimated totals):

Business	Estimated Bi-Monthly Amount Should/Could Have Been	Bi-Monthly Amount Used	Estimated Possible Billing Should Have Been for 12 months	Total bimonthly sewerage fees estimated to be collected for 12 months:	Estimated Amount (under-collected) and (underpaid) to IEUA for 12 months
ARCO AM/PM	\$375.00	\$26.78	\$2,250	\$ 161	(\$2,089)
Crossfit Saber	\$250.00	\$50.11	\$1,500	\$ 301	(\$1,199)
Choice Market	\$253.00	\$63.14	\$1,518	\$ 379	(\$1,139)
Body Rituals	\$147.00	\$66.24	\$ 882	\$ 397	(\$ 485)
<b>TOTAL ESTIMATED ANNUALIZED DIFFERENCE FOR ITEMS TESTED:</b>					<b>(\$4,912)</b>

#### **Total Sewer Service Fee Billings/Revenue**

IA compared the Sewer Billing Revenues recorded by IEUA for agreement to the City of Upland's general ledger information:

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

IEUA Revenue compared to Upland Revenue FY 2012/13 (July 1, 2012 through June 30, 2013)		
Sewer Utility Revenue ending balance from IEUA SAP for City of Upland	Sewer Utility Revenue ending balance per City of Upland's general ledger	Balance Variance over/(under) paid to IEUA
\$ 3,972,526	\$ 3,944,548	\$ 27,978

Per City of Upland staff the Utility Revenue in the City's general ledger is lower than the amount billed by and shown on the IEUA accounts due to uncollectible accounts that reduce the City's revenue but which are paid to IEUA regardless of whether they are collected or not.

As noted in the observations above, the City of Upland under-billed their commercial volumetric customers in fiscal year 2013 – 2014 by \$1 per EDU. Therefore, the same comparison for the first six months of 2013 – 2014 shows an even larger variance:

IEUA Revenue compared to Upland Revenue FY 2013/14 (July 1, 2013 through December 31, 2013)		
Sewer Utility Revenue ending balance from IEUA SAP for City of Upland	Sewer Utility Revenue ending balance per City of Upland's general ledger	Balance Variance over/(under) paid to IEUA
\$ 2,159,332	\$ 2,121,242	\$ 38,090

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

IEUA Revenue compared to Upland Expense FY 2012/13 (Jul 1, 2012 through June 30, 2013)		
Sewer Utility Revenue ending balance from IEUA SAP for City of Upland	Sewer Utility Expense ending balance per City of Upland's general ledger	Balance Variance over/(under) paid to IEUA
\$ 3,972,526.00	\$ 3,994,929.76	\$ ( 22,403.76)

Per City of Upland staff the Utility Expense recorded by the City is higher than the amount billed by and shown on the IEUA accounts due to an encumbered amount not utilized but entered to the City's expense amount on the general ledger at the end of the fiscal year.



### **Extra-Territorial Fees**

The City of Upland has no Extra-Territorial areas and does not charge Extra-Territorial (ET) fees. In recent years the City has annexed some previously unincorporated areas to the west, but these were not considered ET areas as described in the contract. Similarly, San Antonio Heights an unincorporated area north of the City is not an Extra-Territorial area, but part of the City's sphere of influence. The City does charge San Antonio Heights' residents 1.5 EDU for the City's own impact fee. IEUA fees are not impacted.

### **Additional Agreed Upon Audit Procedures**

The IEUA Planning and Environmental Compliance Department requested that IA investigate the initial connection fees collected for three businesses since there is no record of them in the IEUA Building Activity Report database: YEH Herbs Manufacturing, Inc., Aroma Grill & Banquets and JR Powder Coating.

IA reviewed the City of Upland Building Activity Reports for the fiscal years since July 2006 and noted the following:

1. YEH Herbs Manufacturing, Inc. at 195 N. 2<sup>nd</sup> Avenue: The City of Upland's Permits Plus system showed a tenant improvement permit, but did not mention any plumbing improvements. No EDU purchases were noted in the BAR since July of 2006. Per the business's website, the Upland location is a showroom for the company's herbal remedies and related products. The business license listing shows the Company as having an active business license since January 27, 2003 (#15809) with SIC code: 5999 "Miscellaneous retail stores, not elsewhere classified". Additionally, a building permit dated August 12, 1991 was provided showing \$973.20 in initial connection fees for Dr. Yeh's medical office.

IA sewerage fees testing indicated that YEH used 23 HCF and was billed under sewer category 7 (outpatient facility, doctor, dental) for a bimonthly billing amount of \$19.15. This category is reasonable given the history of the location. Additionally, the level of water usage indicated by the bimonthly billing supports the position that there have been no significant increases in fixture units.

2. Aroma Grill & Banquets at 965 West Foothill Boulevard: No IEUA fees were shown in the City of Upland's Permits Plus system. According to Permits Plus this was previously a Shakey's Restaurant. No EDU purchases were noted in the BAR since July of 2006.

IA sewerage fees testing indicated that Aroma used 76 HCF and was billed under sewer category 3 (hotel, tavern, recreation, all with dining) for a bimonthly bill amount of \$98.12. This category is reasonable given the history of the location.



Additionally, the level of water usage indicated by the bimonthly billing supports the position that there have been no significant increases in fixture units.

3. JR Powder Coating at 8435 Loma Place: No documentation in the City of Upland's Permits Plus system for any tenant improvements or IEUA related fees. The image on Google Maps street view is from 2007 and shows vehicles in front of a store front that looks like a body shop. No EDU purchases were noted in the BAR since July of 2006. The business license listing shows the Company as having an active business license since October 24, 2006 (#21817) with SIC code: 3499 "Fabricated metal products, not elsewhere classified".

IA sewerage fees testing indicated that JR is not being billed for sewerage fees. Upland Environmental Engineering staff confirmed that the location is on a septic system.

#### **CAFR Reconciliation**

IA verified that the CCRA amounts reported on the City's CAFR agree to what IEUA reported on its CAFR at June 30, 2013. IA noted the following difference as a result of our procedures. According to City of Upland staff the difference is due to prior year reconciling adjustments.

FY 2012/2013 as of June 30, 2013: CAFR comparisons		
CCRA Ending Balance per IEUA CAFR (Wastewater Capital Connection Deposits Held)	CCRA Ending Balance per City of Upland's CAFR (Deposits Payable Liability Acct)	Balance Variance
\$ 2,216,963.00	\$ 2,219,572.00	\$ 2,609.00

### **Internal Audit Recommendations**

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

#### ***Recommendations relating to Connection Fees:***

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

- 1. Developing a standardized calculation worksheet to assist all Contracting agencies in the initial connection fee calculations. Currently, each Contracting Agency utilizes its own calculation worksheet, the audit found inconsistencies in the calculations worksheets when compared with the requirements of the Regional Contract Exhibit J. The standardized calculation worksheet should mirror the fixture unit types in Exhibit J and provide additional clarification and uniformity to the fixture count process. The worksheet should be flexible enough to allow for multiple components of a business to be calculated at different Commercial categories when necessary. The standardized calculation worksheet will facilitate computing the initial Connection Fees in a consistent and uniform manner.***
- 2. Requiring that Contracting Agencies provide copies of the initial connection calculation worksheets for all nonresidential entities included on their monthly Building Activity Reports as additional support for the connections reported and the Initial Connection Fees collected. This would provide IEUA staff greater visibility and documented support for the application of the category types and the fixture counts. This process would also allow IEUA staff to contact the Contracting Agency if any questions or discrepancies are noted.***
- 3. Developing and adding additional clarification and descriptive information for the various types of appliances, appurtenances or fixtures in the descriptions included in Exhibit J. Examples include; defining the nature of an emergency drain, clarifying differences between lavatories, washfountains, receptors, sinks and mop basins and defining whether a drinking fountain that includes a separate basin for handicapped access consists of one or two fountains.***

- 4. Developing additional definitions and descriptions to the classification of businesses in Exhibit J. This would reduce the risk of misclassification of businesses and the potential under-collection of IEUA fees. Examples include; fast-casual restaurants (where orders are placed at a register near the entrance but the restaurant provides table service for the food and beverage service), animal hospitals or shelters and facilities that provide rehabilitative services. Although Exhibit J was recently updated and now provides greater detailed definitions for many business types, there still appears to be some room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge and the Regional Contract should continually be updated to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently.**
- 5. IEUA should take the lead to, hold workshops, meetings, plant tours and similar activities as an avenue where the Contracting Agencies' personnel can discuss and ask questions related to the application of the Regional Contract and the program. The workshops will provide a forum to discuss questions about the category types to apply, questions on definitions, other questionable items, individual situations, and foster cooperation and collaboration among all. One Contracting Agency may encounter certain questions or situations that could apply to all other Contracting Agencies. By having frequent and on-going dialogue about the application of the Regional Contract will benefit all Contracting Agencies and the Regional Program to ensure there is consistent application of the Regional Contract and current issues are addressed timely.**
- 6. IEUA should work with the Contracting Agency to establish, as part of the permitting and plan check process, the requirement to have an IEUA representative provide a final sign-off and approval, prior to the Contracting Agency issuing a permit to a business or industry and allowing a connection to the system. This added approval step will ensure IEUA is in agreement with the interpretation of the Contract and that the appropriate category type and sewage factor has been applied so that the correct Connection Fees are assessed and collected.**
- 7. Considering a two tier process of determining connection fees as part of Exhibit J that distinguishes between common features that are part of any commercial facility such as restroom toilets & sinks and those features that are unique to a specific site, such as a butcher shop drain or a restaurant dishwasher or washing sink, etc. This would create consistency in the treatment of same-type and same-use fixture units.**
- 8. Clarifying language describing the criteria for being classified a "Floor Drain, Emergency" in Exhibit J. In the City of Upland this category**

***includes all California State Plumbing Code required drains such as in bathrooms, whereas some other Contracting Agencies charge two Fixture Units for these under the general "Floor Drain" category.***

- 9. Developing significant expertise within IEUA in fixture count techniques and providing regular and ongoing training at the building departments of the individual Contracting Agencies to develop consistency in the IEUA fixture count process across the region.***
- 10. Considering the City of Upland's cross-departmental approach to the Development Review Process as a regional model for other Contracting Agencies to follow. This team approach to the Development Review Process (or, alternatively a liaison relationship with the Fire Department (which seems to play a role even with Public Service Facilities)) facilitates obtaining information about new Public Service Facilities construction to ensure fee collection. IEUA should discuss this and other approaches with the Contracting Agencies to find ways to obtain information about new Public Service Facilities construction to facilitate fee collection.***
- 11. Providing additional detailed definitions, clarification and descriptive information for categorizing Public Service Facilities in Exhibit J to expand and address the differences between publicly owned and publicly used.***

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

***Recommendations relating to Sewer Service Fees:***

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

- 10. Ensuring all current customers receiving sewer services are reported on the Monthly Volumetric report and the appropriate rates are paid to IEUA, according to the Regional Contract. Work together to resolve the questionable accounts identified in this audit, where there is no indication that monthly sewer fees are paid to IEUA for the several businesses and residence identified in this report.***

- 11. Standardizing and providing more detailed regular reporting of the ongoing sewerage charges. In particular an automated item by item detailed listing of non-residential charges would provide information that could be reviewed and researched for anomalies and reconciled on a regular basis. Alternatively, an automated interface between IEUA and the Contracting Agencies would provide similar advantages.***
- 12. Evaluating the current process used for invoicing each Contracting Agency for monthly sewer fees collected. By establishing a contract for monthly payment instead of relying on the invoice process, each Contracting Agency could provide the EDU information and remit the funds collected to IEUA directly within a reasonable period of time; instead of waiting for an invoice that delays payment for up to 45 days. By reengineering the process, IEUA would receive the monthly sewer fees collected by the Contracting Agencies in a more efficient and timely manner.***

Although this is not a financial audit, and IA makes no recommendations to the City of Upland, the Regional Contract Review identified the need for tighter controls and stronger reconciliation procedures and greater oversight to ensure items are recorded, reported and collected are appropriate, and to ensure the contract is administered and applied properly. The following are suggested recommendations for the City of Upland's consideration.

***IEUA and the City of Upland should work together to ensure:***

- 13. The City of Upland's sewerage billing system requires multiple manual inputs to set billing rates, enter sewerage factors and generate information resulting in under-collections of sewerage revenue to the City. Since the EDU calculations provided to IEUA for calculation of amounts owed to IEUA rely on these same factors, IEUA receives less revenue than entitled to according to the Regional Contract. The City of Upland should consider performing additional reconciliations and analysis of billing factors to ensure the accuracy of their EDU calculations and the billing rates and amounts. Some ideas to consider include:***
  - a) Sort the sewerage billing reports by the sewerage factor to search for anomalous sewerage factors.***
  - b) Record IEUA Sewerage Revenues in a separate account based on the billed amount with a separate offsetting account for bad debts to allow for easy reconciliation between the IEUA Sewerage Revenue recorded by the City and the pass-through Sewerage Expense paid to IEUA.***



- c) Provide greater oversight to ensure that correct/appropriate rates are applied.***

***14. Because of the observations identified, it is the auditors interpretation that the City's sewerage billing system may not capture all accounts that receive sewer services; therefore, IA recommends IEUA staff work closely with the City of Upland to ensure a comprehensive reconciliation is completed to ensure all sewer service accounts are reported on the IEUA Volumetric report. As a good internal control, reconciliations of the various reports and accounts should be performed periodically. The City of Upland should ensure all sewer service accounts are reported on the IEUA Volumetric report.***

#### **Acknowledgements**

We would like to extend our appreciation to the City of Upland and the IEUA Planning Department for their cooperation and assistance during this review.

#### **Discussions with City of Upland and Planning & Environmental Compliance**

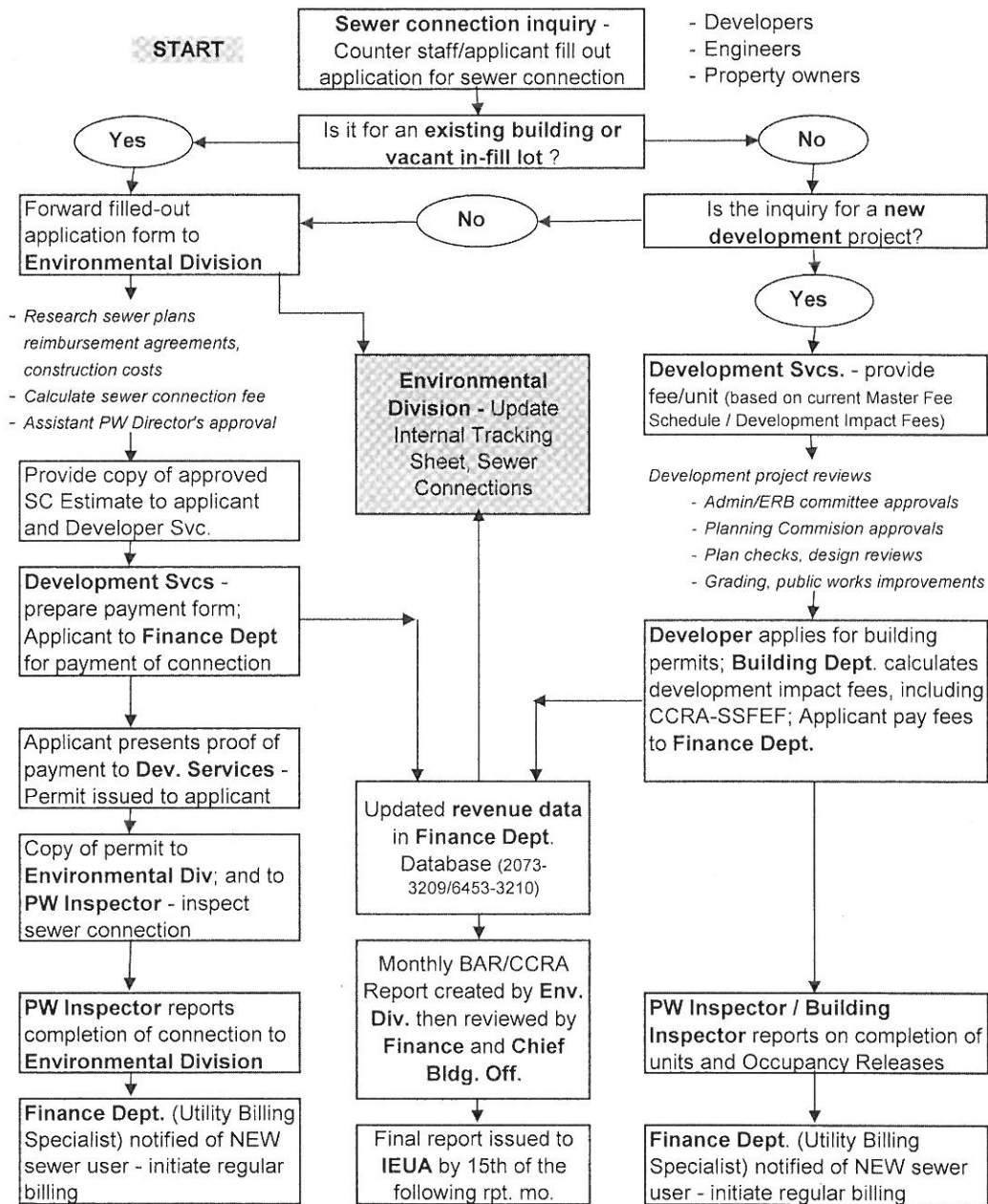
We provided the results of this audit to Ms. Saleha Kazmi, Senior Accountant and Mr. Harrison Nguyen, Senior Engineer for their review and comments prior to finalizing the report. We also discussed the report with Chris Berch, Executive Manager of Engineering/Assistant General Manager, Sylvie Lee, Manager of Planning and Environmental Compliance, Craig Proctor, Pretreatment and Source Control Supervisor, Pietro Cambiaso, Senior Engineer and Kenneth Tam, Environmental Compliance Officer of the IEUA Planning and Environmental Compliance prior to finalizing this report, for their review and comments.

#### **Action Items**

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



FLOWCHART - SEWER CONNECTION PROCESS  
CITY OF UPLAND, PUBLIC WORKS DEPARTMENT  
ENVIRONMENTAL DIVISION (909) 291-2970



**EXHIBIT D - INLAND EMPIRE UTILITIES AGENCY  
2013-2014 REGIONAL CONTRACT REVIEW**

**SURVEY OF COMPARATIVE INFORMATION FOR THE 7 MEMBER AGENCIES**

<b>Question:</b>	<b>Chino</b>	<b>Chino Hills</b>	<b>CVWD</b>	<b>Fontana</b>	<b>Montclair</b>	<b>Ontario</b>	<b>Upland</b>
<i>Has a current Ordinance that clearly identifies IEUA's current Connection Fee</i>	RECEIVED	PENDING	RECEIVED	PENDING	RECEIVED	PENDING	RECEIVED
<i>Has a current Ordinance that clearly identifies IEUA's current Sewer Fee</i>	RECEIVED	PENDING	RECEIVED	PENDING	RECEIVED	PENDING	RECEIVED
<i>Uniform Plumbing Code used by plan checkers for code conformity?</i>	2013	2013	2013	2013	2013	2013	2013
<i>How does the Agency charge customers for the sewage rate?</i> <i>-Monthly or Bimonthly?</i> <i>-Days in cycle?</i> <i>-Rely on meter readings (ie. billing) or on receipts (ie. payments) to pay IEUA</i>	IA TO TEST. Chino bills with water bill monthly, using 4 weekly cycles. For County areas MVWD bills water based on meter readings. Chino reads meters separately for commercial accounts to prepare sewage billing as part of their trash bill. Residential customers in County areas are billed 1 EDU for sewage with trash bill.	IA TO TEST. Billing for all customers is performed monthly and includes water & sewer.	IA TO TEST. CVWD bills bi-monthly for water and sewer services. IEUA's monthly sewer fee is included as part of the bill.	IA TO TEST. Ongoing residential customers are billed through their property tax bills. Fontana prepares information for San Bernardino county with parcel number and address each July for the 1 EDU amount. Commercial, industrial & new residential customers (until added to prop tax rolls) are billed bimonthly with about 1/2 of the city billed each month.	AUDITED Monte Vista Water District bills for water. MVWD provides info to city which converts to EDU and bills sewage along with trash billing. Every other month. A small area in the vicinity of 4 <sup>th</sup> Street/Vineyard is serviced by the CVWD.	IA TO TEST. All accounts are billed monthly as part of their water bill. There are approximately 35,000 water/sewage accounts. A small area in the vicinity of 4 <sup>th</sup> Street/Vineyard is serviced by the CVWD.	AUDITED In their water bill. Every other month consisting of two of the total of four cycles. Split may not be exactly 50/50. Delinquencies are the responsibility of the city. They do not affect the payments to IEUA.



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<b>What about delinquent accounts? Does this affect payment to IEUA?</b>	<p>IA TO TEST. City remits to IEUA based on billings in advance of any collections occurring. Uncollectible amounts are City's responsibility. Of particular concern are county areas that only get billed for sewerage and trash.</p>	<p>IA TO TEST. IEUA invoice is based on billing information &amp; paid from billed amount. Uncollectible accounts are minimal, absorbed by city &amp; mostly in an area of rented properties where water is provided by City of Pomona &amp; sewer by City of Chino Hills.</p>	<p>IA TO TEST. CVWD bills bi-monthly for water &amp; sewer services. IEUA's monthly sewer fee is included as part of the bill. The amount remitted to IEUA has been what is collected on monthly basis, not the amount billed. Delinquency rate is minimal. If payment is not made, then CVWD will shut-off the water. This results in payment of the water &amp; sewer fees.</p>	<p>IA TO TEST. Payments to IEUA are based on 1/12 of the total annual amount provided to San Bernardino county for billing to residential customers through property taxes plus commercial &amp; industrial accounts that were billed that month. Since residential sewer fees are collected through the county's property tax system, there are essentially no uncollectible amounts, since the county has lien authority. For commercial &amp; industrial accounts payment is made to IEUA irrespective of the city's collections.</p>	<p>AUDITED City provides information &amp; remittance to IEUA before they would know if a bill had become uncollectible. City is responsible for collection &amp; may put lien on property.</p>	<p>IA TO TEST.</p>	<p>AUDITED City remits to IEUA based on billings to customers. Uncollectible amounts are responsibility of City &amp; do not affect amounts paid to IEUA. The City of Upland absorbs delinquencies.</p>
<b>What electronic system or software does the city use for Permits to calculate EDUs?</b>	<p>Permits Plus and use ACCELA which is land development software.</p>	<p>Proprietary Software – Community Development Program from Gov. Partners Cartography</p>	<p>Use an Excel spreadsheet to record information related to the plan check process.</p>	<p>Track-It Permit system.</p>	<p>HDL – permitting process software</p>	<p>ACCELA</p>	<p>Permits Plus</p>
<b>What is the Sewage Billing System used?</b>	<p>Part of Munis financial system. Used to use FMIS.</p>	<p>Sungard HTE application. Migrated to Able Star – Utility Star Enterprise (new system) in May</p>	<p>Sungard-Enterprise Solution</p>	<p>Part of Pentamation financial system</p>	<p>City of Montclair recently went to through a software conversion from Springbrook version 6 to 7.</p>	<p>CIS</p>	<p>Part of DataNow financial system. Different Module</p>

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		2014. Prior system was Eden & data in Sungard goes back to April 2008 (data reliable up to that point).					
<b>How are Building Plans retained/stored</b>	Depending on how far back, plans may have to be requested from storage	All building plans are available on-site for review.	Plans are not available electronically, instead hard copy and on-site. Recently completed an extensive filing system to locate plans.	Available electronically for the last 15-20 years.	Copies are processed electronically. Information goes back to the 80's.	Final plans are stored electronically/digitized. Commercial/Industrial plans are kept for the life of the building. Residential plans are available for the last 10 years.	Hard copies of commercial building plans are retained. The most recent 6 years or so are readily available. Residential building plans are not retained.
<b>Building Plans are available electronically?</b>	Some	No	No	Yes. More recent developments are available only as hard copy.	Yes	Yes	No
<b>Are prior Initial Connections/Fixture Units that have been paid for tracked?</b>	Chino will research and help customer if asked, but it is up to the customer to determine/prove the total prior existing fixture units	Chino Hills gives credit for existing fixtures and only requires payment on net fixtures added.	CVWD is in the process of actively recording the number of EDU's already at a specific location. CVWD does provide credit for existing fixture units and fees are only collected for any new fixture units added.	Fontana charges for fixtures they see on the building plans. The city does not perform a historical search on a property for the existing number of fixtures. The city does provide credit for existing fixtures in the demolition plan per the building plans submitted and the customer pays the net difference for new fixtures.	During our recount of fixture units we noted that credit was provided for similar existing fixtures that were being replaced. Montclair is a small community and the building department is aware of existing buildings and can obtain prior plans to provide credit for existing fixtures.	Ontario provides credit for existing fixtures & customers pay for new fixtures. Biggest concern is with new construction, where large tilt-up buildings are built without an end tenant in mind, the tenant may have a build-out that adds units & they can go undetected and unaccounted for.	Yes, Upland will research prior building permits to determine if fixture units had previously been paid for.



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How much of the CCRA account is readily available? -Are the funds segregated? -Are the funds invested? -How are investment earnings tracked or used?	CCRA funds are 100% readily available	Funds can be readily available (100%) when needed. Funds are invested and earning interest.	CCRA funds are 100% readily available	CCRA funds are 100% readily available. The connected are collected are segregated into their own account and funds are invested.	CCRA funds are 100% readily available. The connection fees are also listed in a separate fund.	CCRA funds are 100% readily available. City has about \$550 million in investment portfolio, much more than the balance of the CCRA account.	How much advance notice can IEUA provide for calls? (Response leads to presumption that cash not readily available.) Segregated & tracked separately. Funds not invested.
<b>Planning or Planning/Commission Meetings: Please provide the actual name, what dates and who sits on the committee?</b>	Chino Planning Commission meets the 1 <sup>st</sup> & 3 <sup>rd</sup> Mondays of each month at 7pm. Has 7 members who are residents appointed by the mayor and ratified by the City Council.	Chino Hills Planning Commission meets the 1 <sup>st</sup> & 3 <sup>rd</sup> Tuesdays of each month at 7pm. Has 5 members nominated by the individual City Council members and appointed by a majority vote.	City of Rancho Cucamonga oversees land use changes/zoning issues through its Planning and Historic Preservation Commission and Code Enforcement, not CVWD.	Fontana Planning Commission meets the 1 <sup>st</sup> and 3 <sup>rd</sup> Tuesdays of each month at 6pm. Has 5 members who are residents approved by the City Council.	Montclair Planning Commission meets the 2 <sup>nd</sup> and 4 <sup>th</sup> Mondays of each month at 7pm, if necessary. Has 5 members who are residents appointed by the City Council.	Ontario Planning Commission meets the 4 <sup>th</sup> Tuesday of each month at 6:30PM. Has 7 members who are residents appointed by the City Council.	Upland Planning Commission meets the 4 <sup>th</sup> Wednesday of each month at 6:30pm. Has 7 members who are residents appointed by the City Council.
<b>Does the City have a GIS or map software system to view/plot businesses and residences, what is it, what purpose does it serve, who relies on it, can we observe.</b>	GIS is in place.	PENDING FINAL RESPONSE	GIS is in place. ESRI system that is the foundation for the file system maintained by Engineering & Planning. Additional data/layers are downloaded from the County's master data file & cross referenced with GIS	GIS is in place and has several layers. The system is heavily used and IEUA has a copy of the sewer layers.	GIS is in place.	PENDING FINAL RESPONSE	GIS is in place. Used for research & planning. Facilitates response time. GIS is up to date for all properties in the computer era.
<b>Does the connecting customer pay at permit time or at occupancy?</b>	At permit time. Had an instance where the permit process begun in one fiscal year and done in the next, resulting in a fee increase.	At permit time. Payment plans are not allowed.	At permit time. Only after all fees have been received will CVWD provide the final plumbing certificate. Applicant needs certificate to obtain	Either at issuance or occupancy. Depends on the customer. The City discourages payment at occupancy because connection fees	At permit time. Want to collect then, because fees go up annually.	At permit time. There has only been 1 deferral – "Brookfield" (Large scale residential housing tract); permits were paid at time of occupancy	At permit time. No payment plans are allowed.



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			building permit from City of Rancho Cucamonga.	may change. For some residential developers it helps cash flow to pay at occupancy when there is a buyer for the residence.		instead of at issuance.	
<b><i>Fees refund process used for construction projects that are cancelled or delayed or fall through.</i></b>	Not aware of any refunds. May have happened once or twice. Have had one instance of a refund for a restaurant that they thought were all new fixture units, but there were preexisting.	There have been instances of refunds. For example: -Projects that have fallen through; or - Number of fixtures units was incorrectly calculated or reduced & recalculation resulted in refund.	Payment plans are not allowed; however, CVWD does give refunds/reimbursements to customers in the event they decide not to build or the project falls through, but this happens very rarely (once in the last 3 years).	A refund can be given back to a customer. The refund process starts at Building & Safety to confirm the cancellation of the permit and then to Finance. This information is communicated to IEUA through the BAR.	No refunds extended. Would not be in favor of it.	Refunds are issued, but rare.	Not aware of any in period being reviewed. If a development project were to be cancelled the City might extend a reimbursement if IEUA approves it.
<b><i>What is the initial connection EDU rate used for Multifamily apartment units?</i></b>	Initial connection fee is 1 EDU.	Residential 1 EDU – connection fees	Initial connection fee is 1 EDU.	Initial connection fee is 1 EDU.	Uncertain, may be either .7 or .75 EDU. But, that may just have been the exception a number of years ago.	Apartment complexes and Senior Centers~1 EDU vs. .7 EDU- There is discussion on what the rate should be.	Initial connection is 1 EDU. Ongoing sewerage charge is 0.7 EDU
<b><i>What is the initial connection EDU rate used for Senior Center Residences?</i></b>	Initial connection fee is 1 EDU.	Residential 1 EDU. Two senior assisted housing facilities that recently opened: Oakmont, Pacificia	Initial connection fee is 1 EDU.	Initial connection fee is 1 EDU. There was one instance of .70 EDU used for senior center/apartment complex, it was one-time.	Uncertain, may be either .7 or .75 EDU. But, that may just have been the exception a number of years ago.	Apartment complexes and Senior Centers~1 EDU vs. .7 EDU- There is discussion on what the rate should be.	Initial connection is 1 EDU. Ongoing sewerage charge is 0.7 EDU
<b><i>What is the initial</i></b>	Initial connection for all aspects of	NEED TO TEST	NEED TO TEST	Initial connection broken down into	Montclair is a small community and	NEED TO TEST	Car wash treated separately from the

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<b>connection EDU rate for a gas station with car wash, etc.? And what is the monthly sewage factor?</b>	the entity handled as one transaction under commercial category I.			the component parts of the entity and added up individually.	there have been no recent examples of this.		minimart. Two separate calculations and line items in BAR.
<b>Are there any other unusual or untypical new development configurations with a nonstandard EDU rate?</b>	Dairies and agricultural are relatively unique to Chino. Most have been here for a very long time. Might be interesting to understand how these Initial connections were determined and what they pay for monthly sewage.	Kaiser Permanente has recently purchased an empty building in the north area of the City (used to be a Great Indoors). Kaiser is planning on having this site as the regional testing facility for all of Southern California. A facility of that kind would require on- site water purification ~ 3 gallons of water is used to make 1 gallon of purified water. This would be an SIU.	None noted.	None noted.	Health spa vs. a retail location. Sometimes need to inspect to categorize. Eg. A retail store, but also a full service restaurant with a screen print operation in the back.	City has had challenges with Tilt- ups; minimal fees were paid by the development company. Agreement/contract does not specify who will pay the permit fees. Then, portions of the building are occupied one-by- one and the building department relies on permits from the original building plans, when in fact things have changed. TI's are made and the City is not notified.	If a new development does not easily fit into IEUA Attach J categories, Upland will consult with IEUA representatives.
<b>What newer Public Service Facility construction is city aware of?</b>	New fire station on Schaeffer. Fire service is through an independent fire district: Chino Valley Independent Fire District. Also relatively new school as part of	Recently, a pool was added to the Chino Hills high school.	State of CA DMV: connection fees were collected. CVWD has a few courthouses.	The city is not aware of any new or future Public Service Facilities. They rely on the "honor system" as far as reporting to the city. The city has a development advisory board with a member from the	None recently. Hospital also has not done major renovations in recent years.	Kaiser Ontario paid over \$500,000 in fees because the City put requirements on the land use and collected as part of the permit process. Not aware of any fees paid on the hospital, fees were	Upland High School gymnasium; San Antonio Hospital expansion.



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	Colonies development. City moved Police Dep't to Home Depot site.			school district. City personnel are very observant within the city's boundaries & will go out & inspect, if needed.		collected on the medical office building and parking structure.	
<b>Are there any Extra Territorial areas in your city's sphere of influence/conn action area?</b>	County area just north of Chino is in Chino sphere of influence. A number of parcels there are on septic. When get a sewer connection sign an Irrevocable Annexation Agreement obligating them to agree to be part of the city if annexation process moves forward through Local Agency Formation Committee.	A small group of homes located in the north area in unincorporated area of LA County receive water from the City of Pomona & connect to the City of Chino Hills sewer lines. The City bills these for sewer, but many residents do not pay, most of which are renters and the City has no recourse. City and write off the fees as uncollectible. The sewer fee is not tied to their water service. For ET fees, the City obtains tax information from San Bernardino County and bills the City of Pomona and then pays IEUA from the funds received from the City of Pomona.	No ET areas.	The city has been in contact with IEUA about connection fees for ET dwellings. The city is in the process of reconciling ET fees back to 2004 and then rolling back to 93/94 with 2% rollbacks per year before that to 73/74. This will be used to calculate unpaid amounts due from ET lots and determine what needs to be reported and paid to IEUA. An example of an ET is the Sierra Lakes community in the mountain foothills above Fontana.	There are some unincorporated areas to the south and southeast of the city, but under the Montclair sphere of influence. These are not considered ET areas as described in the contract.	No ET areas. Most recent annexation was area of 4 <sup>th</sup> St/Vineyard in 96/97 (serviced for water by CVWD). Euclid/Riverside Dr. area serviced by another agency as part of an interagency agreement.	San Antonio Heights is not part of the city, but is also not an ET, but part of the city's sphere of influence. For the city's own impact fee 1.5 EDU is the ongoing rate. For IEUA use 1 EDU for initial connection and for monthly billing.

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<b>Question:</b>	<b>Chino</b>	<b>Chino Hills</b>	<b>CVWD</b>	<b>Fontana</b>	<b>Montclair</b>	<b>Ontario</b>	<b>Upland</b>
<b>Were there Extra Territorial areas in the past? If so, when were they annexed?</b>	Pending Response	See above.	No ET areas.	See above. Fontana has mapped ET areas and is working with IEUA about fees.	Pending Response	See above, not applicable.	Not applicable.
<b>Is the City utilizing the new BAR report and is this helpful? What issues have arisen?</b>	New BAR is more time consuming to prepare, but is great, particularly if it leads to EDU information being available online through GIS - new sewerage layer.	Pending Response.	<p>The new BAR works, but the following were noted:</p> <ul style="list-style-type: none"> <li>•Multiple categories</li> <li>•Demolitions with new construction are not addressed;</li> <li>•Rounding.</li> </ul> <p>BAR rounds up &amp; should not because it does not give full credit for the old &amp; new fixture units.</p> <p>The decimal places should go the 4 full digits on BAR. On BAR, housing tracts are not entered individually when APN's are not available.</p>	<p>Yes, however, more time-consuming because the information for each residential property has to be added individually and Fontana is still expecting some large residential developments. Additionally, the tributary information is unclear, so they only complete the specific plant that will be involved. The APN should provide enough information.</p>	<p>Environmental dept. using new BAR and it is helpful. Most difficult aspect is getting APN numbers. During meeting determined that Building dept. has the APNs and will provide to environmental for report.</p> <p>Not difficult to complete since Montclair is a small city and does not have much development.</p>	<p>BAR is prepared using the results from a query run in the CIS system (Utility Billing System) and compared to the financial system (PeopleSoft). No issues were noted regarding the new BAR report.</p>	Using new BAR and it is helpful. Does require significant data entry.
<b>Concerns the member agency communicated to auditors:</b>	Concern about classifications: A restroom is a restroom, but a connection fee for a restaurant is more expensive than for an industrial site. To the City of Chino, this doesn't seem clear.	The Finance Director was concerned about why each home is assessed 1 EDU regardless of its size (3 bedroom 2 bath vs. 5 bedroom 4 bath).	EDU calculation should be reevaluated. The treatment capacity is not related to EDU sales. The drawback is a change in the EDU formula will impact residential, commercial, and industrial customers in some way or the other.	No concerns noted.	<p>There is some resentment that fee's continue going up on the pass-thru's to IEUA because complaints from residents, developers, etc. come to the city not IEUA.</p>	<p>Times have changed: In the prior (old) building model an owner would purchase a small piece of land &amp; develop it. Today's new model- Large developers pull permits, buildings are built, &amp; sites are leased out to others. The issue has been with TI's</p>	10 Year Forecast may not be best measure of future capacity needs.



**EXHIBIT D - INLAND EMPIRE UTILITIES AGENCY  
2013-2014 REGIONAL CONTRACT REVIEW**

**SURVEY OF COMPARATIVE INFORMATION FOR THE 7 MEMBER AGENCIES**

<b>Question:</b>	<b>Chino</b>	<b>Chino Hills</b>	<b>CVWD</b>	<b>Fontana</b>	<b>Montclair</b>	<b>Ontario</b>	<b>Upland</b>
						which are made & the City is not notified. This happens when a change of use has occurred or tenant does not voluntarily provide information.	
<b>Concerns the member agency communicated to auditors:</b>	Suggest that IEUA prepare a fact sheet or brochure explaining what CCRA Connection Fees are and how they work. IEUA might include additional information about IEUA programs, recycled water, etc.	The City would like to know why IEUA doesn't bill the City of Pomona directly for the sewer for those few homes. The City of Pomona already provides the water to same group of homes.	Re-evaluate the need/purpose for member agencies to complete Ten Year Capacity Demand Forecasts as the basis for the IEUA Ten-Year Capacity Improvement Plan. IEUA may be able to do a better plan without requiring the member forecasts, especially since much of region is built-out or will be.	None mentioned. It may be important to follow up within IEUA about the Kaiser facility and whether Fontana and IEUA are in agreement about the treatment of this and the 450,000 gallon permitted limit, as well as the ET issue with Sierra Lakes & potentially other new developments.	None	Concern for clarification about category types.	None
<b>Concerns the member agency communicated to auditors:</b>		Kaiser Permanente establishing a regional testing facility at former Home Goods Store; probably will be an SIU.					





*Inland Empire Utilities Agency*

A MUNICIPAL WATER DISTRICT

# **Internal Audit Department**

## **Regional Contract Review**

### **Interim Audit Report for:**

**The City of Upland**

**&**

**The City of Montclair**

# **Regional Contract Review Interim Audit Reports**



- ❖ IA provides 15 recommendations for IEUA Management to consider:
- ❖ IA provides The City of Montclair and the City of Upland with suggested recommendations to improve controls.

# Regional Contract Review Interim Audit Reports



Inland Empire Utilities Agency  
A MUNICIPAL WATER DISTRICT

## Initial Connection Fees Findings

### City of Upland

⊕ Different interpretations for: Caremore Medical Enterprises

Exhibit J	Exhibit J Description	Sewage Factor	Fees
Category Type I	Retail, office, motel/hotel and similar businesses	0.0444	\$1,743.68
Category Type III	Convalescent home or hospital	0.1780	\$6,990.42
Category Type VII	Health spa without pool	0.1555	\$6,106.80

- Errors related to crediting the appropriate account and with rounding.
- Different interpretations:
  - Drains may be classified as 2 Fixtures or 0 fixtures
  - Drinking fountains can be classified as 1 or 2 fountains
  - Different names for the same item: washfountain/lavatory/receptptor/sink/mop basin
- ARCO – separate categories in one

# Regional Contract Review Interim Audit Reports



## Initial Connection Fees Findings

### City of Montclair

- Calculation Worksheet does not match Exhibit J of the Regional Contract creating over/under collections for IEUA. (over collected approx \$7,800)

City of Montclair's Sewer System Connection Fee Worksheet <sup>(1)</sup>		Regional Contract Exhibit J (Table 1) <sup>(1)</sup>	
Type of Fixture	Unit	Type of Fixture	Fixture Unit
Drinking Fountain	1.0	Drinking Fountain/Water Cooler	0.5
Sink, Bar, Private (1.5" Min. Waste)	1.0	Receptor, Indirect Waste Bar	2.0
Urinal Assembly Occupancy	5.0	Urinal	2.0

<sup>(1)</sup> = An example of the Sewer System Connection Fee Worksheet and Table 1 of Exhibit J are attached as Exhibits.

- ❖ Exhibit J – difference in interpretation create over/under collections for IEUA:
  - Restaurant categorization: fast-food vs. full service (under-collected approx. \$4,000)
  - Public Service Facilities categorized as Commercial Category 1 (under-collected approximately \$8,500)

# Regional Contract Review Interim Audit Reports



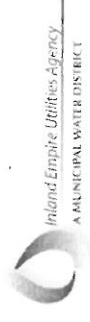
## Public Service Facilities

### City of Upland

- ❖ IA found no discrepancies with the PSF items selected and reviewed.
- ❖ City of Upland has a “cross-departmental” approach to identify new construction related to PSF.



# Regional Contract Review Interim Audit Reports



## Public Service Facilities City of Montclair

No Initial Connection Fees Collected for 2 of 3 schools selected



PSF	Type of Construction	Fees Collected by Montclair
Howard Elementary School	Addition of a Multi-purpose room with a kitchen, stage, and seating for 500 occupants	\$ 102,387.98
Moreno Elementary School	Multiple rooms with restrooms	\$ -
Montclair High School	New building with 32 classrooms	\$ -

No process in place to identify PSF construction

No collaborative approach with other City departments (such as Upland)

# Regional Contract Review Interim Audit Reports



## Volumetric Sewerage Fees City of Upland

- ❖ Businesses were either not included in the Monthly Sewerage billing at all or were included at lower rates due to data entry and coding errors.
  - The audit found 9 of 51 accounts tested did not have sewer billing account; therefore EDUs are not reported nor paid to IEUA
  - Four accounts were billed the incorrect sewer factor, creating an underpaid amount for IEUA.

# **Regional Contract Review Interim Audit Reports**



## **Volumetric Sewerage Fees City of Montclair**

- ❖ Monte Vista Water District (MVWD) provides water
- ❖ MVWD performs water meter reads for commercial properties
- ❖ MVWD reports flows to City of Montclair
- ❖ Montclair converts water flow to EDU's
- ❖ Montclair reports the EDU's to IEUA
  
- ❖ IA identified weaknesses in the process:
  - No reconciliation by Montclair to ensure all customers are captured
  - City facilities are not included in MVWD report therefore not paid to IEUA
    - City facilities including City Hall and the Fire Department

**AGENCY  
REPRESENTATIVES'  
REPORTS**

**4A**



# SAWPA

**SANTA ANA WATERSHED PROJECT AUTHORITY**  
11615 Sterling Avenue, Riverside, California 92503 • (951) 354-4220

## **REGULAR COMMISSION MEETING TUESDAY, SEPTEMBER 16, 2014 – 9:30 A.M.**

### **AGENDA**

1. **CALL TO ORDER/PLEDGE OF ALLEGIANCE** (Phil Anthony, Chair)
2. **ROLL CALL**
3. **PUBLIC COMMENTS**

Members of the public may address the Commission on items within the jurisdiction of the Commission; however, no action may be taken on an item not appearing on the agenda unless the action is otherwise authorized by Government Code §54954.2(b).

4. **CONSENT CALENDAR**

All matters listed on the Consent Calendar are considered routine and non-controversial and will be acted upon by the Commission by one motion as listed below. There will be no separate discussion on items prior to the time the Commission votes, unless Commission members, staff, or the public requests one or more specific items be discussed and/or removed from the Consent Calendar for separate action.

- A. **APPROVAL OF MEETING MINUTES: SEPTEMBER 2, 2014**  
**Recommendation:** Approve as posted.
- B. **TREASURER'S REPORT – AUGUST 2014**  
**Recommendation:** Approve as posted.

5. **NEW BUSINESS**

- A. **FACILITY TOUR – INLAND EMPIRE ENERGY CENTER, LLC**  
**Presenter:** Celeste Cantú  
**Recommendation:** Discussion of date, time, and tour schedule; tentative dates – November 4 or December 2.
- B. **BASIN MONITORING PROGRAM TASK FORCE AND MIDDLE SANTA ANA RIVER TMDL TASK FORCE – CONSULTANT SUPPORT (CM#8928)**  
**Presenter:** Mark Norton  
**Recommendation:** It is recommended that the Commission (1) authorize the transfer of \$4,000 from MS4 Permittees of the MSAR TMDL Task Force to the Basin Monitoring Program Task Force, and (2) approve Task Order No. WILD374-09 with Wildermuth Environmental, Inc., for the not-to-exceed amount of \$34,400 to investigate and characterize the cause of recent exceedances of the TDS Objective for Reach 3 of the Santa Ana River, as supported by the Basin Monitoring Program Task Force and the MSAR TMDL Task Force.



**6. OLD BUSINESS**

None.

**7. INFORMATIONAL REPORTS**

**Recommendation:** Receive and file the following oral/written reports/updates.

**A. UPDATE ON OWOW 2014 CONFERENCE – KEEPING OUR COOL**

**Presenter:** Celeste Cantú

**B. STATE LEGISLATIVE REPORT**

**Presenter:** Celeste Cantú

**C. CASH TRANSACTIONS REPORT – JULY 2014**

**Presenter:** Karen Williams

**D. INTER-FUND BORROWING – JULY 2014 (CM#8929)**

**Presenter:** Karen Williams

**E. PERFORMANCE INDICATORS/FINANCIAL REPORTING –JULY 2014 (CM#8930)**

**Presenter:** Karen Williams

**F. SAN GABRIEL MOUNTAINS DESIGNATION AS A NATIONAL MONUMENT**

**Presenter:** Celeste Cantú

**G. GENERAL MANAGER’S REPORT**

- Graphic modeling of seawater intrusion into the Delta

**H. CHAIR’S COMMENTS/REPORT**

**I. COMMISSIONERS’ COMMENTS**

**8. CLOSED SESSION**

There were no Closed Session items anticipated at the time of the posting of this agenda.

**9. ADJOURNMENT**

**PLEASE NOTE:**

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Clerk of the Board at (951) 354-4230. Notification at least 48 hours prior to the meeting will enable staff to make reasonable arrangements to ensure accessibility to this meeting.

Materials related to an item on this agenda submitted to the Commission after distribution of the agenda packet are available for public inspection during normal business hours at the SAWPA office, 11615 Sterling Avenue, Riverside, and available at [www.sawpa.org](http://www.sawpa.org), subject to staff’s ability to post documents prior to the meeting.

**Declaration of Posting**

I, Kelly Berry, Clerk of the Board of the Santa Ana Watershed Project Authority declare that on Wednesday, September 10, 2014, a copy of this agenda has been uploaded to the SAWPA website at [www.sawpa.org](http://www.sawpa.org) and posted in SAWPA’s office at 11615 Sterling Avenue, Riverside, California.

\_\_\_\_\_/s/  
Kelly Berry, CMC

### **2014 - SAWPA Commission Upcoming Meetings/Events**

(NOTE: All Commission Workshops/Meetings begin at 9:30 a.m., unless otherwise noted)

<b>October</b> 10/7/14 Commission Workshop 10/14/14 Sixth Annual OWOW Conference – <i>Keeping Our Cool</i> , Riverside, CA 10/21/14 Regular Commission Meeting	<b>December</b> Dark?? 12/2 – 12/5/14 ACWA Fall Conference San Diego, California
<b>November</b> 11/4/14 Commission Workshop 11/18/14 Regular Commission Meeting	

### **2015 - SAWPA Commission Upcoming Meetings/Events**

(NOTE: All Commission Workshops/Meetings begin at 9:30 a.m., unless otherwise noted)

<b>January</b> 1/6/15 Commission Workshop 1/20/15 Regular Commission Meeting	<b>July</b> 7/7/15 Commission Workshop 7/21/15 Regular Commission Meeting
<b>February</b> 2/3/15 Commission Workshop 2/17/15 Regular Commission Meeting	<b>August</b> 8/4/15 Commission Workshop 8/18/15 Regular Commission Meeting
<b>March</b> 3/3/15 Commission Workshop 3/17/15 Regular Commission Meeting	<b>September</b> 9/1/15 Commission Workshop 9/15/15 Regular Commission Meeting
<b>April</b> 4/7/15 Commission Workshop 4/21/15 Regular Commission Meeting	<b>October</b> 10/6/15 Commission Workshop 10/20/15 Regular Commission Meeting
<b>May</b> 5/5/15 Commission Workshop 5/19/15 Regular Commission Meeting	<b>November</b> 11/3/15 Commission Workshop 11/17/15 Regular Commission Meeting
<b>June</b> 6/2/15 Commission Workshop 6/16/15 Regular Commission Meeting	<b>December</b> 12/1/15 Commission Workshop 12/15/15 Regular Commission Meeting

**AGENCY  
REPRESENTATIVES'  
REPORTS**

**4B**



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

## MWD MEETING AGENDA

### REVISION 2

### Regular Board Meeting

September 9, 2014

12:00 p.m. -- Board Room

Tuesday, September 9, 2014 Meeting Schedule		
7:00-8:00 a.m.	Rm. 2-413	Dirs. Computer Training
8:00 a.m.	Rm. 2-145	L&C
9:30 a.m.	Board Room	Executive
12:00 p.m.	Board Room	Board Meeting

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MWD Headquarters Building

• 700 N. Alameda Street

• Los Angeles, CA 90012

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#### 1. Call to Order

- (a) Invocation: Sr. Angela Faustina, CSJ, Major Superior, Los Angeles Province
- (b) Pledge of Allegiance: Director Peter Beard

#### 2. Roll Call

#### 3. Determination of a Quorum

#### 4. Opportunity for members of the public to address the Board on matters within the Board's jurisdiction. (As required by Gov. Code § 54954.3(a))

#### 5. OTHER MATTERS

- A. Approval of the Minutes of the Meetings for August 12 and 19, 2014.  
(Copies have been mailed to each Director)  
Any additions, corrections, or omissions

- B. Report on Directors' events attended at Metropolitan expense for month of August
- C. Approve Memorial Resolution for late Director Edward "Ed" Little
- D. Approve Commendatory Resolutions for Directors Vincent Mudd and Kristine Murray
- E. Approve 30-day leave of absence for Director Linda Ackerman, commencing September 9, 2014
- F. Approve committee assignments
- G. Chairman's Monthly Activity Report

#### **6. DEPARTMENT HEADS' REPORTS**

- A. General Manager's summary of Metropolitan's activities for the month of August
- B. General Counsel's summary of Legal Department activities for the month of August
- C. General Auditor's summary of activities for the month of August
- D. Ethics Officer's summary of activities for the month of August

#### **7. CONSENT CALENDAR ITEMS — ACTION**

- 7-1** Award \$345,892.79 procurement contract to Patterson Pump Company for cooling water pumps at the Robert A. Skinner Water Treatment Plant. (Approp. 15388). (E&O)

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that this action has been previously addressed in the certified 2003 Final Program Environmental Impact Report and related documents, the adopted 2004 Mitigated Negative Declaration and 2006 Addendum No. 1 to the Mitigated Negative Declaration, and the adopted 2004 Negative Declaration; and award \$345,892.79 procurement contract to Patterson Pump Company for cooling water pumps at the Skinner plant.**



- 7-2** Appropriate \$1.69 million; and authorize design of solar generation facilities at the F. E. Weymouth and Joseph Jensen Water Treatment Plants (Approp. 15391). (E&O)

**Recommendation:**

**Option #2:**

Adopt the CEQA determination that this action is categorically exempt from CEQA, and

- a. Appropriate \$1.69 million;
- b. Authorize design of a 3-MW solar facility at the Weymouth plant; and
- c. Authorize design of a 1-MW solar facility at the Jensen plant.

- 7-3** Appropriate \$1.33 million; and authorize: (1) design of a Project Control and Reporting System for management of the Capital Investment Plan; and (2) professional services agreement with CH2M Hill, Inc. (Approp. 15490). (E&O)

**Recommendation:**

**Option #1:**

Adopt the CEQA determination that this action is not defined as a project and is not subject to CEQA, and

- a. Appropriate \$1.33 million;
- b. Authorize design of a Project Control and Reporting System for management of the Capital Investment Plan; and
- c. Authorize a professional services agreement with CH2M Hill, Inc. in an amount not to exceed \$880,000.

- 7-4** Appropriate \$1.08 million; and award \$780,024 procurement contract to Whipps, Inc. for finished water reservoir gates at the F. E. Weymouth Water Treatment Plant (Approp. 15440). (E&O)

**Recommendation:**

**Option #1:**

Adopt the CEQA determination that this action is categorically exempt, and

- a. Appropriate \$1.08 million; and
- b. Award \$780,024 contract to Whipps, Inc. to furnish gates for the Weymouth finished water reservoir.

- 7-5** Appropriate \$800,000; and authorize: (1) design of seismic upgrades to five structures at the F. E. Weymouth Water Treatment Plant; and (2) amendment to agreement with IDS Group, Inc. (Approps. 15440 and 15477). (E&O)

**Recommendation:**

**Option #1:**

Adopt the CEQA determination that this action is categorically exempt, and

- a. Appropriate \$800,000;
- b. Authorize design of seismic upgrades to five structures at the Weymouth plant; and
- c. Authorize increase of \$171,000 to the agreement with IDS Group, Inc., for a new not-to-exceed total of \$252,000.

- 7-6** Appropriate \$1.62 million; and authorize piping modifications on San Diego Pipeline No. 3 (Approp. 15480). (E&O)

**Recommendation:**

**Option #1:**

Adopt the CEQA determination that this action is categorically exempt, and

- a. Appropriate \$1.62 million; and
- b. Authorize modifications to discharge piping on San Diego Pipeline No. 3.

- 7-7** Authorize granting a 0.34-acre (14,810 square feet) permanent easement to the county of Riverside on Metropolitan-owned property near Lake Skinner in Riverside County. (RP&AM)

**Recommendation:**

**Option #1:**

Review and consider the MND prepared by the county of Riverside as the Lead Agency, adopt the Lead Agency's findings, and authorize the General Manager to grant a permanent easement to the county of Riverside for public road and utility service.

- 7-8** Authorize granting a 0.103-acre (4,487 square feet) permanent easement to Cucamonga Valley Water District on Metropolitan-owned property in the city of Rancho Cucamonga in San Bernardino County. (RP&AM)

**Recommendation:**

**Option #1:**

Review and consider the information provided in the adopted 2012 MND and MMRP, adopt the Lead Agency's findings, and authorize the General Manager to grant a permanent easement to Cucamonga Valley Water District.

**(END OF CONSENT CALENDAR)**

## 8. OTHER BOARD ITEMS — ACTION

- 8-1 Authorize an improvement of the return capacity of the Semitropic Groundwater Storage Program. (WP&S)

Added

Recommendation:

Option #1:

Review and consider the Negative Declaration prepared by Semitropic as Lead Agency, adopt the Lead Agency's findings, and authorize the General Manager to enter into an agreement with Semitropic Water Storage District consistent with the terms outlined in the board letter and in a form approved by the General Counsel.

Corrected

- 8-2 Authorize a reimbursable agreement with the Los Angeles Department of Water and Power for potential groundwater recovery projects in an amount not to exceed \$20 million. (WP&S)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not defined as a project, and

- a. Authorize a reimbursable agreement with the Los Angeles Department of Water and Power in an amount not to exceed \$20 million; and
- b. Provide \$20 million in funding from the General Fund until reimbursed on a quarterly basis for all Metropolitan costs.

Corrected

- 8-3 Ratify support for Proposition 1, The Water Quality Supply and Infrastructure Improvement Act of 2014. (C&L)

Recommendation:

Option #1:

Adopt the CEQA determination that the proposed action is not subject to CEQA and authorize the General Manager to ratify Metropolitan's support for Proposition 1.

- 8-4 Report on Shimmick-Obayashi Joint Venture construction claim regarding Diemer Oxidation Retrofit Program; and authorize increase of maximum amount payable under contract with Pacific Construction Consultants, Inc. for consulting services by \$150,000 to an amount not to exceed \$250,000. (L&C)  
[Conference with legal counsel—anticipated litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(2)]

**Added**

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action is not defined as a project and is not subject to CEQA, and authorize amendment of the contract for legal services with Pacific Construction Consultants, Inc. for consulting services by \$150,000 for an amount not to exceed \$250,000.**

**9. BOARD INFORMATION ITEMS**

- 9-1 Report on Local Resources Program Refinements. (WP&S)
- 9-2 Report on Sustainable Groundwater Management Act. (C&L)

**10. OTHER MATTERS (Contd.)**

**Corrected**

- 10-1 Department Head Presentations on Performance Evaluation Action Plans. [Public employees' performance evaluation (General Manager General Counsel, General Auditor, and Ethics Officer); to be heard in closed session pursuant to Gov. Code Section 54957]
- 10-2 Approve compensation recommendation for General Manager, General Counsel, General Auditor, and Ethics Officer. **(To be distributed at meeting)**

**11. FUTURE AGENDA ITEMS**

**12. ADJOURNMENT**

**NOTE:** At the discretion of the Board, all items appearing on this agenda and all committee agendas, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

Each agenda item with a committee designation will be considered and a recommendation may be made by one or more committees prior to consideration and final action by the full Board of Directors. The committee designation appears in parentheses at the end of the description of the agenda item e.g. (E&O, F&I). Committee agendas may be obtained from the Board Executive Secretary.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site <http://www.mwdh2o.com>.

Requests for a disability related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.



**AGENCY  
REPRESENTATIVES'  
REPORTS**

**4D**

**CHINO BASIN WATERMASTER  
WATERMASTER BOARD MEETING**

11:00 a.m. – August 28, 2014

**WITH**

*Mr. Robert "Bob" Craig – Chair*

*Mr. Steve Elie – Vice-Chair*

**At The Offices Of**

**Chino Basin Watermaster**

9641 San Bernardino Road

Rancho Cucamonga, CA 91730

**AGENDA**

**CALL TO ORDER**

**PLEDGE OF ALLEGIANCE**

**PUBLIC COMMENTS**

**AGENDA - ADDITIONS/REORDER**

**I. CONSENT CALENDAR**

**Note: All matters listed under the Consent Calendar are considered to be routine and non-controversial and will be acted upon by one motion in the form listed below. There will be no separate discussion on these items prior to voting unless any members, staff, or the public requests specific items be discussed and/or removed from the Consent Calendar for separate action.**

**A. MINUTES**

1. Minutes of the Watermaster Board meeting held July 24, 2014

**B. FINANCIAL REPORTS**

1. Cash Disbursements for the month of June 2014
2. Watermaster VISA Check Detail for the month of June 2014
3. Combining Schedule for the Period July 1, 2013 through June 30, 2014
4. Treasurer's Report of Financial Affairs for the Period June 1, 2014 through June 30, 2014
5. Budget vs. Actual Report for the Period July 1, 2013 through June 30, 2014

**C. WATER TRANSACTIONS**

1. Notice of Sale or Transfer - The purchase of 5,500.000 acre-feet of water from the City of Ontario by Fontana Water Company. This purchase is made from the City of Ontario's storage account. Date of application: June 4, 2014
2. Notice of Sale or Transfer - The purchase of 1,067.000 acre-feet of water from West End Consolidated Water Company by the City of Upland. This purchase is made from West End Consolidated Water Company's storage account. The City of Upland is utilizing this transaction to produce its West End Consolidated Water Company shares. Date of application: June 26, 2014

3. Notice of Sale or Transfer - The purchase of 100.000 acre-feet of water from West End Consolidated Water Company by Golden State Water Company. This purchase is made from West End Consolidated Water Company's storage account. Golden State Water Company is utilizing this transaction to produce its West End Consolidated Water Company shares. Date of application: June 26, 2014
4. Notice of Sale or Transfer -The purchase of 15.000 acre-feet of water from the City of Upland by Golden State Water Company. This purchase is made from the City of Upland's storage account. Date of application: June 11, 2014

## **II. BUSINESS ITEMS**

### **A. BUDGET TRANSFER FORM T-14-06-01**

Approve Budget Transfer Form T-14-06-01 for FY 2013/14.

### **B. TASK ORDERS 1 – 8 FOR COLLABORATIVE RECHARGE PROJECTS**

Approval of Task Orders 1 through 8 under the Master Agreement between Watermaster and IEUA.

- 1) 2013 RMPU Amendment Yield Enhancement Projects – Planning, Permitting and Design
- 2) Lower Day Basin RMPU Improvement Project
- 3) Communication System Upgrades Project
- 4) GWR SCADA Upgrades Project
- 5) Jurupa Pump Station HVAC Improvements
- 6) Wineville Proof of Concept Project Upper
- 7) Upper Santa Ana River Watershed Habitat Conservation Plan
- 8) San Sevaine Basin RMPU Improvement Project

### **C. BUDGET AMENDMENT FORM A-14-07-01**

Approve Budget Amendment Form (A-14-07-01) for FY 2014/15 in the amount of \$224,000 for the increased costs associated with Task Order No. 2 and Task Order No. 8, as presented.

## **III. REPORTS/UPDATES**

### **A. LEGAL COUNSEL REPORT**

1. August 22, 2014 Hearing
2. July 31, 2014 Submittal of Land Subsidence Committee Annual Report
3. Waters of the United States Rulemaking
4. West Venture

### **B. CFO REPORT**

None

### **C. ENGINEER REPORT**

1. Review of Screen Check Draft EIR for the Vulcan Project

### **D. GM REPORT**

1. Safe Yield Recalculation
2. Voluntary Agreement Form 9
3. Water Activity Reports
4. Other

**IV. INFORMATION**

1. Cash Disbursements for July 2014

**V. BOARD MEMBER COMMENTS**

**VI. OTHER BUSINESS**

**VII. CONFIDENTIAL SESSION - POSSIBLE ACTION**

Pursuant to Article 2.6 of the Watermaster Rules & Regulations, a Confidential Session may be held during the Watermaster committee meeting for the purpose of discussion and possible action.


**VIII. FUTURE MEETINGS AT WATERMASTER**

8/28/14	Thu	11:00 a.m.	Watermaster Board
9/04/14	Thu	10:00 a.m.	Safe Yield Recalculation and Related Matters
9/11/14	Thu	8:00 a.m.	RMPU Steering Committee
9/11/14	Thu	9:00 a.m.	Appropriative Pool
9/11/14	Thu	11:00 a.m.	Non-Agricultural Pool
9/11/14	Thu	1:30 p.m.	Agricultural Pool Meeting
9/16/14	Tue	8:30 a.m.	Safe Yield Board Workshop (at CBWCD)
9/18/14	Thu	8:00 a.m.	Joint IEUA/CBWM Recharge Improvement Projects
9/18/14	Thu	9:00 a.m.	Advisory Committee
9/18/14	Thu	10:00 a.m.	Safe Yield Recalculation and Related Matters
9/25/14	Thu	11:00 a.m.	Watermaster Board

**ADJOURNMENT**

Date: September 17, 2014

To: The Honorable Board of Directors

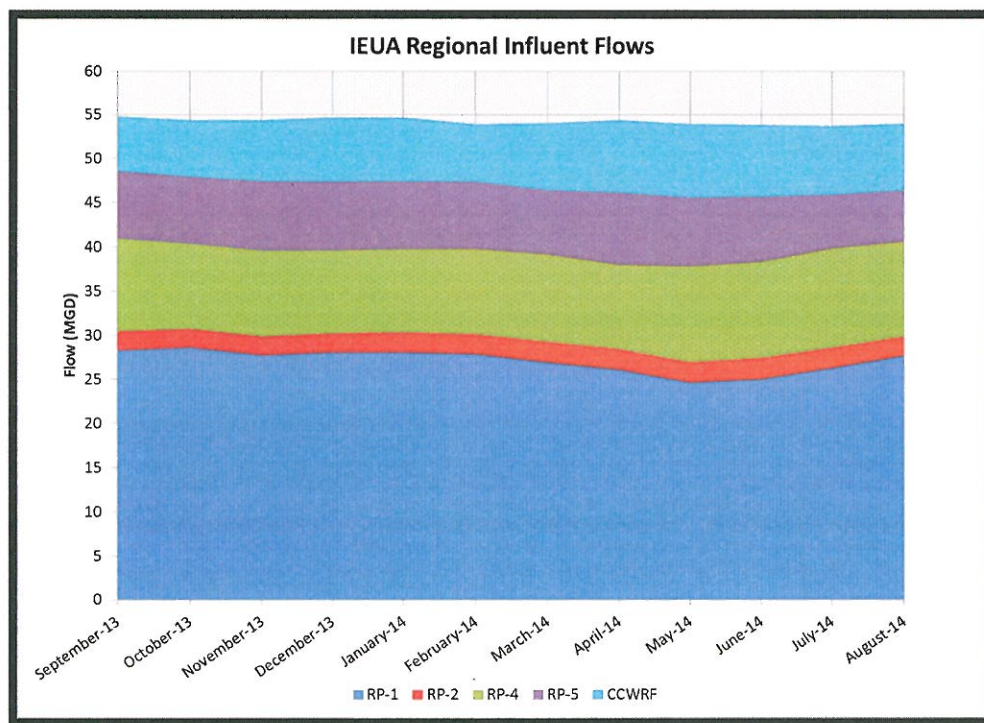
From: P. Joseph Grindstaff  
General Manager 

Subject: General Manager's Report Regarding Agency Activities

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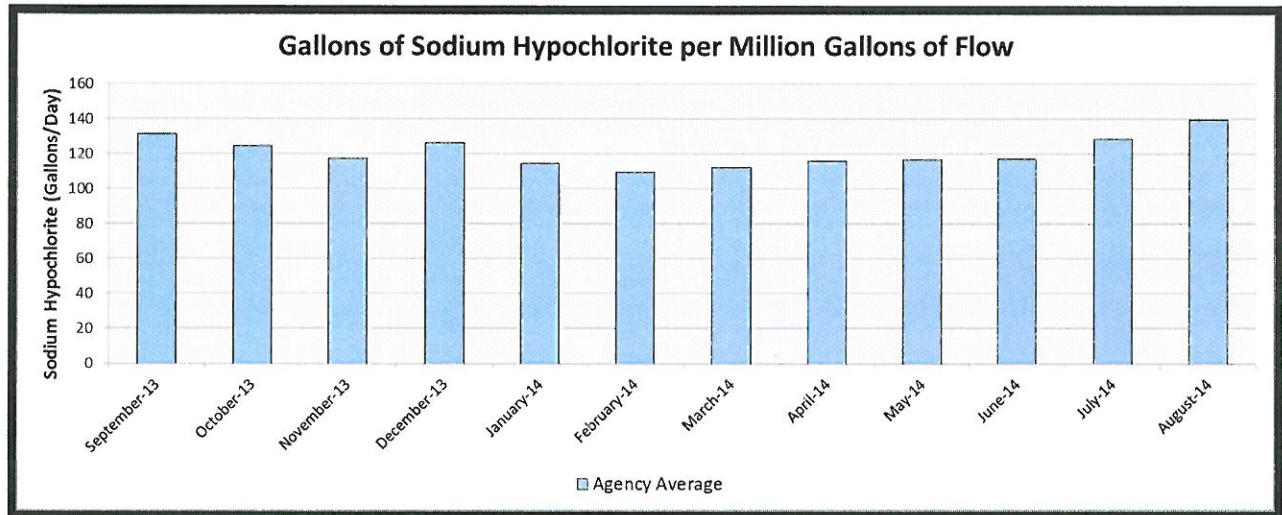
### **OPERATIONS UPDATE**

Regional Plant influent flows during the month of August continue to be consistent with the flow received during the previous month. Agency-wide average daily flow for the month of August was approximately 54 million gallons per day.

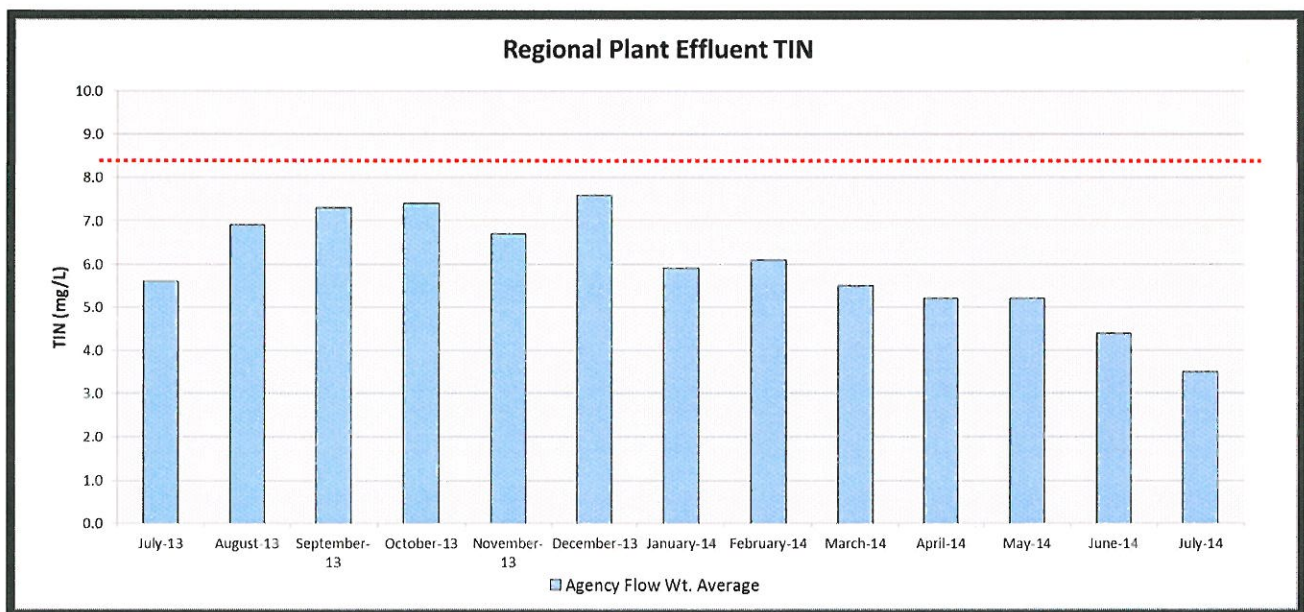




In August 2014, Regional Plant sodium hypochlorite consumption averaged 140 gallons per million gallons of treated flows.



Agency flow weighted Total Inorganic Nitrogen (TIN) was 3.5 mg/L for the month of July.



### **IERCF UPDATE**

**Operational Comments** – Facility throughput for August averaged approximately 97% of permitted capacity at an average of 431 tons per day of biosolids and 159 tons per day of amendments (based on a 30-day month). The facility received the first of two new John Deere replacement loaders. The other unit is expected to be received in September. The facility is operating well with no violations or lost time incidents.



### **Facility Throughput**

POTW	Wet Tons Month	Wet Tons Year to Date
LACSD	8,4438.78	65,432.56
IEUA	4,481.67	35,002.03
<b>Total</b>	<b>12,920.45</b>	<b>100,434.59</b>

**Compost Sales** –August sales volumes increased by over 8,800 cubic yards compared to last year. Four new customers were added in August increasing the number of customers to over 100. Compost inventory in the storage facility was reduced to 26,000 cubic yards with capacity for an additional 24,000 cubic yards. Sales are expected to remain on pace to remove 16,000 cubic yards from inventory by November of this year.

### **YTD Sales Summary through August 2014**

Month	Total Cyds 2014/2015	Total Cyds 2013/2014	Total \$ 2014/2015	Total \$ 2013/2014
July	23,882.49	18,501.14	\$39,474.57	\$47,324.52
August	25,621.25	16,818.80	\$27,575.69	\$44,837.97
<b>Total</b>	<b>49,503.74</b>	<b>35,319.94</b>	<b>\$67,050.26</b>	<b>\$92,162.49</b>
<b>Average</b>	<b>24,751.57</b>	<b>17,659.97</b>	<b>\$33,525.13</b>	<b>\$46,081.25</b>



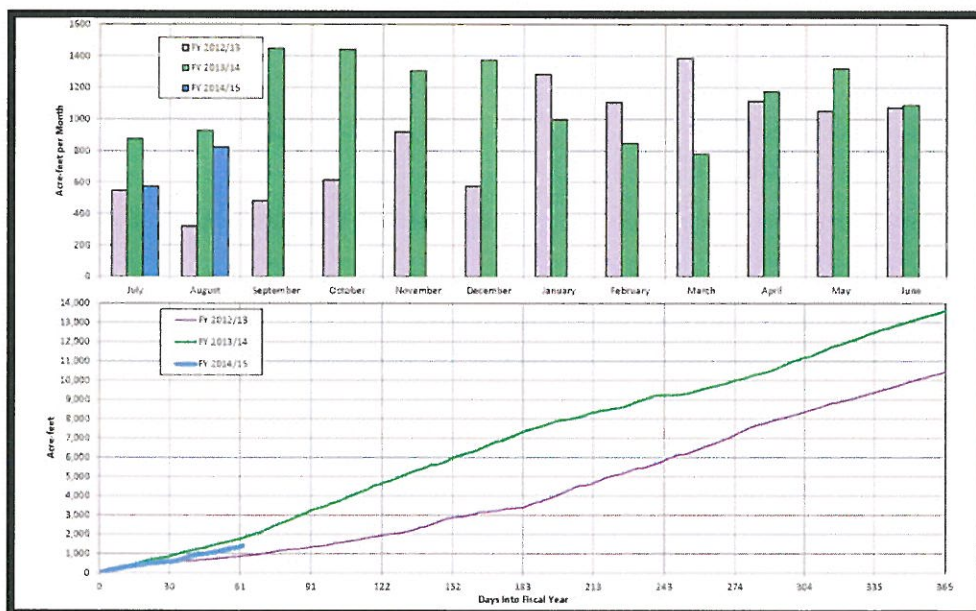
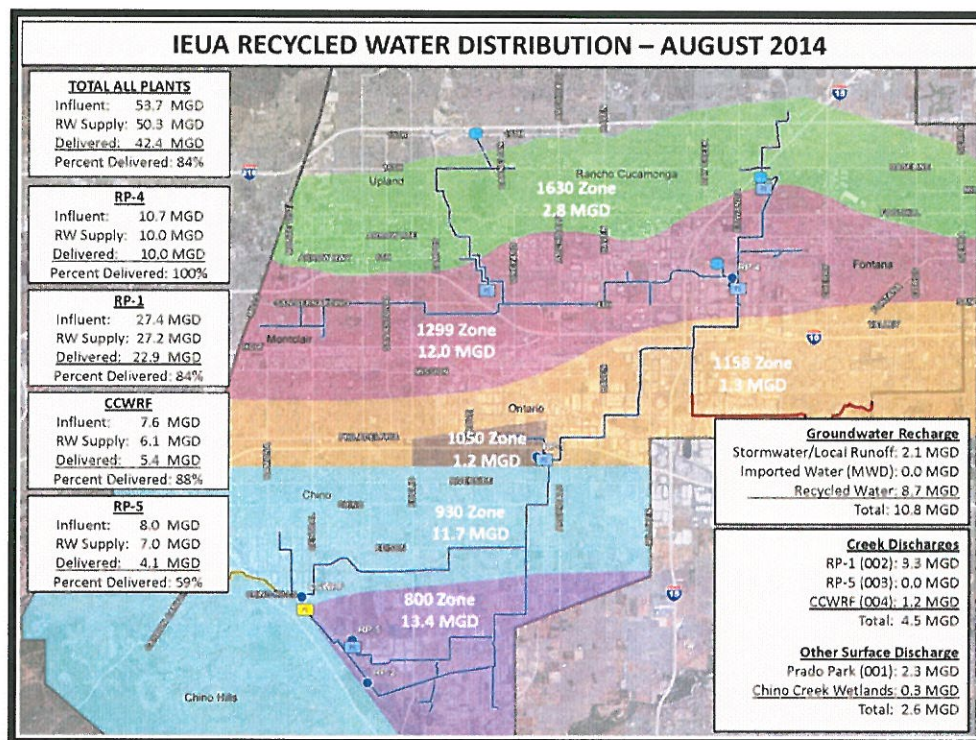
**GROUNDWATER RECHARGE**

During August 2014, recycled water recharge totaled 825 acre-feet and there was no imported water delivered for recharge. The capture of dry weather creek flows totaled 88 acre-feet. Two thunderstorms contributed an additional 110 AF of stormwater.

SUMMARY OF CHINO BASIN GROUNDWATER RECHARGE OPERATIONS				
August 2014				
Drainage System	Recharge Volume (AF)*			Management
Basin	SW/LR	MW	RW	Zone Subtotals
San Antonio Channel Drainage System				
College Heights	-	-	N	MZ-1 174 AF**
Upland	-	-	N	
Montclair 1, 2, 3 & 4	10	-	N	
Brooks	-	-	141	
West Cucamonga Channel Drainage System				
8th Street	23	-	8	MZ-2 482 AF**
7th Street	-	-	-	
Ely 1, 2, & 3	16	-	8	
Minor Drainage				
Grove	4	N	N	
Cucamonga and Deer Creek Channel Drainage Systems				
Turner 1 & 2	55	-	205	
Turner 3 & 4	-	-	-	
Day Creek Channel Drainage System				
Lower Day	4	-	X	
Etiwanda Channel Drainage System				
Etiwanda Debris	2	-	X	
Victoria	5	-	107	
San Sevaine Channel Drainage System				
San Sevaine 1, 2, 3, & 4	3	-	-	
San Sevaine 5	-	-	-	
West Fontana Channel System				
Hickory	-	-	82	MZ-3 367 AF**
Banana	-	-	82	
DeeLez Channel Drainage System				
RP3 Cells 1,3, & 4	15	-	192	
RP3 Cell 2	5	-	-	
DeeLez	73	-	-	
Non-Replenishment Recharge**				
Brooks (MVWD) MZ-1	-			
Montclair (MVWD) MZ-1	(8)			
Turner (CVWD) MZ-2	(9)			
Month Total = 1,023 AF	198	-	825	August 2014
Fiscal Year to Date Total				Fiscal Year
Since July 1, 2014 = 1,664 AF	265	-	1,399	to Date
Calendar Year to Date Total				Calendar Year
Since Jan. 1, 2014 = 10,769 AF	2,353	0.0	8,416	to Date
SW : Storm Water, LR : Local Runoff (and GE, MVWD), MW : MWD Imported Water, RW : Recycled Water				
- : No stormwater/local runoff, or basin not in use due to maintenance or testing.				
X : Turnouts not available - to be installed during future projects.				
N : No turnout planned for installation.				
* : Data are preliminary based on the data available at the time of this report preparation.				
** : Management Zone Subtotals have deducted from them any Non-Replenishment Recharge, which is recharge originating from pumped groundwater and is not new water.				
Printed: Sep.03, 14				

## RW Distribution

During August 2014, 84% (42.4 MGD) of IEUA recycled water supply (50.3 MGD) was delivered into the distribution system for both direct use customers (31.6 MGD) and groundwater recharge (10.8 MGD). Plant discharge to creeks feeding the Santa Ana River averaged 7.1 MGD.



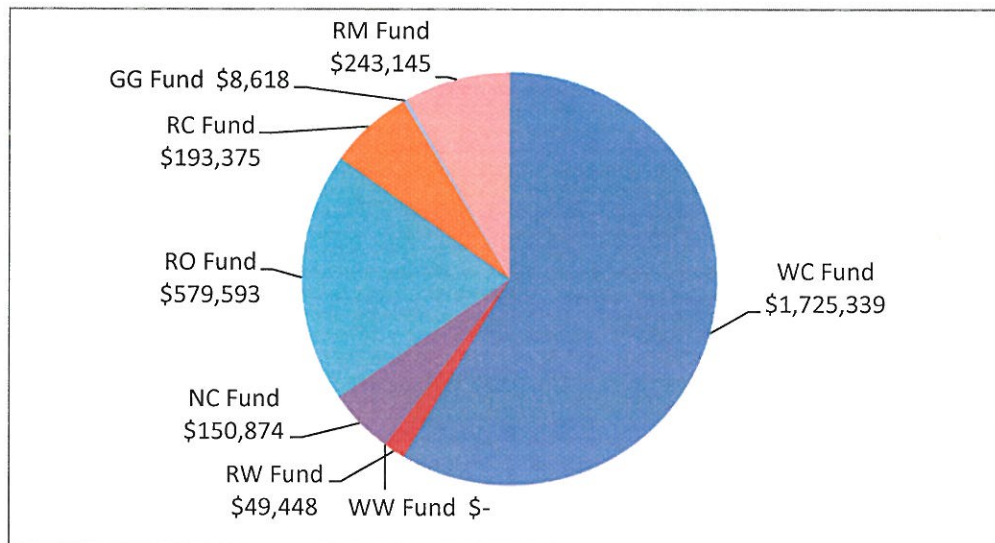


## **ENGINEERING AND CONSTRUCTION MANAGEMENT**

Engineering and Construction Management's FY14/15 budget is \$40,568,857. Staff has projected to spend \$27,461,906 during FY14/15 of which \$2,950,392 has been expended. The following charts summarize the Engineering and Construction Management project status update.

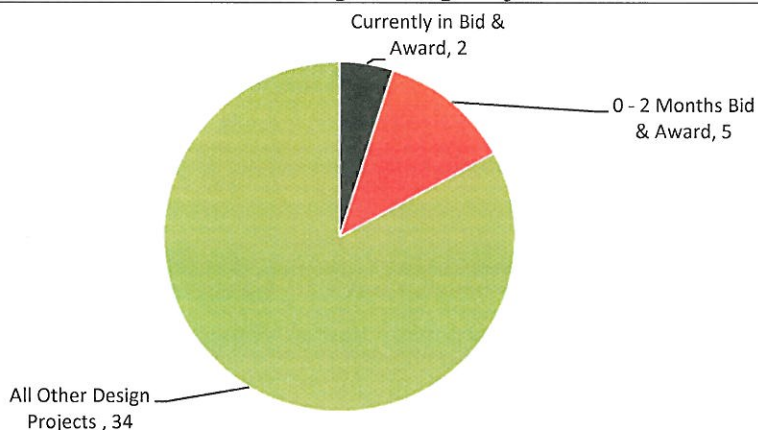
### Engineering & Construction Management Project Status Summary

#### **Total Actuals for FY14/15 \$2,950,392**



### Engineering Project Status

#### **41 Active Engineering Projects**



#### 2 Projects Currently in Bid & Award

- EN14012.00 RP-2 Drying Beds Rehabilitation
- RA14004.00 IERCF Harmonic Filters Air Conditioning

#### 5 Projects Currently in 0-2 Months Bid & Award

- EN15037.00 NRW Manhole Upgrades
- EN15038.00 Collection System Manhole Upgrades
- EN12019.00 GWR and RW Comm. Sys. Upgrades
- EN12020.00 Chino Creek Invert Repair
- EN13016.00 SCADA Enterprise System



Construction Project Status

	Project ID	Project Title	Description	Total Project Budget (\$)	Total Cost to Date (\$)	FY Budget (\$ 2015)	FY Cost to Date 2015 (\$)	July's CO's Processed (\$)	Total Project CO's (%)	% Project Complete	Original Operations I Date	Estimated Operations I Date
1	EN06025	Wineville Ext Recy Wtr Pipeline Seg A	Construct RWP along Wineville to RP-3, Declez and two turnout	17,965,518	2,627,465	3,236,749	324,431	0	-	23.98%	23-Sep-15	11-Dec-15
2	EN09021	RP-4 Headquarters Retrofit	Improve access @ Headquarters for Ops and Maint & replace gates	2,185,900	878,542	1,030,075	13,069	0	-	40.83%	30-Jun-15	17-Jul-15
4	EN11010	Headquarters Central Plant Improvements	HQ building and central plant HVAC upgrades and modifications	745,600	741,986	1,729	1,020	102,921	5.75%	99.70%	13-Jun-14	27-Jun-14
5	EN11035	Philadelphia Pump Station Upgrades	Upgrade Force Main to 12-inch and replace surge protection pipe	2,393,218	692,552	1,410,742	125,369	0	0.00%	68.19%	16-Feb-15	30-Dec-14
6	EN11051	Central Plant for the New Operations Laboratory	Central Plant (HVAC) improvements in the Lab	2,993,218	1,908,376	263,218	31,592	0	-	99.70%	13-Jun-14	27-Jun-14
8	EN12022	RP-1 Aeration Ducting	Replacement of leaking air pipe coupling for RP-1 Aeration Basin	1,256,000	497,325	793,546	34,871	-138,210	-14.05%	76.71%	25-May-14	2-Jan-15
9	EN13022	930 Zone RW Reservoir Construction	5-MG RW welded steel storage reservoir in Chino Hills	8,025,750	6,457,172	0	108,005	580,328	11.45%	83.81%	1-Apr-14	11-Aug-14
10	EN13023	930 Zone RW Pipeline Construction	13,000 linear feet of 50-inch Recycled Water Pipeline	11,219,538	8,860,127	3,520,953	1,134,130	3,005,829	50.04%	70.54%	1-Jul-14	9-Jan-15
11	EN13029	Turner 1 Turnout & Deer Creek Drop-Inlet Mods	Turnout within Basin 1 of approx. 200 LF of 16-inch steel pipe	1,025,000	500,932	524,801	733	0	-	99.88%	8-Jul-14	4-Sep-14
12	EN13045	Wineville RW Extension Segment B	Install 2.8 miles of 30" RWP & to the associated appurtenances	11,880,300	94,061	3,000,000	-6,387	0	-	18.18%	15-Oct-14	2-Oct-15
13	EN13047	RP-5 Standby Generators Control Mods	Design, procure & install new control components, programming	417,000	91,357	306,162	5,519	0	-	67.09%	15-Jan-15	25-Nov-14
14	EN13049	RP-2 Digester No. 4 Dome Improvements	Convert the floating dome to a fixed dome	1,900,000	1,486,953	502,157	81,210	68,994	6.20%	100.00%	17-Aug-14	30-Jul-14
15	EN13053	RP-2 GT Splitter Box Gates Replacement	Replacement of existing slide gates and frames	175,000	31,303	127,250	3,460	0	0.00%	50.86%	-	27-Sep-14
16	EN13054	Montclair Lift Station Upgrades	Eliminate the ragging problem due to diverted flows from RP1	3,591,600	735,353	2,577,831	97,526	0	0.00%	66.94%	1-May-15	27-Feb-15
17	EN13056	Agency-Wide HVAC Improvements- Pckg No. 2	design, procurement and installation of all necessary HVAC equipment	1,086,500	42,663	750,023	6,186	0	-	22.98%	-	2-Apr-15
19	EN14027	CCWRF Secondary Clarifier No. 3 Rehab	Rehab Secondary Clarifier at CCWRF	1,540,600	49,157	864,964	14,121	0	-	31.32%	20-Jul-15	29-May-15
20	EN14040	Jurupa Pump Station HVAC Improvements	Design, procure and install new conditioning sys at Electrical Room	300,000	64,790	278,881	43,671	0	-	96.68%	16-Oct-14	25-Jul-14
21	EN14050	Collection Sys Repairs Phase V, Westside Interceptor	Repair 960lf PL & secure permits/easements, control traffic and bypass the flow of the WW	561,800	67,628	407,868	8,036	0	-	17.01%	-	10-Oct-14
22	EN14051	RP1 Centrifuge Stair and Catwalk Installation	New stairway access, catwalk, connecting bridge and portable lift	532,000	82,715	461,083	11,798	0	0.00%	89.28%	30-May-14	1-Oct-14
23	EN14052	RP1 Primary Clarifier West Effluent PL Replacement	Replace effluent pipeline w/vitrified clay pipe and extend life	945,000	795,648	445,502	296,150	0	0.00%	82.92%	30-May-14	30-Sep-14
24	EN15040	RP-1 North lagoon Water Line Repair	Sawcutting concrete lagoon to expose 4" water main, repair leak, slurry backfill the trench	14,000	793	14,000	793	0	-	100.00%	8-Jul-14	0-Jan-00
25	RA11004	IERCF Process Improvements	Upgrading the conveyor belts at IERCF	4,800,000	3,586,034	2,020,885	187,546	115,378	3.64%	91.63%	26-Nov-14	26-Jan-15
26	RA14002	IERCF Locker Room A/C System Upgrade	Ducting installation, electrical, and A/C	92,300	87,288	7,009	7,032	3,118	9.62%	99.53%	8-Jul-14	18-Jun-14
27	WR11017	Turner Basin Recharge Improvements	Recharge improvements	1,623,550	924,216	395,610	23,420	62,164	5.68%	99.00%	8-Jul-14	31-Jul-14
				76,657,274	31,324,435	22,941,040	2,553,303	3,800,522				

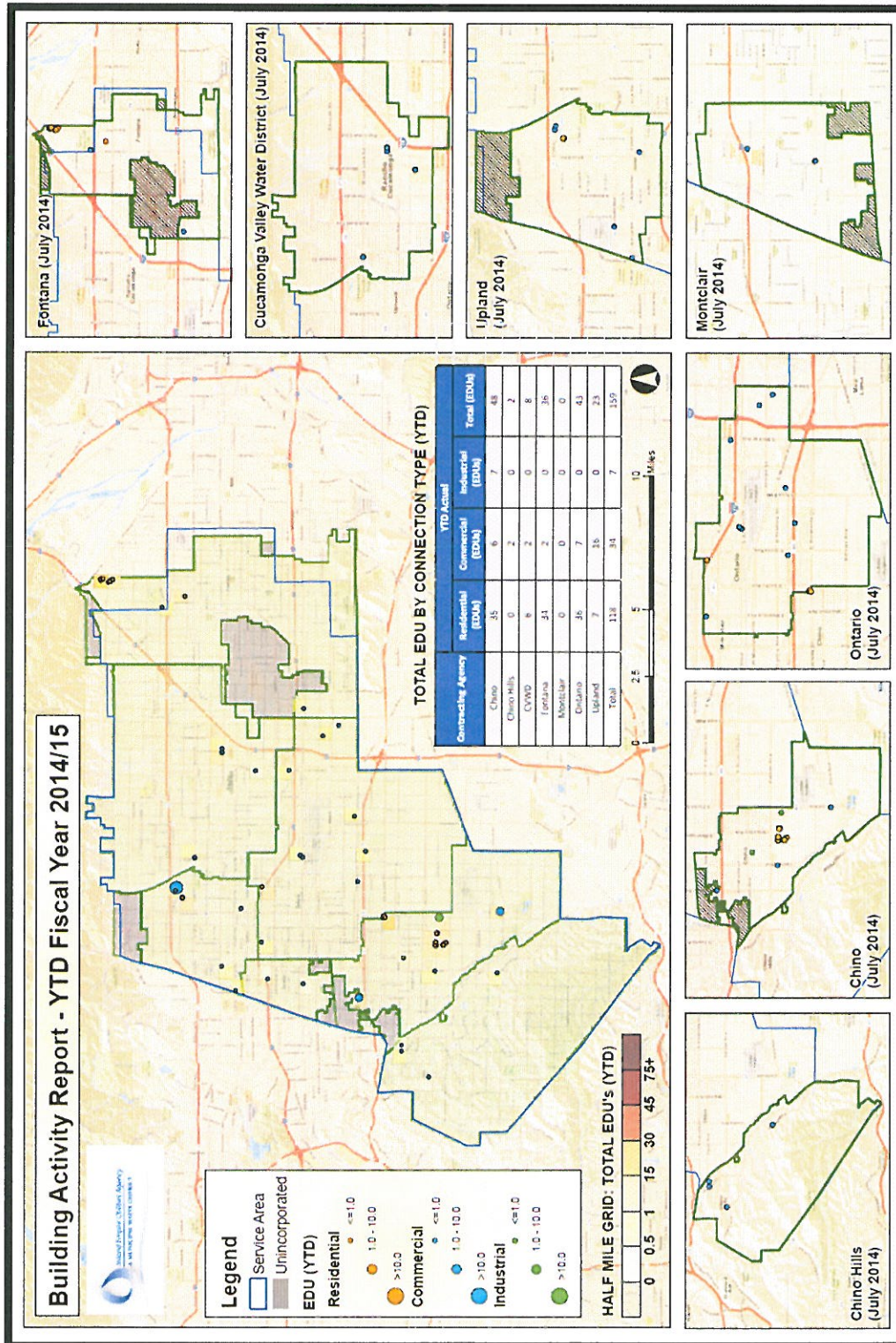
- Total construction contract payments for August 2014: \$2,036,710

High Level Construction Activities/Information

Under the recommendation of the Agency's Environmental Compliance Group, Construction Management is in the process of issuing an emergency call out to have contractor complete soil remediation and replacement of the Sulfuric Acid Line at the Chino Desalter.

## PLANNING AND ENVIRONMENTAL COMPLIANCE

The following graphic shows the total new connections to date within the service area for FY 2014/15.



## **Finance & Accounting Updates**

### **Grants Key Activities:**

#### **USBR Title XVI Desalinization and Reclamation Grant Agreement**

IEUA and the U. S. Department of Interior, Bureau of Reclamation (USBR) have started the grant agreement negotiation process for the Lower Chino Dairy Area Desalination and Reclamation Well Field and Pipeline Project (Project). The USBR will provide \$3,000,000 in grant funding for the Project. The Project will construct 2 groundwater wells and 8 segments, or 42,550 feet, and raw water transmission pipelines to deliver groundwater to CDA I and II for treatment. This project is part of the CDA II Expansion Phase III project. It has a total estimated project cost of \$21 million.

In addition to creating maximum flexibility for blending water quality for Total Dissolved Solids (TDS), nitrates and Volatile Organic Compounds (VOC) to optimize removal at the Chino II Desalter, this Project will also provide groundwater extraction wells and a conveyance system necessary for the removal of the Trichloroethylene (TCE) plume contaminants found near the Ontario Airport groundwater aquifer.

The Grants Officer has submitted all required project scope descriptions, estimated project costs, sources of local match funding and the project schedule to USBR. The fully executed grant agreement is expected to be signed by September 30, 2014.

#### **City of Fontana Prop 1E Grant funding**

IEUA Executive Management and Grants Staff are working with the City of Fontana and the Department of Water Resources on the \$9.95 million Proposition 1E grant funding that the City received for their Vulcan Pit Flood Control and Aquifer Recharge Project. The Project was to improve flood control and enhance water conservation by diverting stormwater flows and recycled water to the aquifer through the recharge basin with a total project cost of \$19.5 million. During the process of grant implementation, the need for further evaluation of onsite soil contaminants, modeling to characterize potential mounding due to the large anticipated recharge volume and modeling to ensure that the recharge will not adversely impact the direction/speed of existing contamination plumes within the vicinity of the Project was identified. The additional evaluation tasks have impacted the grant schedule and it may not be completed in time.

At the City's request, IEUA has been assisting the City with a time extension to the grant agreement. Also at the City's request, IEUA has provided a list of alternative projects should the City decided that the environmental issues associated with the Vulcan Pit Project can't be overcome in time to meet the grant requirements. The alternative projects have an estimated cost of \$20.9 million, and will deliver similar benefits as required by the grant.

On August 29, 2014, IEUA's General Manager, CFO/AGM and the Grants Officer met with the Mayor, City Managers, City's Public Works Director, Chino Basin Water Master and other stakeholders to discuss the alternative projects proposed by IEUA from the recently adopted



# General Manager's Report Regarding Agency Activities

September 17, 2014

Page 10 of 12

Chino Basin Recharge Master Plan project list. The possible adverse environmental impact of continuing to pursue the Vulcan Pit Project was also discussed at the meeting.

IEUA and the City will collaborate with the San Bernardino County Flood Control District on the inclusion of the West Fontana Channel project to the proposed alternative projects. The inclusion of the West Fontana Channel Project may have a major impact on the City's final decision. The final decision will need to be approved at the City's next council meeting on September 9, 2014.

Inland Empire Utilities Agency						
Active Grant and SRF Loan Summary						
As of August 31, 2014						
Funding Agency	Project Name	Award Amount	Invoiced Through (6/30/13)	Invoiced FY13/14 (07/01/13 - 6/30/14)	Invoiced FY14/15 (07/01/14 - 8/31/14)	Award Balance
<b>FEDERAL GRANTS</b>						
United States Bureau of Reclamation (USBR)	Turner Basin Improvement Project	406,712	227,453	179,260	-	(0)
	Regional Residential Landscape Surveys and Retrofit Program	199,000	67,926	91,098	11,093	28,883
FEMA/Cal-EMA	FEMA Winter Storm 2010 Disaster	585,831	585,831	-	-	0
<b>Active Federal Grants</b>		<b>\$ 1,191,543</b>	<b>\$ 881,209</b>	<b>\$ 270,358</b>	<b>\$ 11,093</b>	<b>\$ 28,883</b>
<b>STATE GRANTS</b>						
Department of Water Resources (DWR)	Multi-Family ULF Toilet Program	1,650,133	1,614,066	36,067	-	(0)
	Landscape Water Audit Program	194,476	194,418	58	-	(0)
Department of Parks & Recreation (DPR)	Water Discovery Field Trip & Bus	207,900	59,333	12,206	-	136,361
	Earth Day program	38,500	35,584	2,916	-	-
State Water Resources Control Board (SWRCB)	Southern Area Recycled Water	4,000,000	521,739	3,063,393	175,140	239,728
State Water Resources Control Board (SWRCB)	Central Area Recycled Water Wineville	4,000,000	-	-	-	4,000,000
MWD	Pilot Scale 3-D Fluorescence Excitation-Emission Matrix	50,000	-	-	7,524	42,476
MWD	Recycled Water Intertie Study	25,000	-	-	8,038	16,962
<b>Active State &amp; Local Grant</b>		<b>\$ 10,166,009</b>	<b>\$ 2,425,141</b>	<b>\$ 3,114,640</b>	<b>\$ 190,702</b>	<b>\$ 4,435,527</b>
<b>Total Active Federal, State &amp; Local Grant</b>		<b>\$ 11,357,552</b>	<b>\$ 3,306,350</b>	<b>\$ 3,384,998</b>	<b>\$ 201,795</b>	<b>\$ 4,464,410</b>
<b>SRF LOANS</b>						
SWRCB (SRF Loans)	RP-1 Dewatering Facility	27,434,811	27,434,809	-	-	2
	Southern Area Recycled Water	20,608,638	5,194,535	11,011,187	890,719	3,512,197
	Central Area Recycled Water Wineville	26,500,000	-	-	-	26,500,000
	New Water Quality Laboratory	17,100,000	-	630,551	-	16,469,449
<b>Sub-total Active SRF Loans</b>		<b>\$ 91,643,449</b>	<b>\$ 32,629,344</b>	<b>\$ 11,641,738</b>	<b>\$ 890,719</b>	<b>\$ 46,481,648</b>
<b>CDA GRANTS</b>						
United States Bureau of Reclamation (USBR)	CDA Wellfield (Wells 1, 2, 3)	\$ 1,516,095	533,307	-	-	982,788
United States Bureau of Reclamation (USBR)	1010 Zone Pump Station and New Product Water Pipelines	3,950,000	448,196	757,963	885,044	1,858,798
California Department Of Public Health	CDA Phase III Expansion Projects	52,005,716	-	17,088,141	5,173,066	29,744,509
MWD	Pilot Testing of a Biological Treatment Process (BIOTTATM)	414,216	-	-	129,783	284,433
<b>Sub-total Active CDA Grants</b>		<b>\$ 57,886,027</b>	<b>\$ 981,503</b>	<b>\$ 17,846,103</b>	<b>\$ 6,187,893</b>	<b>\$ 32,870,527</b>
<b>GRAND TOTAL ACTIVE GRANTS &amp; LOANS</b>		<b>\$ 160,887,028</b>	<b>\$ 36,917,196</b>	<b>\$ 32,872,839</b>	<b>\$ 7,280,407</b>	<b>\$ 83,816,585</b>
<b>Active Grants &amp; Loans</b>		<b>\$ 160,887,028</b>	<b>\$ 36,917,196</b>	<b>\$ 32,872,839</b>	<b>\$ 7,280,407</b>	<b>\$ 83,816,585</b>
<b>Closed grants and SRF loans</b>		<b>\$ 238,276,907</b>				
<b>Total Active and Closed Grants &amp; Loans since 2002</b>		<b>\$ 399,163,935</b>				

**Human Resources Updates:**

The 2015 open enrollment period began **September 15, 2014** and ends on **October 9, 2014**. During open enrollment employees may request to enroll, change plans, drop existing coverage, or add or drop eligible dependents. Changes made during open enrollment will be effective from January 1, 2015 through December 31, 2015.

<b><u>CURRENT STAFFING</u></b>	
Regular Full-time Employees:	254
Contract/Limited Term Employees:	14
Interns:	12
<b>TOTAL:</b>	<b>280</b>
<b><u>CURRENT REGULAR RECRUITMENT ACTIVITIES</u></b>	
Recruitments in Process/Offer Pending:	5
Placement in Process:	0
No RFVP; Position on Hold 6.78% Vacancy Factor:	21
No RFVP; Vacant Position:	15
<b>Total Regular Vacancies (Excludes Limited Term &amp; Intern Positions = 14.14 % Vacancy Factor):</b>	<b>41</b>
<b><u>CURRENT OTHER RECRUITMENT ACTIVITIES</u></b>	
Limited Term Position on Hold:	0
Limited Term Recruitments in Process/Offer Pending:	0
Intern Recruitments in Process/Offer Pending:	5

**Contracts & Facilities Services Updates:**

Contracts & Procurements staff was heavily involved in the development of several agreements with our member agencies, Chino Basin Watermaster and the County of San Bernardino. Additionally, staff led the solicitation and procurement of goods and services for several Agency projects, working collaboratively with staff from other Agency departments. Staff continues to participate in other Agency strategic initiatives such as sustainability, beautification, water conservation, ground water recharge and financial projects.

Records Management established a steering committee for two projects associated with the Agency's information governance program. The first project, Managed Folders, is the implementation of an Agency-wide e-mail management program that aligns the e-mail system with the Agency's records retention schedule. The system will utilize controls within the current e-mail server to establish folders with assigned retention periods. The second project, Taxonomy, is the establishment of a hierarchical classification for documents and records that facilitates the management of recorded information throughout its life cycle. This project will



assist the Agency by providing a predictable structure for users to navigate and find the information they need.

Surplus Management currently has a contract in place with Advanced Riggers & Millwrights, Inc for surplus management services, which includes the removal of surplus equipment, marketing of equipment and completing the necessary documentation for the sale of equipment. The Agency has received nearly \$75,000 to date. In addition the Agency has donated various items to Habitat for Humanity and laptop computers, monitors, and desktop computers to the San Bernardino County Superintendent of Schools that went directly to the classrooms for student use.