NOTICE OF MEETING

OF THE

AUDIT COMMITTEE

OF THE
BOARD OF DIRECTORS
OF THE

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

IS SCHEDULED FOR

WEDNESDAY, JUNE 10, 2015
9:00 A.M.

AT THE ADMINISTRATION HEADQUARTERS
6075 Kimball Avenue, Building A
Chino, CA 91708

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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

WEDNESDAY, JUNE 10, 2015
9:00 A.M.

CALL TO ORDER

PUBLIC COMMENT

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

ADDITIONS TO THE AGENDA

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

1. ACTION ITEMS

A. MINUTES
The Committee will be asked to approve the Audit Committee meeting minutes from March 11, 2015.

2. INFORMATION ITEMS

A. WHITE NELSON DEIHL EVANS DISCUSSION ON FISCAL YEAR 14/15 FINANCIAL AUDIT (ORAL)

B. REGIONAL CONTRACT REVIEW UPDATE - INTERIM REPORT FOR THE CITY OF CHINO HILLS & THE CITY OF ONTARIO (DRAFT) (WRITTEN)

C. FOLLOW UP ON OUTSTANDING RECOMMENDATIONS – PRETREATMENT & SOURCE CONTROL (WRITTEN)

D. REPORT ON OUTSTANDING RECOMMENDATIONS (WRITTEN)

E. **INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR JUNE 2015 (WRITTEN)**

3. **GENERAL MANAGER'S COMMENTS**

4. **COMMITTEE MEMBER COMMENTS**

5. **COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS**

6. **ADJOURN**

*A Municipal Water District

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

Proofed by: SR

DECLARATION OF POSTING

I, Stephanie Riley, Administrative Assistant of the Inland Empire Utilities Agency, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. in the foyer at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, June 4, 2015.

S. Riley

Stephanie Riley

ACTION ITEM

1A

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

MINUTES
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
WEDNESDAY, MARCH 11, 2015
9:00 A.M.

COMMITTEE MEMBERS PRESENT

Terry Catlin, Chair
Jasmin A. Hall

STAFF PRESENT

Christina Valencia, Chief Financial Officer/Assistant General Manager
Teresa Velarde, Manager of Internal Audit
Craig Proctor, Pretreatment and Source Control Supervisor
Sapna Nangia, Senior Internal Auditor
Stephanie Riley, Administrative Assistant
Peter Soelter, Senior Internal Auditor

OTHERS PRESENT

Travis Hickey, Audit Committee Advisor

The meeting was called to order at 9:05 a.m. There were no public comments received or additions to the agenda.

ACTION ITEMS

The Committee:

- Approved the Audit Committee meeting minutes of December 10, 2014

INFORMATION ITEMS

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

- Regional Contract Review Update – Interim Report for Cucamonga Valley Water District
- Internal Audit Department Quarterly Status Report for March 2015

GENERAL MANAGER'S COMMENTS

None.

COMMITTEE MEMBER COMMENTS

None.

COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

None.

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

Stephanie Riley
Recording Secretary

*A Municipal Water District

APPROVED: JUNE 10, 2015

INFORMATION ITEM 2B

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: June 17, 2015

To: The Honorable Board of Directors

Through: Audit Committee *(6/10/15)*

From: Teresa V. Velarde
Manager of Internal Audit

Subject: Regional Contract Review - Interim Audit Report for City of Chino Hills and Draft Interim Audit Report for City of Ontario

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RECOMMENDATION

This is an information item for the Board of Directors to review.

BACKGROUND

At the request of the Board and Executive Management, Internal Audit (IA) has been performing a review of the Agency's Regional Sewage Service Contract (Regional Contract Review) as implemented with the seven Regional Contracting Agencies. The objectives of the Regional Contract Review include:

- Evaluation of how each of the seven agencies apply the Regional Contract provisions
- Determine whether the 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

Attachments

The interim report for the City of Chino Hills (Chino Hills) and the *draft* interim report for the City of Ontario (Ontario) are attached. IA is submitting the report of the Ontario in draft form for discussion purposes and to provide a status of the review. IA anticipates submitting a final report by September 2015, to provide the Ontario every opportunity to provide additional information to finalize the evaluation.

IA identified observations and recommendations to strengthen administrative, accounting, recording, and reporting controls to ensure the intent of the Regional Contract is achieved. As with the previous five Regional Contract reports, most of the IA recommendations could be applied to all Contracting Agencies going-forward, as 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 uniform and consistent manner. A summary of IA's recommendations is provided separately in Exhibit A. Summaries of the most significant observations are provided below. The attached reports provide additional details.

City of Chino Hills

- No Connection Fees were collected for the Chino Hills High School addition of a swimming pool, showers and locker room/restrooms. For comparison purposes, the City of Upland collected $22,506 in Connection Fees for a new high school gymnasium and the Cucamonga Valley Water District collected $42,792 in Connection Fees for a new high school classroom wing/building, gymnasium expansion and athletic field complex. Chino Hills' representatives indicated that they "do not issue permits for school facilities nor do they collect IEUA fees."

- The monthly billing guidelines do not provide guidance for businesses included under a master meter. Many businesses in Chino Hills are located in commercial centers served by master meters, meaning the City will bill the owner or anchor tenant of a commercial center based on one water meter that serves all tenants. It is Chino Hills' practice to invoice master metered customers at the highest billing rate/factor based on the types of businesses in the commercial center. Over time businesses may change and changes may not be made to the rate/factor and the rate/factor may no longer be relevant. Therefore, the City may not be billing appropriately. Examples are included in the attached report. Additionally, this methodology may not appear to be the most equitable for customers.

- The monthly billing guidelines do not provide for minimum sewer service fees for commercial customers. IA recommends incorporating the monthly billing guidelines into the Regional Contract and including a provision that a minimum of one EDU be charged to commercial customers per month. Commercial customers are billed for sewer services based on water usage. It would seem appropriate that a commercial customer be billed a minimum rate for 1 EDU (which is used for a residential customer) even if commercial consumption is lower than one calculated EDU. The audit noted instances where commercial customers are billed a lower amount than what a residential customer pays. Examples are included in the attached report.

City of Ontario (*Draft*)

IA has submitted the Interim Audit Report for Ontario in *draft* form to provide a status of the review to IEUA Executive Management and the Board and so as to provide Ontario every opportunity to provide additional information to finalize the evaluation.

- Ontario's calculation worksheet does not match Exhibit J; therefore creating differences in the Connection Fees that should be collected. For the items tested, Ontario under-collected over $75,000 in Connection Fees. The review found that the Ontario's automated calculation worksheet, built into their permits system, 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.

- Connection Fees collected for customers serviced by the Cucamonga Valley Water District (CVWD) service area should have been collected and reported by CVWD not the City of Ontario. IA noted several instances where Connection Fees were collected for commercial enterprises located in Ontario, but whose water and sewerage are in the CVWD service area. These fees should have been collected by CVWD and included in their CCRA account. In some cases the amounts collected by Ontario were refunded to the developer in a subsequent BAR, but in others, the Connection Fees remained within Ontario. For the items noted, CVWD showed fee collections by Tract number and parcel number, whereas the Ontario used address and permit number. IA was therefore unable to verify fee collections by CVWD in the Building Activity Reports.

- Ontario asks permit applicants to self-assess their fixture units and determine the Connection Fees they owe. (This process differs from what most Contracting Agencies have implemented, where a calculation worksheet is completed by the Building Department staff.) During the site inspection process Ontario confirms that the actual structure agrees to the plans that were submitted. This procedure omits the step of verifying that the Connection Fee calculation agrees to the building/plumbing plans, giving oversight (and potential under-calculation and under-collection) of the Connection Fee process to the customer. In addition, the Ontario is not fully utilizing the expertise of its Building Department staff in collecting fees.

- Ontario has not collected fees for public schools construction:

Name of School	School District	Type of Construction	When completed	Fees Collected
Richard Haynes Elementary	Ontario Montclair	Addition of a Multi-purpose room with multiple restrooms and warming kitchen. (CVWD collected $10,809 for a new elementary school cafeteria and Montclair collected $24,021 for a new elementary school multipurpose room with kitchen and restroom.)	Summer 2012	$ 0
Ray Wiltsey Middle	Ontario Montclair	13 classroom modular facility with multiple restrooms, outdoor areas. (CVWD collected $62,958 for a new 14 room classroom building with restrooms.)	Summer 2013	$ 0
Ontario High	Chaffey Joint Union High School	New classroom building, restrooms, football stadium and pool. (CVWD collected $42,792 in Connection Fees for a new high school classroom wing/building, gymnasium expansion and athletic field complex.)	In Process	$ 0

- Approximately a third of the monthly sewerage billing items tested noted erroneous rates, were not found or were industrial entities with unusual rate structures as described in the next paragraph. No sewerage billing was found for one item where Connection Fees had been collected, but water service is provided by the Jurupa Community Services District (JCSD).

- A wide range of new manufacturing and industrial businesses have located in Ontario. The Connection Fees and monthly sewerage charges for these enterprises varied widely. Ontario has not yet responded to questions about the methodology used for monthly billing purposes and is in the process of resolving Connection Fee differences with Haliburton. IA is providing Ontario additional time to respond to IA's inquiries. In addition, there appears to be a need to improve guidelines for industrial enterprises to ensure that Connection Fees and monthly sewerage charges are assessed correctly, are fair and equitable, and are determined in accordance with the intent of the Regional Contract.

IA would like to extend its appreciation to staff at Ontario and Chino Hills, as well as the IEUA Planning and Environmental Resources Department for their cooperation and assistance during this review.

To-date, IA has submitted as information items the following reports:

- Interim Audit Report for the Cucamonga Valley Water District (March 2015)
- Interim Audit Report for the City of Chino (December 2014)
- Interim Audit Report for the City of Fontana (December 2014)
- Interim Audit Report for the City of Montclair (September 2014)
- Interim Audit Report for the City of Upland (September 2014)
- "Survey of Comparative Information of the Seven Contracting Agencies" (September 2014)
- "Regional Contract Review – Review of the Ten Year Forecast" (June 2014)
- "Regional Contract Review – Survey of Comparable Agencies (June 2014)

PRIOR BOARD ACTION

On September 17, 2014, the Board approved the Fiscal Year 2014/15 Annual Audit Plan.

On December 18, 2013, the Board reconfirmed the approved Internal Audit Department Charter.

IMPACT ON BUDGET

None

Exhibit A - Internal Audit Recommendations for IEUA Management and the Contracting Agencies

No	Recommendations	Upland	Montclair	Fontana	Chino	CVWD	Chino Hills	Ontario
	OVERALL RECOMMENDATIONS							
•	Consider legal, political and financial implications of governing by ordinance vs. contract	X	X	X	X	X	X	X
•	Review and revise EDU formula from current 270 gallons per day	X	X	X	X	X	X	X
•	Resolve identified differences of over/under collected amounts of Connection Fees and unreported service fees discovered during the Regional Contract Reviews and determine/establish working relationship with Contracting Agencies. IA identified businesses that are not reported to IEUA and fees not paid for the services provided by IEUA as well as classification errors and formula mistakes.	X	X	X	X	X	X	X
	CONNECTION FEES RECOMMENDATIONS and FEES: 2013/2014	***$505,462***	***$262,500***	***$830,226***	***$2,620,202***	***$1,901,701***	***$1,985,132***	***$1,728,501***
1.	IEUA and the Contracting Agencies should consider centralizing the Connection Fee and wastewater permitting process or, as part of the permitting and plan check process, establishing a requirement that an IEUA representative provide final sign-off and approval prior to the Contracting Agency issuing a permit to a nonresidential entity and allowing a connection to the regional system. This added approval step will ensure IEUA agrees with the interpretation of the contract and the appropriate category type and sewage factor have been applied so correct connection fees are assessed and collected.	X	X	X	X	X	X	X
2.	IEUA Planning and Pretreatment groups should take the lead to exercise the authority provided under Regional Contract Section 26 Inspection of Facilities, and establish an on-going monitoring program to inspect random facilities or those where there is a suspected discrepancy in order to ensure the intent of the Regional Contract is applied and ensure the integrity of the Regional Program.	n/a	n/a	X	n/a	X	n/a	X
3.	IEUA and the Contracting Agencies should add language to the Regional Contract regarding IEUA's inspection and verification rights for connection fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported connection fees.	n/a	X	X	X	X	X	X
4.	Regional Contract should be updated to include IEUA right to audit, full cooperation and access to records and documents upon request	X	X	X	X	X	X	X
5.	IEUA should 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 and sinks and those features that are unique to a specific site, such as a fire hub drain, butcher shop drain, a restaurant dishwasher or washing sink, etc. This would create consistency in the treatment of same-type and same-use fixture units.	X	n/a	n/a	X	X	X	X
6.	Exhibit J was recently updated and now provides detailed definitions for many business types, yet there is still room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge. Exhibit J should be updated regularly to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently. 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, community centers at newer residential communities and facilities that provide rehabilitative services.	X	X	X	X	n/a	X	X
7.	IEUA and the Contracting Agencies should 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, classification of a hub drain, clarifying differences between lavatories, wash fountains, receptors, sinks and mop basins and whether a	X	n/a	X	X	X	X	X

X = Condition/exception noted at the Contracting Agency resulting in an Observation and Recommendation

✓ = Procedure/practice employed at the Contracting Agency resulting in a Recommendation that may be worth consideration/adoption/emulation

N/A = Procedure/Practice not observed during the review process at this Contracting Agency

Note: Categorization of conditions present in the Interim Audit Report.

Exhibit A - Internal Audit Recommendations for IEUA Management and the Contracting Agencies

No	Recommendations	Upland	Montclair	Fontana	Chino	CVWD	Chino Hills	Ontario
	drinking fountain that includes a separate basin for handicapped access consists of one or two fountains. The review revealed differences in interpretation.							
8.	IEUA and the Contracting Agencies should consider developing a standardized calculation worksheet to assist Contracting Agencies in the connection fee calculations. Currently, each Contracting Agency has its own unique calculation worksheet and it is not always consistent with the Regional Contract Exhibit J. A 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 there is more than one type of business at the same location (for example, a gas station/minimart with a car wash). A standardized calculation worksheet would provide assistance in computing the connection fees so that Contracting Agencies would not each need to develop their own tools, creating a lack of consistency and uniformity. IA noted varying application of fixture counts because the Contracting Agencies' calculation worksheets are not consistent.	✗	✗	✓ (Calculation worksheet follows Exhibit J)	✗ / ✓ (Calculation worksheet now follows Exhibit J)	✓ (Calculation worksheet follows Exhibit J)	✗ / ✓ (Calculation worksheet now follows Exhibit J)	✗
9.	IEUA should require that Contracting Agencies provide copies of the connection calculation worksheets for all nonresidential entries included on their monthly Building Activity Reports. Calculation worksheets would provide additional support for the connections reported and the connection fees collected. This would provide IEUA staff greater visibility and documented support for the application of the category types and fixture counts utilized. IEUA staff would have the necessary information 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.	✗	✗	✓ Calculation worksheets provided with the BAR	✗	✗	✗	✗
10.	In addition to the regular meetings of the Regional Technical and Regional Policy Committees, IEUA has already begun to provide ad-hoc meetings and training as needed for things such as the updated excel Building Activity Report and the Exhibit J subcommittee. IA noted that great variability and understanding of IEUA, the Regional Contract and Exhibit J exists amongst Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing. In order to develop greater consistency and uniformity throughout the region, IEUA should consider taking the lead in holding quarterly or more regular workshops, meetings, plant tours and similar activities as an avenue where Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing and/or others as well can discuss and ask questions about the application of the Regional Contract and Program. The workshops would provide a forum to discuss questions about category types to apply, definitions, other questionable items and individual situations, and foster cooperation and collaboration among all. A Contracting Agency may encounter questions or situations that could apply to other Contracting Agencies. Frequent and on-going dialogue about the application of the Regional Contract would benefit all Contracting Agencies and the Regional Program to ensure consistent application of the Regional Contract and that issues are addressed on a timely basis.	✗	✗	✗	✗	✗	✗	✗
11.	IEUA should consider developing expertise in fixture count techniques and providing regular and ongoing training at the Building Departments of Contracting Agencies to develop consistency in the IEUA fixture count process across the region, including obtaining IEUA's guidance on the treatment of commercial businesses whose type is unique or does not fall into categories established in Exhibit J.	✗	n/a	✗	✗	n/a	✗	✗
12.	Contracting Agencies should consider adopting an internal review process for Connection Fees as part of preparing the Building Activity Report	n/a	n/a	✓ (Use I/R)	n/a	✓ (Use I/R)	n/a	n/a

✗ = Condition/exception noted at the Contracting Agency resulting in an Observation and Recommendation
✓ = Procedure/practice employed at the Contracting Agency resulting in a Recommendation that may be worth consideration/adoption/emulation
N/A = Procedure/Practice not observed during the review process at this Contracting Agency
Note: Categorization of conditions present in the Interim Audit Report.

Exhibit A - Internal Audit Recommendations for IEUA Management and the Contracting Agencies

No	Recommendations	Upland	Montclair	Fontana	Chino	CVWD	Chino Hills	Ontario
	MONTHLY SEWERAGE BILLING RECOMMENDATIONS and FEES: 2013/2014	***$4,294,863***	***$1,981,117***	***$8,196,601***	***$4,592,930***	***$10,288,244***	***$3,892,815***	***$9,532,321***
1.	IEUA and the Contracting Agencies should consider establishing the collection of monthly sewerage fees directly for the entire region through the County's property tax roll. Collection of sewerage fees through the property tax roll could result in a more efficient process and reduce the administrative resources used by Contracting Agencies in billing and collecting these fees. Residential properties could be transferred initially until consideration is given to ways in which and whether to transition commercial, industrial and other entities.	n/a	n/a	✓ (Property tax roll used for SFR & MFR)	n/a	n/a	X	X
2.	IEUA and the Contracting Agencies should evaluate the methodology used for billing monthly sewerage fees and consider alternatives, either by water consumption or EDUs purchased. Since the adoption of the existing billing methodology in a 1997 memorandum efficiencies have been achieved in water usage, which may have an impact on the type and amount of sewerage discharged and the types of services provided to the region as a whole. The billing methodology should be aligned with the services provided. Another approach to consider as part of the billing methodology would be examining Winter season usage by residential properties to investigate a volumetric rather than EDU based rate structure. The billing methodology should be presented to the IEUA Board of Directors and formally adopted. As part of this process a Rate and Fee Study would assist in establishing a sustainable and equitable rate structure that recovers the cost of providing services.	X	X	✓ (EDU based rate structure)	X	X	X	X
3.	IEUA and the Contracting Agencies should consider standardizing and providing automated and itemized listings of non-residential monthly sewerage charges. This would provide information that could be reviewed and researched for anomalies and reconciled on a regular basis.	X	X	X	X	X	X	X
4.	IEUA should evaluate the current process used for invoicing each Contracting Agency for monthly sewer fees. By establishing a contract for monthly payment rather than relying on invoices, each Contracting Agency could provide the EDU information and remit the funds to IEUA directly within a reasonable period of time. This contrasts with the current approach whereby Contracting Agencies provide EDU information and then wait for an invoice from IEUA before payment thereby delaying payment for up to 45 days. By reengineering the process, IEUA would receive monthly sewer fees in a more efficient and timely manner.	X	X	X	X	X	X	X
5.	IEUA should add language to the Regional Contract regarding IEUA's inspection and verification rights as to monthly sewerage fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or underreported such fees.	X	X	n/a	X	X	X	X
6.	Regional Contract should be updated to include IEUA right to audit, full cooperation and access to records and documents upon request.	X	X	X	X	X	X	X
7.	IEUA and the Contracting Agencies should consider updating the 1997 memorandum to consider new business types and provide more detailed definitions and descriptions. Since the adoption of the 1997 memorandum, businesses have continued to evolve and new types of businesses emerge. The 1997 memorandum should be updated regularly to provide additional language, definitions, and guidance to ensure all types of commercial businesses are classified consistently. Examples include pet related businesses such as pet shops, pet rescue locations, veterinarians and pet hospitals and clinics and spa related businesses such as spas, massage parlors, salons, foot spas and waxing businesses.	n/a	n/a	n/a	n/a	n/a	X	n/a
8.	Evaluate and consider the relationship between monthly sewer fees and Connection Fees and determine the need to create a correlation between the two. For example, fast-food restaurants and full-service restaurants are both included in Category 8 for monthly sewerage billing purposes and pay at the same rate. However, for purposes of Connection Fees fast-food restaurants are grouped with office, retail and similar uses (which are Category 1 for monthly sewerage billing). Therefore, fast-food restaurants incur lower Connection Fees, but pay monthly sewer fees at the higher rates charged to full-service restaurants.	X	X	X	X	X	X	X
9.	IEUA and the Contracting Agencies should consider the need for additional billing guidance for locations with multiple business types serviced by master meter, either blended, highest applicable or other methodology.	n/a	n/a	n/a	n/a	n/a	X	n/a
10.	IEUA and the Contracting Agencies should consider billing commercial businesses that do not consume or discharge a minimum of one EDU at least that amount under the rationale that no business should pay less	X	✓	X	X	✓	X	X

X = Condition/exception noted at the Contracting Agency resulting in an Observation and Recommendation

✓ = Procedure/practice employed at the Contracting Agency resulting in a Recommendation that may be worth consideration/adoption/emulation

N/A = Procedure/Practice not observed during the review process at this Contracting Agency

Note: Categorization of conditions present in the Interim Audit Report.

Exhibit A - Internal Audit Recommendations for IEUA Management and the Contracting Agencies

No	Recommendations	Upland	Montclair	Fontana	Chino	CVWD	Chino Hills	Ontario
	than the amount charged to a single family residence							
	PUBLIC SERVICE FACILITIES RECOMMENDATIONS							
	Examples of recent Public Service Facilities with NO Connection Fees collected	***None noted, per audit sample***	***Moreno Elem classroom building (OMSD) Montclair H. S. classroom building (CJUHSD)***	***None noted, per audit sample (City made conscious choice not to charge Kaiser Fontana)***	***Howard Cattle Elem classroom building (CVUSD) Chaffey College - Chino Campus – multiple buildings***	***Los Amigos Elem classrooms Etiwanda HS classrooms, performing arts complex, athletic field Rancho Cucamonga HS auditorium, athletic field Chaffey College – multiple buildings***	***Chino Hills H. S. Swimming Facility, Showers and Locker Room (CVUSD)***	***Richard Haynes Elem Multi-purpose (OMSD) Ray Wilsey Middle classroom building (OMSD) Ontario H. S. Classroom building, football stadium and pool (CJUHSD)***
1.	IEUA and the Contracting Agencies should consider the exclusion of Public Service Facilities from the charge for Connection Fees and Monthly Sewerage Charges. As documented under the audit report "Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs", IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public K – 14 schools and City governments from both Connection Fees and Monthly Sewerage Charges	n/a	✗	n/a	✗	✗	✗	✗
2.	IEUA and the Contracting Agencies should consider the legal, political and financial impacts of centralizing the Connection Fee calculation, connection, CCRA account and wastewater permitting process for Public Service Facilities	✗	✗	✗	✗	✗	✗	✗
3.	IEUA should add language to the Regional Contract regarding IEUA's inspection and verification rights for Public Service Facilities as to connection and monthly sewer fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported such fees.	n/a	✗	n/a	✗	✗	✗	✗
4.	Regional Contract should be updated to include IEUA right to audit, full cooperation and access to records and documents upon request	✗	✗	✗	✗	✗	✗	✗
5.	Exhibit J was recently updated and now provides detailed definitions, yet there is still room for varying interpretation and application. Exhibit J should be updated regularly to provide additional language, definitions and guidance to consider clarification and descriptive information for categorizing public service facilities to expand and address the differences between publicly owned and publicly used.	✗	✗	✗	✗	✗	✗	✗
6.	Consider the City of Upland's cross-departmental approach to the development review process as a regional model for Contracting Agencies to follow. 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, and 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	✓ (Uses cross-departmental approach)	✗	n/a	✗	n/a (Not a city water agency only)	✗	✗

✗ = Condition/exception noted at the Contracting Agency resulting in an Observation and Recommendation

✓ = Procedure/practice employed at the Contracting Agency resulting in a Recommendation that may be worth consideration/adoption/emulation

N/A = Procedure/Practice not observed during the review process at this Contracting Agency

Note: Categorization of conditions present in the Interim Audit Report.

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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

DATE: May 28, 2015

TO: Joe Grindstaff
General Manager

Teresa V Velarde

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: REGIONAL CONTRACT REVIEW
Interim Audit Report
City of Chino Hills

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 make recommendations to consider as part of the Regional Contract renegotiation or amendment. 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
- Monthly Volumetric Sewerage Charges
- Extra-Territorial Fees
- Reconciliations of fees collected and paid to IEUA
- Overall Recordkeeping

This report describes the results of the review performed at the City of Chino Hills.

City of Chino Hills – Background

The City of Chino Hills (Contracting Agency, Chino Hills or City) was incorporated in December 1991 and utilizes a Council-Manager form of government. The City has a population of 76,131 and encompasses 46 square miles, which is 19% of the 242-square-miles covered by IEUA's service area[1]. Of this, a little over 22 square miles is made up of Chino Hills State Park and Carbon Canyon Regional Park, leaving a net of approximately 24 square miles (or about 10% of the service area) that connects to the Regional Sewerage System.

The City provides water, trash and local sewer services to residential, commercial and other properties within its boundaries.

City of Chino Hills – Financial Information

As part of the Regional Contract, Chino Hills is required to report *Initial Connection Fees* and *Sewer Service Fees* 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 the IEUA Planning and Environmental Resources 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. The number of Equivalent Dwelling Units (EDU's) purchased and fees collected by the City during the last two fiscal years are:

City of Chino Hills
Connection Fees

Fiscal Year	EDU's	Fees collected
2012/13	42.30	$ 207,452
2013/14	396.47	$ 1,985,132

EDU's and fees collected reflect the amounts reported in the BAR. Fees collected vary from year to year depending on the amount of new development. The fees for FY 2013/14 were substantially higher than the prior year due to the Capriana/Villagio apartment complex on Butterfield Ranch Road, a 286 unit apartment community.

[1] Chino Hills statistics from City of Chino Hills website and Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014

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 Chino Hills at June 30, 2013 and 2014 was $933,078 and $2,918,210, respectively.

Sewer Service Fees (Volumetric Sewerage Fees): Sewer Service 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 Chino Hills reports the number of EDU's to IEUA on a monthly basis. 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 variable EDU's for commercial entities (based on water consumption).

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

City of Chino Hills: Sewer Service Fees		
Fiscal Year	**EDU's(1)**	**Fees**
2012/13	288,891	$ 3,579,355
2013/14	290,726	$ 3,892,815

(1) = Calculated as Fees divided by Board approved rate.

The City of Chino Hills Finance Department provided the following break-down of their monthly sewerage revenues for the 2013/2014 fiscal year:

Description	Revenues	Percentage
Residential	$ 3,563,293	90.59 %
Commercial	$ 369,954	9.41 %
TOTAL	$ 3,933,247	100.00 %

Initial Connection Fees

Contracting Agencies are 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 must be assessed and collected by the Contracting Agency in accordance with the provisions of Exhibit J of the Regional Contract.

IA selected various businesses to test whether Connection Fees were accurately calculated, collected and reported in accordance with the Regional Contract. IA judgmentally selected 62 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 Regional Sewage Service Contract:

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

The review period extended from July 1, 2012 through December 31, 2013 (and in some cases earlier or later when deemed necessary). For the earlier sample items (prior to the June 19, 2013 revision of Exhibit J), Contracting Agencies' guidance for fixture unit counts was limited to the California Plumbing Code. The revision to Exhibit J added additional descriptive examples of Category types and "Table 1 – Fixture Unit (FU) Values" which provided specific unit amounts for assessing Fixture Unit Values.

The calculation worksheet Chino Hills utilized prior to the revision of Exhibit J had fewer categories than the California Plumbing Code or the revised Exhibit J, but charged at least as many fixture units than what was subsequently adopted by the revision of Exhibit J. After the revision of Exhibit J, Chino Hills revised their own calculation worksheet to ensure that it matches Table 1 of Exhibit J of the Regional Contract. Chino Hills' staff indicated that their revision was in use within a month after the revised Exhibit J took effect.

IA recommends that calculation worksheets be standardized for all Contracting Agencies to create uniformity in the fixture unit count and Connection Fee calculations.

The review noted the following:

1. Pet N Vets Animal Hospital: Since the descriptive information provided in Exhibit J 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 which would have resulted in higher Connection Fees. According to City of Chino Hills staff, Pets N Vets is more of a Veterinary Doctor's office and is classified in the same way that doctors' and dentists' offices are classified under Category Type I which includes "retail" and "office" descriptions.

   Different interpretations for: Pets N Vets Animal Hospital

Description	Exhibit J	Exhibit J Description	Sewage Factor	Fees
Chino Hills determination	Category Type I	Retail, office, motel/hotel and similar businesses	0.0444	$2,539.32
Other possible interpretation	Category Type III	Convalescent home or hospital	0.1780	$10,180.18

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, IEUA should consider developing expertise in fixture count techniques and providing regular and ongoing training at the building departments of the Contracting Agencies to develop consistency in the IEUA fixture count process across the region, particularly so that Contracting Agencies can obtain IEUA's guidance on the treatment of commercial enterprises whose business type is unique and does not fall into the categories established in Exhibit J.

Plumbing Plans – Fixture Unit Recount

IA reviewed the plumbing plans for five (5) of the originally selected 62 items to verify the accuracy of the fixture count and the application of the required fees. The recount was performed by the City of Chino Hills' Community Development staff and witnessed/verified by IA. The results of the recount were agreed upon by both parties.

The recount noted differences in fixture unit values prior to the revision of Exhibit J. In addition, due to the lack of specificity in some building plans, the fixture count can be inherently subjective. It appears City of Chino Hills staff was conservative in their interpretation of the plumbing code, and Exhibit J (after the 2013 revision). IA only noted small immaterial differences resulting from the fixture recount.

Chino Hills staff noted that regular meetings such as were held by the BAR subcommittee in preparing the revision of Exhibit J are helpful. Having the ability to compare experiences with other Contracting Agencies' staff involved in the plan check and permit process helps create greater consistency throughout the region, particularly as businesses continue to evolve and change.

In order to develop greater consistency and uniformity throughout the region, IEUA should consider taking the lead in holding quarterly or more regular workshops, meetings, plant tours and similar activities as an avenue where Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing and/or others as well can discuss and ask questions about the application of the Regional Contract and Program. The workshops would provide a forum to discuss questions about category types to apply, definitions, other questionable items and individual situations, and foster cooperation and collaboration among all.

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 and community college), 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 DSA and OSHPD do not collect Connection Fees on IEUA's behalf as part of their oversight process, 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 Contracting Agency to ensure collection of the Connection Fees from entities that fall under the DSA or OSHPD and reside within their service area.

Several approaches were used to determine Public Service Facilities in the City of Chino Hills. IA used personal knowledge of the community and a physical observation. In addition, IA reviewed the OSHPD website for information about hospital and similar construction in the City. IA also reviewed Bond Measure updates on the website for the Chino Valley Unified School District to look for construction activity. This resulted in the selection of the following for testing:

Site	New Additions or Renovations	Month/Year Fees Collected	Amount Collected
BAPS Shri Swaminarayan Mandir; 15100 Fairfield Ranch Rd.[1]	Hindu Temple additions	June 2007	$ 14,288
BAPS Shri Swaminarayan Mandir; 15100 Fairfield Ranch Rd.[1]	Hindu Temple restaurant	May 2014	$ 8,448
Chino Hills Community Center; 14250 Peyton Dr.	New construction	June 2012	$ 38,283
Chino Hills Sheriff's Station; 14077 Peyton Dr.	New SB County sheriff's station	January 2007	$ 69,590
Chino Hills High School; 16150 Pomona Rincon Rd.:	**Pool, Showers and Locker room**	**Within the last 3 years**	**$ 0**

[1] The Temple also paid $268,686 in Connection Fees in December 2006 for original construction.

No Connection Fees were collected for Chino Hills High School Addition

IA noted that in all instances other than the Chino Hills High School expansion, the City collected Connection Fees from Public Service Facilities construction. City representatives indicated that they "do not issue permits for school facilities nor do they collect IEUA fees." Since the customer does not come to the counter, the City of Chino

Hills does not have a process in place to identify and pursue PSF construction or expansions. For comparison purposes, the City of Upland collected $22,506 in Connection Fees for a new high school gymnasium and the Cucamonga Valley Water District collected $42,792 in Connection Fees for a new high school classroom wing/building, gymnasium expansion and athletic field complex.

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 Chino Hills has a collaborative group called the Project Review Committee that meets to consider projects that have been submitted for permit application. The role of this group could be expanded to include conversations of potential projects outside the permitting process. 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 would 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.

In connection with a renegotiation of the Regional Contract, IEUA and the Contracting Agencies should consider the legal and financial impacts of eliminating the requirement for collecting connection fees and monthly sewerage charges from Public Service Facilities. As documented under the audit report "Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs", IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public schools and City governments from these charges.

Volumetric Sewerage Fees

Section 18 of the Regional Contract states: *"Concurrently with the adoption of the Regional Sewerage System budget, the Board of Directors of CBMWD shall fix the service charge rate for the fiscal year. The rate shall be expressed in dollars and cents for each Equivalent Dwelling Unit (EDU) of sewage and shall be computed . . . as set forth in the Regional Sewerage System budget adopted for the fiscal year. The estimated EDU's of sewage delivered into the Regional Sewerage System shall be determined based on a standard daily measurement or contribution of sewage per EDU agreed to from time to time by CBMWD and the Regional Technical Committee."*

The most recent information about monthly sewerage billing is from a memorandum entitled "Procedures for Establishing a Regional Sewer Billing Formula" which was endorsed by the Regional Technical and Policy Committees and forwarded for approval by the IEUA Board for monthly/bimonthly billing processes in 1997. IA noted that there is no indication that the document was presented to the IEUA Board of Directors and approved. The document itself appears to be a draft for presentation purposes, not an approved approach. Finally, IA noted that other similar agencies are also examining

winter season water usage of residential properties to investigate the possibility of a volumetric rather than EDU based rate structure.

The City of Chino Hills performs monthly meter readings for several routes each day such that all customers are billed on a monthly basis. All water customers are also billed for the City's and IEUA's regular sewerage charges. On the customer's monthly statement, City and IEUA sewer fees are combined in one total, although they can be viewed separately in the City's Sungard Utility Billing system. For IEUA sewerage billing purposes, EDU's are calculated in accordance the 1997 memorandum.

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 variable EDU's for commercial entities (based on water consumption).

For the 62 entities originally selected, IA tested the monthly 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. **<u>Sewer Service billing category inconsistencies:</u> There is an inconsistency between the rate charged for Connection Fees and the rate used for monthly sewerage billing.**

   The billing formulas are based on the memorandum "Procedures for Establishing a Regional Sewer Billing Formula" from 1997. The formulas are divided into Residential, Commercial and Industrial categories and the Commercial categories are further divided into eight Commercial categories and an additional category for schools. Category eight includes: "Restaurant – full service; Restaurant – Fast food; Market w/ grinder; and Bakery".

   IA notes that the inclusion of both full service and fast food restaurants in the same classification for monthly sewerage contradicts the guidance provided for Connection Fees where full service restaurants are charged a significantly higher sewage factor to connect than are fast food restaurants. In general, full service restaurants would probably pay higher monthly fees from higher water consumption even though their sewer factor is the same as for fast food restaurants, however the rate classification structure does lump them together in the same category. As part of renegotiating the Regional Contract, IEUA and the Contracting Agencies should evaluate and consider the relationship between monthly Sewer Service Fees and Connection Fees and determine the need to create a correlation between the two.
   IA notes that documentation approving and mandating the billing methodology is not available. Any revision should be presented to the IEUA Board of Directors and formally adopted, based upon the recommendation of the Regional Technical Committee.

2. **<u>Master Meters:</u> The Regional Contract does not provide guidance for businesses included under a master meter.**

Many businesses in Chino Hills are located in commercial centers served by master meters, meaning the City will bill the owner or anchor tenant of a commercial center based on one water meter that services all the tenants:

Master Meter billed to	Other Businesses in Commercial Center	Applied by City		Internal Audit Comment
		Factor Type	Factor Rate	
Dillon's Restaurant	Barnes and Noble, Starbucks, Crabby Corner, Crème De La Crème Bakery	Restaurant/Market with Grinder, adjusted for Landscape Factor	0.05731	Use Commercial rate adjusted for Landscape Factor (.0401) for non-restaurant uses?
JoJo's Pizza Kitchen	Orphanage pet rescue, 99 Ranch Market, Daiso Japan, Young Dong Tofu	Drycleaner	0.1215	Use Restaurant/Market with Grinder (0.1042) and Commercial (0.0729) rates for various businesses?
Fresh and Easy	TLC Animal Clinic, VIP Foot Spa, Chino Hills Pet Salon	Restaurant/Market with Grinder, adjusted for Landscape Factor	0.05731	Use Commercial rate adjusted for Landscape Factor (.0401) for non-restaurant and non-market uses?
Spa Shangri-La	Goodwill, Pets N Vets Animal Hospital	Restaurant/Market with Grinder	0.1042	Use Commercial (0.0729) rate for various businesses?

It is the Chino Hills' practice to invoice master metered customers at the highest billing rate/factor based on the types of businesses in the commercial center. However, over time businesses may change and changes may not be made to the rate/factor and the rates/factors may no longer be relevant. Therefore, the City may or may not be billing appropriately.

Of the 62 items included in the sample that IA tested, 36 (58%) were part of various master meters, either as the commercial entity being billed or as one of the other commercial entities also in the commercial center but not receiving a bill. Of these 36 items, 21 (58%) were included in a rate/factor that differed from the most appropriate rate/factor based on their business type (both higher and lower). The reasons for these differences included:

- Being part of a group of businesses billed under the Chino Hills policy of billing a master meter based on the highest rate/factor type of business at the commercial center
- Commercial centers where a higher rate/factor business no longer exists but the billing rate/factor has not been adjusted
- Commercial centers where a higher rate/factor business now exists but a prior rate/factor has not been adjusted.

The 1997 sewer services billing memorandum does not provide specific guidance when a master meter is used and different Contracting Agencies apply different billing practices.

IEUA and the Contracting Agencies should evaluate the billing methodologies in the 1997 memorandum and determine and document the most appropriate approaches to invoicing master meters, including potential approaches such as:

- *A blended rate*
- *The City of Chino Hills use of the highest rate available for types of businesses in a particular center*
- *Another method that is appropriate, equitable and documented*

3. **Billing categories do not consider the variety of commercial enterprises that have evolved: Commercial billing rates were last evaluated and revised in 1997. Since then businesses have evolved and changed. The existing billing categories do not provide guidance for the variety of businesses that now exist.**

   As part of reviewing the master meter billing practices at the City of Chino Hills, Internal Audit noted 7 of the 62 items tested (over 10%) were businesses where the commercial categorization is unclear according to the 1997 memorandum. These businesses were primarily of two types:

   - Pet related businesses including pet shops, pet rescue locations, veterinarians and pet hospitals and clinics.
   - Spa related businesses including spas, massage parlors, salons, foot spas and waxing businesses.

   Businesses continue to evolve and new types of businesses emerge. The 1997 billing memorandum should be updated regularly to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently.

   IEUA and the Contracting Agencies should consider documenting additional definitions and descriptions to the classification of businesses in the monthly billing memorandum from 1997. This would reduce the risk of misclassification of businesses and the potential under-collection of monthly fees. Examples include pet related businesses and spa related businesses.

4. **Minimum Sewer Service Fees based on one EDU: It would seem appropriate that a commercial customer be billed, at the minimum, the rate for 1 EDU which is used for a residential customer, even if the commercial consumption is lower than one calculated EDU.**

All residential customers are billed 1 EDU (.7 for multi residential) regardless of water consumption or actual use or waste flow. The audit noted instances where commercial customers are billed a lower amount than what a residential customer pays.

Commercial customers are billed converting water consumption into EDUs. Sometimes the calculations produce a fraction of an EDU (less than 1 EDU). The rate is applied to the calculated EDU or fraction of an EDU and the commercial customer is billed accordingly.

The monthly sewerage fee for a single EDU in the 2013/2014 fiscal year was $13.39, yet IA noted commercial entities with billings as low as:

Business	HCF	Factor	Billed Amount
Chino Hills Cross Fit	7	0.0729	$ 6.83
CVS Pharmacy	11	0.0729	$ 10.74
Walgreens	4	0.0729	$ 3.90
Shell service station	3	0.040095*	$ 1.61

* Includes landscaping factor which is billed at 55% of commercial factor

IA noted that Cucamonga Valley Water District and the City of Montclair both bill a minimum base amount of one EDU per month to commercial enterprises even if the amount determined through water usage would be lower under the rationale that no business should pay less than the amount charged to a single family residence.

Total Sewer Service Fee Billings/Revenue

IA compared the Sewer Billing Revenues recorded by IEUA for agreement to the City of Chino Hills' general ledger information.

IA noted the following variances 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 Chino Hills Revenue FY 2012/13 (July 1, 2012 through June 30, 2013)		
Sewer Utility Revenue ending balance from IEUA CAFR for City of Chino Hills	Sewer Utility Revenue ending balance per City of Chino Hill's general ledger	Variance
$ 3,579,355	$ 3,598,933	$ 19,578

IEUA Revenue compared to Chino Hills Revenue FY 2013/14 (July 1, 2013 through June 30, 2014)		
Sewer Utility Revenue ending balance from IEUA CAFR for City of Chino Hills	**Sewer Utility Revenue ending balance per City of Chino Hill's general ledger**	**Variance**
$ 3,892,815	$ 3,933,247	$ 40,432

Per City of Chino Hills' staff differences are the result of an accrual for unbilled revenues at year-end.

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 Chino Hills Expense FY 2012/13 (Jul 1, 2012 through June 30, 2013)		
Sewer Utility Revenue ending balance from IEUA CAFR for City of Chino Hills	**Sewer Utility Expense ending balance per City of Chino Hill's general ledger**	**Variance**
$ 3,579,355	$ 3,586,031	$ 6,677

IEUA Revenue compared to Chino Hills Expense FY 2013/14 (Jul 1, 2013 through June 30, 2014)		
Sewer Utility Revenue ending balance from IEUA CAFR for City of Chino Hills	**Sewer Utility Expense ending balance per City of Chino Hill's general ledger**	**Variance**
$ 3,892,815	$ 3,897,719	$ 4,903

CAFR Reconciliation

IA verified that the CCRA amounts reported on the City's general ledger agreed to what IEUA reported on its CAFR at June 30, 2013 and June 30, 2014. The balances on both reports at June 30, 2013 were $933,078 and $2,918,210, respectively. For the year ended June 30, 2014 the IEUA balance was $2,918,210, but the City of Chino Hills general ledger balance had already been reduced from that amount by the third quarter Call payment of $308,194.

Extra-Territorial Fees

The City of Chino Hills has no Extra-Territorial areas and does not charge Extra-Territorial (ET) fees.

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. The recommendations can be applied to all Contracting Agencies going-forward as part of an amendment to 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.

Recommendations relating to Connection Fees:
As part of the review and renegotiation of the Regional Contract, IEUA and the Contracting Agencies should consider:

1. ***In addition to the regular meetings of the Regional Technical and Regional Policy Committees, IEUA has already begun to provide ad-hoc meetings and training as needed for things such as the updated excel Building Activity Report and the Exhibit J subcommittee. IA noted that great variability and understanding of IEUA, the Regional Contract and Exhibit J exists amongst Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing. In order to develop greater consistency and uniformity throughout the region, IEUA should consider taking the lead in holding quarterly or more regular workshops, meetings, plant tours and similar activities as an avenue where Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing and/or others as well can discuss and ask questions about the application of the Regional Contract and Program. The workshops would provide a forum to discuss questions about category types to apply, definitions, other questionable items and individual situations, and foster cooperation and collaboration among all. One Contracting Agency may encounter certain questions or situations that could apply to other Contracting Agencies. Frequent and on-going dialogue about the application of the Regional Contract would benefit all Contracting Agencies and the Regional Program to ensure consistent application of the Regional Contract and that issues are addressed on a timely basis.***

2. ***Adding language in the Regional Contract regarding recourse for non-collection and over/under collection of Initial Connection Fees.***

3. ***A standardized calculation worksheet to create uniformity among the Contracting Agencies with fixture unit counts and the connection fee calculations. Currently, each Contracting Agency utilizes its own calculation worksheet and it is not always consistent with 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 there is more than one type of business at the same location (for example, a gas station/minimart with a car wash). The standardized calculation worksheet will facilitate computing the Connection Fees in a consistent and uniform manner. (Note: The City of Chino Hills current calculation worksheet is consistent with Exhibit J.)

4. ***The inclusion of the initial connection calculation worksheets for all nonresidential entities with monthly Building Activity Reports as additional support for the connections reported and the Connection Fees collected. This would provide IEUA staff greater visibility and documented support for the application of the category types and the fixture counts. IEUA staff would have the necessary information 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.***

5. ***Exhibit J was recently updated and now provides detailed definitions for many business types, yet there is still room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge. Exhibit J should be updated regularly to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently. This would reduce the risk of misclassification of businesses and the potential under-collection of IEUA fees. Examples include pet clinics and private community swimming and recreation centers in residential communities.***

6. ***Additional clarification and descriptive information for the various types of appliances, appurtenances and/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 review revealed differences in interpretation.***

7. ***A two-step 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 and sinks (ie., a toilet is always the same cost regardless of type of business whether a restaurant, office or gym) vs. 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. ***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.

9. ***Should consider, as part of the permitting and plan check process, a requirement that an IEUA representative provide final sign-off and approval prior to the Contracting Agency issuing a permit to a nonresidential entity and allowing a connection to the regional system. This added approval step will ensure IEUA agrees with the interpretation of the contract and the appropriate category type and sewage factor have been applied so correct connection fees are assessed and collected.***

Although the City of Chino Hills collected Connection Fees for most types of Public Service Facilities, the City did not collect Connection Fees for the public school selected for testing.

Recommendations relating to Public Service Facilities:
As part of the review and renegotiation of the Regional Contract IEUA and the Contracting Agencies should consider:

10. ***The exclusion of Public Service Facilities from the charge for Connection Fees and Monthly Sewerage Charges. As documented under the audit report "Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs", IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public schools (Kindergarten through 12th grade and community college) and City governments from both Connection Fees and Monthly Sewerage Charges.***

11. ***Adding language to the Regional Contract regarding IEUA's inspection and verification rights for Public Service Facilities as to Connection Fees and monthly sewer fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported such fees.***

IEUA sewerage revenue from the seven Regional Contracting Agencies totaled almost $43 million for the 2013/2014 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. 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:

12. ***Establishing the collection of the monthly Sewer Service Fees (Volumetric Fees) directly for the entire region through the County's Property Tax Roll. Collection of the Sewer Service Fees through the property tax roll could result in a more efficient process and reduce the administrative resources used by Contracting Agencies in billing and collecting for these fees. Residential properties could be transferred initially until consideration is given to ways in which and whether to transition fees from commercial, industrial and other entities.***

13. ***Evaluating the methodology used for billing monthly sewerage fees and possible alternatives; either by water consumption or EDUs purchased. Since the adoption of the existing billing methodology in a 1997 memorandum there have been greater efficiencies achieved in water usage, which may have an impact on the type and amount of sewerage discharged and the types of services provided to the region as a whole. The billing methodology should be aligned with the services provided. The billing methodology should be presented to the IEUA Board of Directors and formally adopted, since the Regional Contract specifies that the role of the Regional Technical Committee is to make recommendations.***

14. ***Updating the 1997 memorandum to consider new business types and provide more detailed definitions and descriptions. Since the adoption of the 1997 memorandum, businesses have continued to evolve and new types of businesses emerge. The 1997 memorandum should be updated regularly to provide additional language, definitions, and guidance to ensure all types of commercial businesses are classified consistently. IEUA should consider documenting additional definitions and descriptions to the classification of businesses in the 1997 memorandum. Examples include pet related businesses such as pet shops, pet rescue locations, veterinarians and pet hospitals and clinics and spa related businesses such as spas, massage parlors, salons, foot spas and waxing businesses.***

15. ***Evaluating and considering the relationship between monthly Sewer Service Fees and Connection Fees and determine the need to create a correlation between the two. For example, fast-food restaurants and full-service restaurants are both included in Category 8 for monthly sewerage billing purposes and pay at the same rate. However, for purposes of connection fees fast-food restaurants are grouped with office, retail and similar uses (which are Category 1 for monthly sewerage billing). Therefore, fast-food restaurants incur lower Initial Connection Fees, but pay monthly Sewer Service Fees at the higher rates charged to full-service restaurants.***

16. ***Evaluate and consider the need to provide additional guidance for locations serviced by a master meter. In these, generally mall-like***

locations, multiple types of businesses are all serviced by a single connection. Consideration should be given to providing billing guidance in these instances, possibly through a blended volumetric rate or, as is Chino Hills' practice, utilizing the highest volumetric rate applicable to the businesses at that location or considering some other methodology.

17. ***Adding language to the Regional Contract regarding IEUA's inspection and verification rights as to the monthly sewerage fees and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under/reported such fees.***

18. ***Consider and determine the most appropriate methodology for billing commercial businesses that do not consume or discharge a minimum of one EDU. Currently, two member agencies bill a minimum base of one EDU determined by water consumption under the rationale that no business should pay less than the amount charged to a single family residence; while all others bill based on actual consumption. Provide contracting agencies' clear guidance, in the Regional Contract, as to the most appropriate methodology to ensure all contracting agencies' bill commercial customers in a consistent and uniform method.***

19. ***Standardizing and providing automated and itemized listing of non-residential monthly sewerage charges to provide information that could be reviewed and researched for anomalies and reconciled on a regular basis.***

20. ***Evaluating the current process used for invoicing each Contracting Agency for monthly sewer fees collected. By establishing a contract for monthly payment rather than relying on invoices, each Contracting Agency could provide the EDU information and remit the funds collected to IEUA directly within a reasonable period of time. This contrasts with the current approach whereby Contracting Agencies provide EDU information and then wait for an invoice from IEUA before payment thereby delaying payment for up to 45 days. By reengineering the process, IEUA would receive the monthly sewer fees in a more efficient and timely manner.***

Although this is not a financial audit, and IA makes no recommendations to the City of Chino Hills, the following are suggested recommendations for the City's consideration.

City of Chino Hills should:

21. ***Work with the local School District to determine and collect any additional connection fees that are due to IEUA as required by the Regional Contract.***

22. ***Consider adopting a collaborative approach and fostering 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 Chino Hills has a collaborative group called the Project Review Committee that meets to consider projects that have been submitted for permit application. The role of this group could be expanded to include conversations about potential projects outside the permitting process. 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 would 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.

Acknowledgements
We would like to extend our appreciation to the City of Chino Hills and the IEUA Planning and Environmental Resources Department for their cooperation and assistance during this review.

Discussions with the City of Chino Hills
We provided the results of this audit to Mr. Winston Ward, Assistant Director, Community Development, Sherry Copeland, Billing Supervisor, Finance Department and Ms. Liz Carlock, Accounting Supervisor, Finance Department for their review and comments prior to finalizing the report.

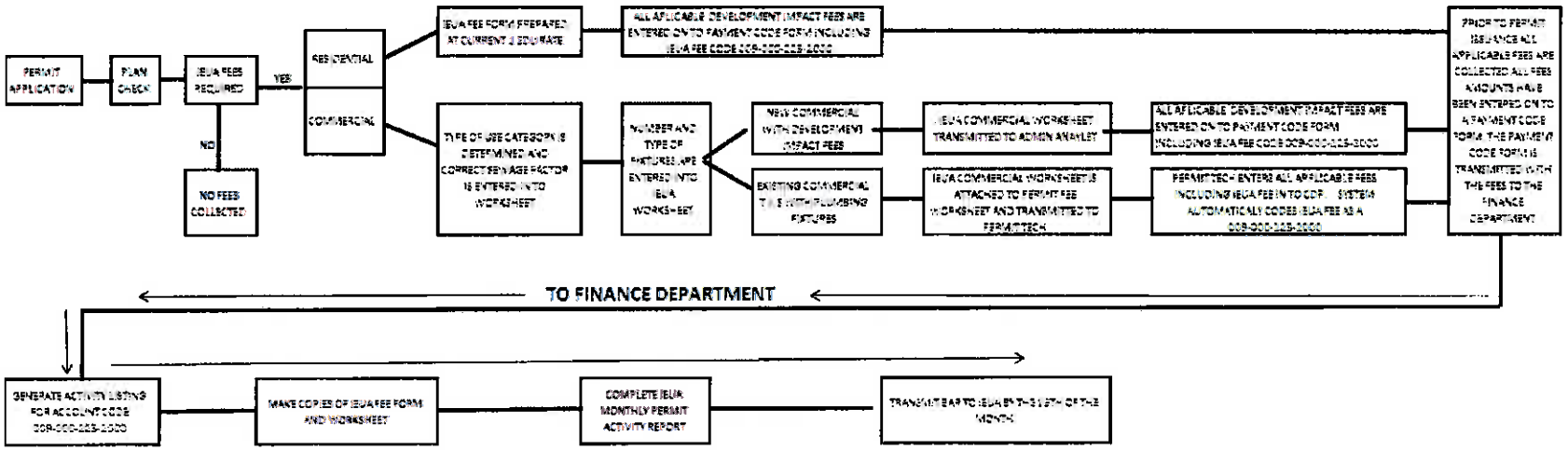
Discussions with the Planning & Environmental Resources Department
We also discussed the report with Chris Berch, Executive Manager of Engineering/Assistant General Manager, Sylvie Lee, Manager of Planning and Environmental Resources, Craig Proctor, Pretreatment and Source Control Supervisor, Pietro Cambiaso, Senior Engineer and Kenneth Tam, Senior Associate Engineer of the IEUA Planning and Environmental Resources 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 by June of 2015; in the meantime the recommendations provided in this report should be evaluated and considered at this time.

TV:ps

Attachment 1

IEUA FEE COLLECTION PROCESS



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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DRAFT

This report is being submitted in DRAFT form for discussion purposes.

DATE: May 28, 2015

TO: Joe Grindstaff
General Manager

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: REGIONAL CONTRACT REVIEW
Interim Audit Report
City of Ontario

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 make recommendations to consider as part of the Regional Contract renegotiation or amendment. 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
- 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 Ontario.

City of Ontario – Background

The City of Ontario (Contracting Agency, Ontario or City) was incorporated on December 10, 1891 and utilizes a Council-Manager form of government. The City has a population of 166,866 and encompasses 50 square miles which is 21% of the 242-square-miles covered by IEUA's service area[1].

As well as other municipal services, the City provides water, trash and local sewer service to residential, commercial and other properties within its boundaries.

Financial Information

Under the terms of the Regional Contract, the City of Ontario is required to report Initial Connection Fees and Sewer Service Fees 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 Ontario
Connection Fees

Fiscal Year	EDU's	Fees collected
2012/13	157	$ 770,709
2013/14	345	$ 1,728,501

EDU's and fees collected reflect the amounts reported in the BAR. The fees for FY 2013/14 were substantially higher than the prior year due to fees collected in connection with the construction of new residential, gated communities in the City.

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 IEUA and the City of Ontario in their June 30, 2013 and 2014 CAFR's was $3,337,338 and $5,011,733 respectively.

[1] Ontario statistics from City of Ontario website: "About Ontario – City Facts"

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 Ontario self-reports the number of EDU's to IEUA for all its customers on a monthly basis, since the City bills monthly. 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).

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

City of Ontario
Sewer Service Fees

Fiscal Year	EDU's(1)	Fees(1)
2012/13	707,904	$ 8,770,935
2013/14	711,899	$ 9,532,321

(1) = From IEUA monthly billing invoices.

As part of reporting Sewer Service Fees, the City of Ontario provides additional detail as shown below. The Regional Contract does not require this information and the amount of information provided varies by Contracting Agency.

As of June 30, 2014 the City of Ontario's total number of EDU's consisted of the following (from the June 2014 monthly billing information provided to IEUA):

Type of Account	Number of EDU's	% of Total
Single Family Residential (1 EDU per dwelling)	26,492	41.70
Multi-Family Residential (.7 EDU per dwelling)	13,047	20.53
Public Authority	947	1.49
Interdepartmental	127	0.20
Industrial	4,208	6.62
Hotel/Motel	831	1.31
Commercial	17,884	28.15
Total	**63,536**	**100%**

This information is reported by the City of Ontario. 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 73 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
- Building Activity Reports submitted to IEUA
- Input received from IEUA's Planning & Environmental Compliance Department

The review revealed the following:

1. **Ontario's Calculation Worksheet does not match Exhibit J; therefore creating differences in the Connection Fees that should be collected. For the items tested, Ontario under-collected over $75,000 in Connection Fees.** The review found that the City of Ontario's automated calculation worksheet, built into their permits system, 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. Ontario established a worksheet based on their interpretation of the California Plumbing Code, however, some of the descriptions for the type of fixture installed and associated fixture unit value differ from the types and values provided under Exhibit J creating differences when compared to the Regional Contract required Fixture Unit count and Connection Fees assessed:

City of Ontario's Worksheet		Regional Contract Exhibit J (Table 1)	
Type of Fixture	Unit	Type of Fixture	Fixture Unit
Water Closet-Commercial Qty	1	Water Closet, 1.6 GPF	4.0
Urinal Qty	4	Urinal	2.0
Sink-Service Mop Qty	2	Kitchen, Service or Mop Basin	3.0
Drinking Fountain Qty	1	Drinking Fountain or Water Cooler	0.5

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. Of

the 73 items selected, 22 paid Connection Fees for new fixture units since 2006. Exhibit J did not provide a table of fixture unit values until its revision in 2013. Therefore, there was no authoritative guidance prior to that revision and individual Contracting Agencies relied on the Plumbing Code to determine fixture unit values. IA noted the following variances in Connection Fees for these businesses:

Business/Permit Tested	Exh J F. U.	Exh J Fees	Ontario F. U.	Ontario Fees
FAST 5 PIZZA	14	$ 3,112.35	13	$ 2,890.04
JOGUE INCORPORATED	26	$ 9,457.68	30	$ 10,912.71
JOGUE INCORPORATED	13.0137	$ 63,884.25	13.0137	$ 63,884.25
BIOSCRIP INFUSION SERVICES, INC	18	$ 3,923.27	17	$ 3,705.31
MANDARIN HOUSE	12	$ 2,237.76	11	$ 2,051.28
MANDARIN HOUSE	9	$ 1,678.32	9	$ 1,678.32
ANJUMAN E. QUTBI (ORANGE COUNTY)	109	$ 32,728.12	67	$ 20,117.29
DEDEAUX INLAND EMPIRE	30	$ 6,348.31	17	$ 3,597.38
MIGUEL'S JR.	47	$ 9,945.69	39	$ 8,252.81
FRESH & EASY #1164	59	$ 12,241.39	52	$ 10,789.02
Office Building	105	$ 23,342.63	107	$ 23,787.26
Office Building	97.5	$ 21,675.30	60	$ 13,338.65
Magic Hawaiian Barbecue also Pizza Palace, etc.	25	$ 5,668.77	24	$ 5,442.02
New Tilt-Up Building	23	$ 4,772.07	11	$ 2,282.29
Target	180	$ 33,566.40	154	$ 28,717.92
Lucky Elephant Thai	39	$ 8,252.81	42	$ 8,887.64
Starbucks also Burger Zone, 3 Day Suit Broker	14	$ 4,416.17	16	$ 5,047.06
B201201590	46	$ 10,026.14	61	$ 13,295.54
B201300259	229	$ 70,822.14	148	$ 45,771.52
WW2140	46.5	$ 8,671.32	32	$ 5,967.36
B201301115	51	$ 15,772.62	31	$ 9,587.28
B201202858	117	$ 42,559.56	106	$ 38,558.23
B201302744	32.5	$ 10,251.83	30	$ 9,463.23
B201301578	48	$ 17,808.90	26	$ 9,646.49
B201302547	61.5	$ 13,672.11	62	$ 13,783.27
TOTALS	**1,452.01**	**$ 436,835.92**	**1,178.01**	**$ 361,454.14**

Audit Results	Commercial Fixture Units	Fees
City of Ontario Connection Fee Worksheet Totals	1,178.01	$ 361,454.14
Internal Audit: Exhibit J-Verification Totals	1,452.01	$ 436,835.92
Net Difference		**($ 75,381.79)**

Ontario under-collected $75,381 in Connection Fees for the items tested during this review, from Fixture Unit differences in the Calculation worksheet.

In the 2013-14 fiscal year, the City of Ontario reported a total of $768,586 in Connection Fees for non-residential building activity in the Building Activity Reports. If we extrapolate using the error rate in the sample tested and compare it to the total non-residential fees reported, Connection Fees could have been under-reported by as much as approximately $160,000 (calculated, as follows: $75,381.79/ $361,454.14 x $768,586.06 or "error rate" times "reported fees") for the 2013-14 fiscal year.

The City of Ontario recently revised their calculation worksheet to align it with Table 1 of the revised Exhibit J, but kept the limited number of categories and naming conventions from the prior version (**See Exhibit A** – City of Ontario Revised Calculation Worksheet). Therefore, there are still differences between the revised worksheet and Exhibit J:

EXHIBIT J CATEGORIES NOT INCLUDED ON ONTARIO WORKSHEET	
DESCRIPTION	**F.U.**
High efficiency clothes washer	2.0
Food waste grinder (commercial)	3.0
Floor drain, emergency	0.0
Shower, multi-head, each additional	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 – Bar	2.0
Receptor, indirect waste – Clinical	6.0
Receptor, commercial with food waste (1.5-in minimum fixture branch size)	3.0
Receptor, commercial with food waste (2-in minimum fixture branch size)	4.0
Receptor, commercial with food waste (3-in minimum fixture branch size)	6.0
Receptor, kitchen, domestic	2.0
Receptor, Service, flushing rim	6.0
Waterless Urinal	1.0

ONTARIO CATEGORIES NOT SPECIFIED IN EXHIBIT J	
DESCRIPTION	**F.U.**
Floor sinks	2.0
MH park trap - one trailer	6.0
Sink-food waste	3.0

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

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. **Building Activity Reports: IA selected items for testing from the Building Activity Reports.** In conjunction with these procedures, IA noted the following:

   a) **Connection Fees collected for customers serviced by the Cucamonga Valley Water District (CVWD) service area should have been collected and reported by CVWD not the City of Ontario**: IA noted several instances where Connection Fees were collected for commercial enterprises located in Ontario, but whose water and sewerage are in the CVWD service area. These fees should be collected by CVWD and included in their CCRA account. In some cases these amounts were refunded to the developer in a subsequent BAR, but in others, the Connection Fees remained with the City of Ontario. IA reviewed Building Activity Reports submitted by CVWD for several months before and after these collections. IA did not find comparable addresses to verify collections for these connections by CVWD.

   b) **Private residential community Centers have varying interpretations by the different contracting agencies.** IA noted a recent trend where new housing developments include a community center with amenities such as fitness centers, swimming pools, meeting rooms and gathering places. This is an instance that can create varying interpretations and applications of Exhibit J of the Regional Contract. In the March, 2014 BAR, the City of Ontario reported such a facility as commercial category III, which includes "Health Spa with Pool" as one of the descriptions and has a Sewage Factor of 0.1081. This compares to the City of Chino's practice of using commercial category I which includes retail, office and fast food and has a lower Sewage Factor of 0.0444 and translates to lower Connection Fees.

   Although Exhibit J was recently updated and now provides greater detailed definitions for many business types, there still appears to be room for varying interpretation and application. Businesses continue to evolve and new types of businesses emerge and the Regional Contract should be updated regularly to provide additional language, definitions and guidance to ensure all types of commercial businesses are classified consistently.

Plumbing Plans – Fixture Unit Recount

In attempting to perform a fixture unit recount at the City of Ontario, IA determined that Ontario's procedure in assessing Connection Fees differs from the other Contracting Agencies. According to Ontario's Building Department staff, the City of Ontario asks

permit applicants to self-assess their fixture units and determine the Connection Fees that they owe. The City then performs its own review during the site inspection process to confirm that the actual structure conforms to the plans that were submitted. In IA's opinion this procedure omits the critical step of verifying that the actual Connection Fee calculation conforms to the building/plumbing plans. In addition, the City of Ontario is not fully utilizing the expertise of its Building Department staff in collecting fees.

IA recommends that the City of Ontario examines and restructures the Connection Fee calculation and collection process to ensure that the fixture unit counts are correctly tallied, the categorization of businesses is appropriate and that connection fees are not under-collected.

IA reviewed the plumbing plans for five of the originally selected 73 items to verify the accuracy of the fixture count and the application of the required fees. At all other Contracting Agencies the recount was performed by Contracting Agency staff, witnessed/verified by IA and the results of the recount agreed upon by both parties. However, since the City of Ontario requires permit applicants to self-assess fixture units the Building Department officials indicated that they would not be able to provide assistance for the plumbing plans recount. Although IA staff have no plan-check experience and do not have the technical expertise of an actual plan-checker or someone familiar with the Plumbing Code and Exhibit J, IA attempted to independently examine the five sets of building/plumbing plans to determine the accuracy of the fees that were collected. IA's review noted the following:

- Jogue, Inc: The City's permitting files reference Permit #'s 201203421 and 201302705, neither of which were found to have been included in Building Activity Reports to IEUA. The only relevant permit that was reported is #2142 which shows 30 fixture units. IA's fixture unit count totaled 73 domestic industrial fixture units rather than the 30 that were reported, resulting in under-collection of $15,642.

- Continental Funeral Home: The calculation worksheet used the general commercial category I sewage factor (0.0444) rather than the category II that includes mortuaries (0.1081), resulting in under-collection of $4,378.

- Office Building, 150 E. Holt: One of the two sets of plans associated with this location was unavailable. The other set that was made available to IA indicated that the building houses medical clinics, facilities, and offices. IA performed additional Google research which shows a Women/Infant/Children (WIC) clinic on the 1st floor and the Ontario Public Health Clinic on the second floor. IA's fixture unit count totaled 122 fixture units rather than the 107 that were reported. The calculation worksheet also used the commercial category I sewage factor (0.0444) rather than category III that includes hospitals and convalescent homes (0.1780). Overall, this resulted in an under-collection of $14,697.

- Haliburton: IA attempted to recount the fixture units on this set of building plans. However, without the technical expertise and knowledge that Building Officials have, IA was unable to validate the fixture unit count. See additional discussion of Haliburton later in this report.

- Excelsior Charter School Resource Center: IA's fixture count matched the calculation worksheet and the City did use the correct category VI sewage factor (0.0630) for a Public Service Facility.

The impact of these findings is summarized:

BUSINESS	ERROR TYPE	IMPACT (Under Collected)
Jogue, Inc.	Fixture Unit difference	($ 15,642)
Continental Funeral Home	Classification difference	($ 4,378)
150 E. Holt	Fixture Unit & Classification differences	($14,697)
Haliburton	Industrial Calculation difference (addressed separately)	unknown
Excelsior Charter	No differences noted	none noted
	TOTAL	**($ 34,717)**

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.

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

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 DSA and OSHPD do not collect Connection Fees on IEUA's behalf as part of their oversight process, 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, several approaches were used to determine Public Service Facilities in the City of Ontario. IA reviewed the website for OSHPD for information about hospital and similar construction in the City of Ontario. This review noted that the Kaiser Ontario facility opened in November of 2011. The medical facility is located on a 28-acre master-planned campus and the construction project included a 386,000 sq. ft. Hospital Medical Center with two patient towers that hold 260 beds and a diagnostic and treatment wing, a new three-story 160,000 sq. ft. hospital support building that has medical offices, and major additions to the existing Central Utility Plant. The City of Ontario collected Connection Fees in the amount of $1,409,106 for this facility.

IA also reviewed the websites of school districts that service the City of Ontario. This included looking at bond measure construction update reports and the annual school accountability report cards of individual schools. As a result of these procedures one elementary school (Richard Haynes Elementary School), one middle school (Ray Wiltsey Middle School) and one high school (Ontario High School) were chosen for testing. IA noted:

Name of School	School District	Type of Construction	Bond Measure	When completed	Fees Collected
Richard Haynes Elementary	Ontario Montclair	Addition of a Multi-purpose room with multiple restrooms and warming kitchen	"T"	Summer 2012	$ 0
Ray Wiltsey Middle	Ontario Montclair	13 classroom modular facility with multiple restrooms, outdoor areas	"T"	Summer 2013	$ 0
Ontario High	Chaffey Joint Union High School	New classroom building, restrooms, football stadium and pool	"P"	In Process	$ 0

1. Richard Haynes Elementary School: Per staff, the City has no record of any fees collected. For comparison purposes Cucamonga Valley Water District collected $10,809 in Connection Fees for a new elementary school cafeteria and the City of Montclair collected $24,021 in Connection Fees for a new elementary school multipurpose room with kitchen and restrooms (and $78,367 of prior fees).

2. Ray Wiltsey Middle School: Per staff, the City has no record of any fees collected. For comparison purposes Cucamonga Valley Water District collected $62,958 in fees for a new 14 room classroom building with restrooms.

3. Chaffey Joint Union High School District – Ontario High School: Per staff, the City has no record of any fees collected. For comparison purposes, the City of Upland collected $22,506 in Connection Fees for a new high school gymnasium

and the Cucamonga Valley Water District collected $42,792 in Connection Fees for a new high school classroom wing/building, gymnasium expansion and athletic field complex.

Approximately half of the Contracting Agencies are collecting Connection Fees for school construction. However, even those that collect Connection Fees do not do so in all instances. In moving forward with renegotiating the Regional Contract IEUA and the Contracting Agencies should consider the following options:

1. *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 Ontario 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.*

2. *In connection with a renegotiation of the Regional Contract, IEUA and the Contracting Agencies should consider the legal and financial impacts of eliminating the requirement for collecting Connection Fees and monthly sewerage charges from Public Service Facilities. As documented under the audit report "Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs", IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public schools and City governments from these charges.*

Volumetric Sewerage Fees

Section 18 of the Regional Contract states:

"Concurrently with the adoption of the Regional Sewerage System budget, the Board of Directors of CBMWD shall fix the service charge rate for the fiscal year. The rate shall be expressed in dollars and cents for each Equivalent Dwelling Unit (EDU0 of sewage and shall be computed . . . as set forth in the Regional Sewerage System budget adopted for the fiscal year. The estimated EDU's of sewage delivered into the Regional Sewerage System shall be determined based on a standard daily measurement or contribution of sewage per EDU agreed to from time to time by CBMWD and the Regional Technical Committee."

Thus, the Regional Contract delegates the details of determining monthly sewerage billing to the Regional Technical Committee. The most recent information about monthly sewerage billing is from a memorandum entitled "Procedures for Establishing a Regional Sewer Billing Formula" which was adopted by the Regional Technical and Policy Committees for monthly/bimonthly billing processes in 1997.

The City of Ontario bills customers each month for water and the City's and IEUA's regular sewerage charges. For IEUA sewerage billing purposes EDU's are calculated in accordance with the 1997 memorandum.

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 variable EDU's for commercial entities (based on water consumption). Industrial customers are billed in a variety of ways.

For the 73 entities originally selected for review, IA tested the monthly 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. Approximately a third (33%) of the items tested noted erroneous rates or other concerns:

ISSUE	DESCRIPTION	# OF ITEMS	% 0F TOTAL
Errors and anomalies:			
Businesses not found	Possibly a master meter/meter at another site or street	5	6.85%
Restaurants billed at commercial factor	Master meter or different prior use	4	5.48%
Funeral home & health clinic	Commercial factor used	2	2.74%
Bakery	Billed at Laundromat factor	1	1.37%
For-Profit college	Billed at medical office factor	1	1.37%
Elementary School	may not be being billed	1	1.37%
Water services not provided by Ontario:			
No sewerage billing, but Connection Fees collected	Water provided by Jurupa Water District	1	1.37%
New industrial and manufacturing entities in Ontario:			
Commercial/Industrial businesses with fixed or other unusual rate structures	Additional information provided below	9	12.33%
Tested with no exceptions:		49	67.12%
TOTAL TESTED		**73**	**100.00%**

The information in the table describes:

1. **<u>Errors and anomalies:</u> In fourteen instances, (or 20% of items tested) either an inaccurate billing factor was used or the billing for monthly sewerage fees was not found.**

   Although the findings were confirmed only for the individual billing period examined (one monthly billing), all of them become magnified over time impacting the volumetric sewerage fees paid to IEUA.

2. **<u>Water services not provided by City of Ontario</u>: One address was found that was not being billed for sewerage services because water services are provided by the Jurupa Water District.**

   Although IEUA does not show this area as connected to the regional sewerage system, it is within IEUA's service area and the City of Ontario did collect Connection Fees.

   Contracting Agencies should review their Utility Billing Systems on a regular basis to ensure that all business and residential properties are being billed for sewer services and make any needed corrections. The City of Ontario should review its Utility Billing system from time to time to verify all active sewer accounts have been captured and billing is in alignment with those receiving sewer services. Additionally, the City should ensure that any residential or commercial properties connected to the sewerage 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 for 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.

3. **<u>New industrial and manufacturing entities in Ontario:</u> There appears to be a need to improve guidelines for industrial enterprises to ensure that Connection Fees and monthly sewerage charges are assessed correctly are fair and equitable and are determined in accordance with the intent of the Regional Contract.**

   In selecting items for testing, IA noted few industrial entities in most of the region's Contracting Agencies, other than the City of Ontario. Some Contracting Agencies do not have any industrial entities in their service area. Cucamonga Valley Water District is home to the industrial entity most similar to those found in Ontario, the Evolution Fresh juice manufacturer owned by Starbucks. As

described in the interim report for the Cucamonga Valley Water District, the industrial BOD/TSS and related domestic EDU calculations resulted in this entity being assessed 233.96 EDUs and fees of $1,148,150, (which were reduced to $561,642 by an offsetting unsupported credit).

During the Regional Contract Review, IA found a wide range of these new manufacturing and industrial businesses in Ontario. The Connection Fees and monthly sewerage charges for these enterprises varied widely, as shown in the table below (a more detailed version of the Table is included as **Attachment B**).

Business	Address	Description	Connection Fees	Monthly Billing Method	April 2014 Monthly Bill
Jogue, Inc.	4142 E Pacific Privado	Flavoring Syrups & Concentrates	$ 74,197	**.0202 Factor**	$23.80
New-Indy Ontario llc	5100 E Jurupa St.	Paperboard Mill	n/a [(b)]	**Fixed 47 EDUs**	$629.33
Greif	3042 E. Inland Empire Blvd.	Packaging supply	n/a[(b)]	**No billing**	$0.00
Zurn Industries	3690 E. Jurupa St.	Liquid waste disposal systems supplier	n/a[(b)]	**.04 Factor**	$2.68
Niagara Bottling	2560 E. Philadelphia Ave.	Water bottling company	$ 33,331	**Fixed 66 EDUs rate**	$883.74
Wing Hing Foods	2539 E. Philadelphia St.	manufacturer of Chinese foods & noodles	$ 37,485	**.0087 Factor**	$25.74
Haliburton	3855 E. Jurupa	Manufacturer of soups & sauces	$69,043	**Fixed 186 EDU rate**	$2,490.54
Tropicale Foods	1237 W. State St.	Manufacturer of fresh fruit & ice cream bars	$6,177	**.5902 Factor** [(a)]	$20,950.26
American Jerky	2400 E. Francis St.	Manufacturer of chicken based pet treats.	$168,070.72	**.0729 Factor**	$88.78 (May – 1st month available)

(a) Note August '14 Factor reduced to **.0411** reducing bill to $2,356.25
(b) Facilities in existence for extended period of time. Connection Fees not tested.

The number of industrial entities in the region is expected to grow in coming years, magnifying their impact on fees. According to John Husing, chief economist for the Inland Empire Economic Partnership:

(The following was from an article in the Los Angeles Times on March 20, 2015.)

> The local logistics industry could even help boost lagging manufacturing employment, Husing said.
>
> The production process is increasingly being broken up and scattered around the world. Husing believes that the Inland Empire distribution warehouses could do double duty as factories where various component parts are assembled into a final product and delivered to customers.
>
> Industrial vacancy rates in the Inland Empire have fallen to 4.5% from 12.8% during the recession. As of December, 16.9 million square feet of industrial space was under construction in the region – 80% of the total for Southern California.

Although Connection Fees varied widely, IA has received information to support the calculation of Connection Fees for all of the payments made by entities shown, other than Halliburton. According to City of Ontario staff additional Connection Fees based on industrial factors are still being negotiated with Halliburton (see also additional information later in this report).

At the time of writing this report, IA has not received information to validate the monthly sewerage fees for the manufacturing and industrial entities from the City of Ontario although both the monthly billing factors/methods and the monthly sewerage fees vary widely as shown.

IA noted confusion and a lack of clarity among Contracting Agencies about the treatment of industrial entities:

- City of Ontario staff noted that IEUA Connection Fees can be an impediment to businesses locating or relocating to their community impacting the City's goal of encouraging job growth, specifically the industrial waste permit based on Biochemical Oxygen Demand (BOD) and Total Suspended Solids (TSS), since in their experience this has resulted in fee calculations that businesses believe to be prohibitively high.

- Another Contracting Agency noted that proximity to one of the two Non-Recyclable Waste Systems (NRWS) can impact the costs to a business in terms of their desire to connect to that system rather than the regional sewerage system.

- Another Contracting Agency commented that Connection Fees paid by industrial entities based on BOD and TSS are not related to Fixture Units in the traditional sense and guidance is unclear about how these would be transferred or owned if a building is sold to a new owner or if an owner

wants to transfer these to a new location or if the industrial equipment is removed.

- Another Contracting Agency commented that it is unclear what value an industrial entity receives for its previously purchased capacity as a Significant Industrial User (SIU) when it is declassified from being one or for the EDUs previously purchased when becoming an SIU.

The purpose of the Regional Contract is to ensure Connection Fees and monthly sewerage charges are assessed and collected consistently and uniformly by all Contracting Agencies. Exhibit J was revised as of June 19, 2013, to provide clarity and guidance in selecting category types and collecting Connection Fees more consistently throughout the region. Contracting Agencies had an opportunity to express their ideas and concerns with any formulas or calculation methods used to calculate Connection Fees.

IA recommends that IEUA and the Contracting Agencies compare and contrast the Connection Fees and monthly sewerage charges from being an industrial entity that is part of the regional sewer system to the fees and charges paid for contracting with either of the two NRWS lines, particularly for similar types of businesses and consider options to ensure that fees and charges are fair, equitable, determined in accordance with the intent of the Regional Contract, and not a detriment to businesses considering a location in the Inland Empire.

IA recommends that IEUA and the City of Ontario work together to resolve their differences regarding the calculation and collection of Connection Fees and monthly sewerage charges for all commercial and public service categories, but particularly for manufacturing and industrial entities.

IA recommends that IEUA 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.

4. **<u>Minimum sewer service fees based on one EDU:</u> It would seem appropriate that a commercial customer be billed, at the minimum, the rate for 1 EDU**

which is used for a residential customer, even if the commercial consumption is lower than one calculated EDU.

All residential customers are billed 1 EDU (.7 for multi residential) regardless of water consumption or actual use or waste flow. The audit noted instances where commercial customers are billed a lower amount than what a residential customer pays.

Commercial customers are billed converting water consumption into EDUs. Sometimes the calculations produce a fraction of an EDU (less than 1 EDU). The rate is applied to the calculated EDU or fraction of an EDU and the commercial customer is billed accordingly.

The monthly sewerage fee for a single EDU in the 2013/2014 fiscal year was $13.39, yet IA noted commercial entities with billings as low as:

Business	HCF	Factor	Monthly Billed Amount
Excel Industries, Inc.	10	0.0729	$ 9.77
Nesco, LLC	2	0.0729	$ 2.01
Astrophysics, Inc	1	0.0729	$ 0.94
Minsly, Inc	2	0.0729	$ 2.01
Anjuman E. Qutbi Mosque	14	0.067	$ 12.59
Jack Sweeney/Dynateck	1	0.0729	$ 0.94
Zurn Industries	5	0.04	$ 2.68
1690 Milliken	2	0.0729	$ 2.01

IA noted that Cucamonga Valley Water District and the City of Montclair both bill a minimum base amount of one EDU per month to commercial enterprises even if the amount determined through water usage would be lower under the rationale that no business should pay less than the amount charged to a single family residence.

5. **Sewer service billing category inconsistencies: There is an inconsistency between the rate charged for Connection Fees and the rate used for monthly sewerage billing.**

The billing formulas are based on the memorandum "Procedures for Establishing a Regional Sewer Billing Formula" that was apparently adopted by the Regional Technical Committee in 1997. The formulas are divided into Residential, Commercial and Industrial categories and the Commercial categories are further divided into eight Commercial categories and an additional category for schools. Category eight includes: "Restaurant – full service; Restaurant – Fast food; Market w/ grinder; and Bakery".

IA notes that the inclusion of both full service and fast food restaurants in the same classification for monthly sewerage contradicts the guidance provided for

Connection Fees where full service restaurants are charged a significantly higher sewage factor to connect than are fast food restaurants. In general, full service restaurants would probably pay higher monthly fees from higher water consumption even though their sewer factor is the same as for fast food restaurants, however the rate classification structure does lump them together in the same category. As part of renegotiating the Regional Contract, IEUA and the Contracting Agencies should evaluate and consider the relationship between monthly Sewer Service Fees and Connection Fees and determine the need to create a correlation between the two.

IA notes that documentation approving and mandating the billing methodology is not available. Any revision should be presented to the IEUA Board of Directors and formally adopted, based upon the recommendation of the Regional Technical Committee.

Haliburton Foods

During the original planning for this review, the IEUA Planning and Environmental Compliance Department requested IA determine the number of EDUs purchased by Haliburton Foods. IA performed a review of Building Activity Reports from December 2011 through June 2013 that found $69,042.82 in total Connection Fees for 250 fixture units amounting to 14.2482 EDUs. In addition City of Ontario staff provided a prior permit for 3855 E. Jurupa Ave. for 18 fixture units, 0.7992 EDUs and $3,734.66 in fees (most likely paid for construction of the original shell building). In connection with these procedures, IA had the following recommendations:

As part of renegotiating the Regional Contract, the Agency may want to consider adding provisions for the collection of additional EDUs for existing fixture units at the higher rates in situations where a change in category of usage occurs, at a minimum in situations where the building has had no prior occupants.

As part of renegotiating the Regional Contract, the Agency should standardize the Monthly Sewage report to require that Contracting Agencies provide sufficient information to track customer history from the time of initial connection through on-going/monthly services. The standardized monthly form should require that each non-residential business be identified with the total number of EDUs reported for the month.

IEUA Planning and Pre-Treatment groups should take the lead to exercise the authority provided under Regional Contract Section 26 Inspection of Facilities, and establish an on-going monitoring program to inspect random facilities or those where there is a suspected discrepancy in order to ensure the intent of the Regional Contract is applied and ensure the integrity of the Regional Program.

As a result of conversations with City of Ontario staff, IA understands that the IEUA Planning Department is in discussions with the City of Ontario about the classification

and additional fees owed by Haliburton. Therefore, IA did not perform additional procedures as part of this review.

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 Ontario's CAFR 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 Ontario 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 CAFR information because of the multiple types of revenue combined into one fund by the City.

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

IEUA Revenue compared to Ontario Expense FY 2012/13 (Jul 1, 2012 through June 30, 2013)		
Sewer Utility Revenue ending balance from IEUA SAP for City of Ontario	**Sewer Utility Expense ending balance per City of Ontario's CAFR**	**Balance Variance over/(under) paid to IEUA**
$ 8,770,935	$ 8,782,140	$ (11,205)

IEUA Revenue compared to Ontario Expense FY 2012/13 (Jul 1, 2012 through June 30, 2013)		
Sewer Utility Revenue ending balance from IEUA SAP for City of Ontario	**Sewer Utility Expense ending balance per City of Ontario's CAFR**	**Balance Variance over/(under) paid to IEUA**
$ 9,532,321	$ 9,844,757	$ (312,436)

IA did not receive information from City of Ontario staff about the reasons that utility expense recorded by the City is higher than the amount billed by and shown on the IEUA accounts.

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 and June 30, 2014. The balance on both reports was $3,337,340 at June 30, 2013.

At June 30, 2014 the City of Ontario's CAFR showed a balance of $3,935,945 with additional accounts payable of $1,075,788. These two amounts agree in total to the $5,011,733 shown in IEUA's CAFR. The accounts payable amount shown by Ontario agrees to the "Capital Call" amount requested by IEUA for the third quarter of 2014.

Extra-Territorial Fees

The City of Ontario has no Extra-Territorial areas and does not charge Extra-Territorial (ET) fees. In recent years the City has annexed some previously unincorporated areas, but these were not considered ET areas as described in the contract.

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.

Recommendations relating to Connection Fees:
As part of the review and renegotiation of the Regional Contract, IEUA and the Contracting Agencies should consider:

1. ***In addition to the regular meetings of the Regional Technical and Regional Policy Committees, IEUA has already begun to provide ad-hoc meetings and training as needed for things such as the updated excel Building Activity Report and the Exhibit J subcommittee. IA noted that great variability and understanding of IEUA, the Regional Contract and Exhibit J exists amongst Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing. In order to develop greater consistency and uniformity throughout the region, IEUA should consider taking the lead in holding quarterly or more regular workshops, meetings, plant tours and similar activities as an avenue where Contracting Agencies' staff in departments such as Building, Plan Check and Utility Billing and/or others as well can discuss and ask questions about the application of the Regional Contract and Program. The workshops would provide a forum to discuss questions about category types to apply, definitions, other questionable items and individual situations, and foster cooperation and collaboration among all. A Contracting Agency may encounter questions or situations that could apply to other Contracting Agencies. Frequent and on-going dialogue about the application of the Regional Contract would benefit all Contracting Agencies and the Regional Program to ensure consistent application of the Regional Contract and that issues are addressed on a timely basis.***

2. ***Having IEUA Planning and Pretreatment groups take the lead to exercise the authority provided under Regional Contract Section 26 Inspection of Facilities, and establish an on-going monitoring program to inspect random facilities or those where there is a suspected discrepancy in order to ensure the intent of the Regional Contract is applied and ensure the integrity of the Regional Program.***

3. ***Comparing and contrasting the Connection Fees and monthly sewerage charges associated with being an industrial entity that is part of the***

regional sewer system to the fees and charges paid for contracting with either of the two NRWS lines (including transportation costs and distance), particularly for similar types of businesses and consider options to ensure that fees and charges are fair, equitable, determined in accordance with the intent of the Regional Contract and not a detriment to businesses considering a location in the Inland Empire. Additionally, clarifying the relationship between EDUs and "paying for capacity" would assist the Contracting Agencies and businesses considering locating in the region to understand their costs at the outset.

4. ***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 calculation 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. Alternatively, a process whereby IEUA would review, suggest changes and potentially approve the calculation worksheet used by each Contracting Agency would achieve similar results.***

5. ***The inclusion of the connection calculation worksheets for all nonresidential entities with monthly Building Activity Reports as additional support for the connections reported and the 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.***

6. ***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 private community centers, swimming facilities and recreation centers in residential communities. Ontario's practice has been to classify these as category III which includes descriptions such as "health spa with pool" whereas the City of Chino included these in category I along with fast food restaurants, stores and offices. Although Exhibit J was recently updated and now provides greater detailed definitions for many business types, there still appears to be 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.

7. ***Additional clarification and descriptive information for the various types of appliances, appurtenances and/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 review revealed differences in interpretation.***

8. ***IEUA and the Contracting Agencies agreeing to establish, as part of the permitting and plan check process, the requirement of having 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 would ensure that IEUA is in agreement with the interpretation of the Contract and that the appropriate category type and sewage factor have been applied so that the correct Connection Fees are assessed and collected.***

9. ***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.***

10. ***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.***

11. ***Clarifying language describing the criteria for being classified a "Floor Drain, Emergency" in Exhibit J. The City of Ontario charges two Fixture Units for all floor drains under the general "Floor Drain" category whereas in the City of Upland all California State Plumbing Code required drains such as in bathrooms are considered "Emergency" and are charged zero Fixture Units.***

12. ***Adding language in the Regional Contract regarding recourse for non-collection, in addition to over/under collection of Initial Connection Fees.***

Although the City of Ontario collected Connection Fees for other types of Public Service Facilities, the City did not collect Connection Fees for new construction at the public schools selected for testing.

Recommendations relating to Public Service Facilities:
As part of the review and renegotiation of the Regional Contract IEUA and the Contracting Agencies should consider:

13. ***The legal and financial impacts of excluding Public Service Facilities from the charge for Connection Fees and monthly sewerage charges. As documented under the audit report "Comparison of the Regional Sewage Service Contract and Program with similar contracts and programs", IA found that some Agencies (for example, the Los Angeles County Sanitation Districts) exclude local governmental agencies such as public K – 14 schools and City governments from both Connection Fees and monthly sewerage charges.***

14. ***Adding language to the Regional Contract regarding IEUA's inspection and verification rights for Public Service Facilities as to Connection Fees and monthly sewerage charges and the recourse IEUA has when IEUA believes a Contracting Agency has under-collected and/or under-reported them.***

IEUA sewerage revenue from the seven Regional Contracting Agencies totaled almost $43 million for the 2013/14 fiscal year, yet IEUA relies entirely on a one-page self-reported monthly EDU count from the Contracting Agencies to generate invoices for these revenues with no significant oversight or reconciliation. 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:

15. ***Establishing the collection of the monthly sewer service fees (Volumetric Fees) directly for the entire region through the County's Property Tax Roll. Collection of the sewer service fees through the property tax roll could result in a more efficient process and reduce the administrative resources used by Contracting Agencies in billing and collecting for these fees. Residential properties could be transferred initially until consideration is given to ways in which and whether to transition fees from commercial, industrial and other entities.***

16. ***How and which customers are billed for sewerage services. As an example the Los Angeles County Sanitation Districts do not bill local governments and schools for monthly sewerage services. As another example Paso Robles and the City of Mill Valley are measuring residential water flows***

during winter months to develop a differentiated rate structure for residential customers as opposed to the uniform 1 EDU per residence no matter what size utilized by IEUA. Conversely, the City of Fontana bills all customers, residential and commercial, a fixed billing amount based upon the number of EDUs purchased.

17. ***The relationship between monthly sewer service fees and Connection Fees. For example fast-food restaurants and full-service restaurants are both included in Category 8 for monthly sewerage billing purposes and pay at the same rate. However, for purposes of Connection Fees fast-food restaurants are grouped with office, retail and similar uses (which are Category 1 for monthly sewerage billing). Therefore, fast-food restaurants incur lower Connection Fees, but pay monthly sewer service fees at the higher rates charged to full-service restaurants. Such inconsistencies between Connection Fees and monthly sewerage charges reduce the credibility of the established rate categories and could lead them to be challenged.***

18. ***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.***

19. ***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.***

20. ***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 with IEUA to resolve the accounts identified in this review, where there is no indication that monthly sewer fees are paid to IEUA.***

21. ***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 Ontario, the following are suggested recommendations for the City of Ontario's consideration.

Recommendations for consideration by the City of Ontario:

The City of Ontario should:

22. ***Work to resolve issues regarding the calculation and collection of Connection Fees and monthly sewerage charges for manufacturing and industrial entities.***

23. ***Work together with the local School Districts to determine and collect any additional Connection Fees that are due to IEUA as required by the Regional Contract.***

24. ***Examine and restructure the Connection Fee calculation and collection process to ensure that the fixture unit counts are correctly tallied, the categorization of businesses is appropriate and that connection fees are not under-collected. The current procedure omits the critical step of verifying that the Connection Fee calculation conforms to the building/plumbing plans.***

25. ***Consider the City of Upland's cross-departmental approach to the Development Review Process. 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.***

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

Discussions with City of Ontario and Planning & Environmental Compliance
We provided the results of this audit to Mr. Michael Sigsbee, Utilities Admin Services Manager, Mr. xx, Senior Engineer and Ms. Delilah Patterson, Revenue Services Director 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, Andy Campbell, Deputy Director 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 Department prior to finalizing this report, for their review and comments.

Action Items

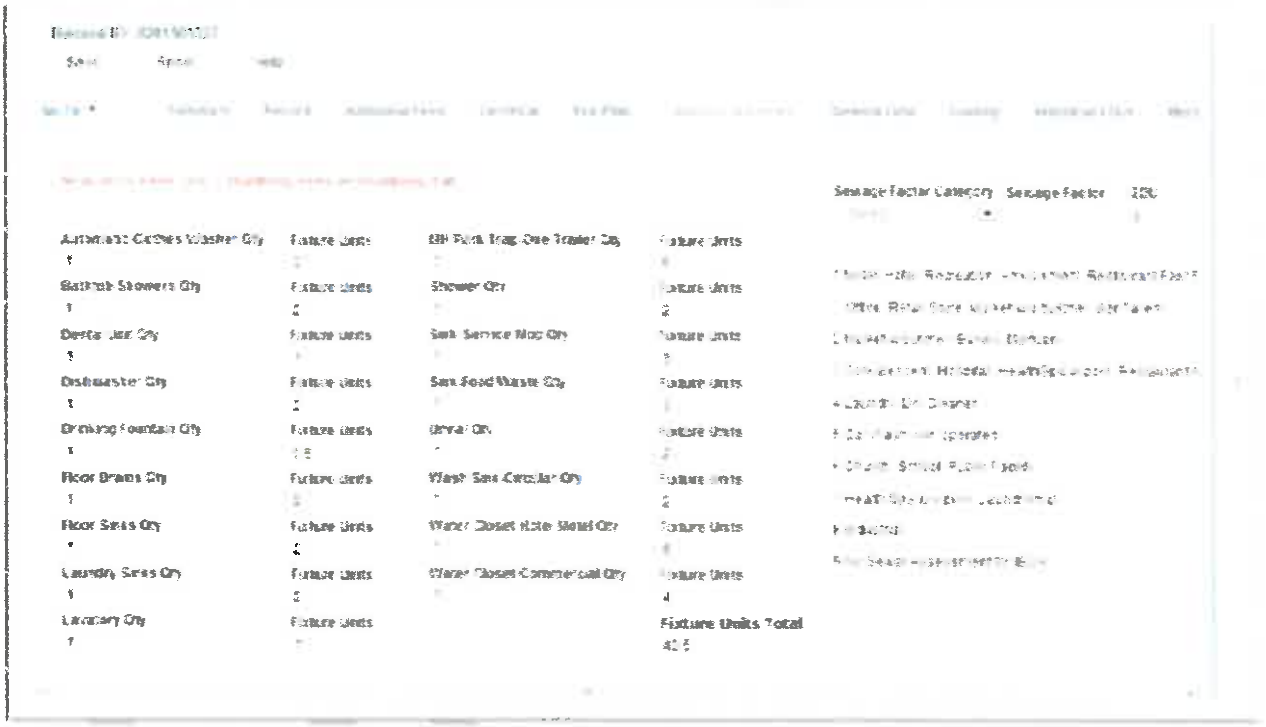
IA will submit a separate report for each of the seven Contracting Agencies as each review is completed. At the conclusion of the audit of all seven Contracting Agencies, IA will provide a comprehensive report summarizing all the identified observations and recommendations and any additional observations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

ATTACHMENT A

REGIONAL CONTRACT REVIEW:

CITY OF ONTARIO

REVISED CALCULATION WORKSHEET



ATTACHMENT B

REGIONAL CONTRACT REVIEW:

DETAILED TABLE OF

CONNECTION FEES

AND

MONTHLY SEWERAGE CHARGES

FOR

INDUSTRIAL AND MANUFACTURING BUSINESSES

THE CITY OF ONTARIO
INDUSTRIAL AND MANUFACTURING BUSINESSES
INITIAL CONNECTION FEES AND MONTHLY SEWERAGE BILLING

Business	Address	Description	Connection Fees Noted	Monthly Billing Example	April 2014 Monthly Bill
Jogue, Inc.	4142 E Pacific Privado	Flavoring Syrups & Concentrates	Domestic industrial: $10,313 Industrial: $63,884	April 2014 Billing: 88 HCF @ **.0202** Factor	$23.80
New-Indy Ontario llc	5100 E Jurupa St.	Paperboard Mill	None provided, in existence for extended period	April 2014 billing: **Fixed** 47 EDUs rate	$629.33
Greif	3042 E. Inland Empire Blvd.	Packaging supply	None provided, in existence for extended period	**No** April 2014 billing for water or wastewater.	$0.00
Zurn Industries	3690 E. Jurupa St.	Liquid waste disposal systems supplier	Per building permit fixtures established in 2001.	April 2014 billing: Two meters: one with 5 HCF @ **.04** Factor & another with 0 HCF, but not turned off.	$2.68
Niagara Bottling	2560 E. Philadelphia Ave.	Water bottling company	Commercial from 3/2006 to 6/2013: $33.331	April 2014 billing: **Fixed** 66 EDUs rate	$883.74
Wing Hing Foods	2539 E. Philadelphia St.	manufacturer of Chinese foods & noodles	March 2007: $5,967 (purchased by Haliburton) Industrial: April 2013: $31,518	April 2014 billing: 221 HCF @ **.0087** Factor	$25.74
Haliburton	3855 E. Jurupa	Manufacturer of soups & sauces	Commercial and Domestic industrial purchased from 2011 – 2013: $69,043	April 2014 billing: **Fixed** 186 EDU rate	$2,490.54
Tropicale Foods	1237 W. State St.	Manufacturer of fresh fruit & ice cream bars	Commercial connections per BAR from 2007 – 2010: $6,177	April 2014 billing: 2,651 HCF @ **.5902** Factor. August 2014 billing: 3,984 HCF @ **.0411** factor reducing bill to $2,356.25.	$20,950.26
American Jerky	2400 E. Francis St.	Manufacturer of chicken based pet treats.	Domestic industrial and industrial: $168,070.72	May 2014 was first month billed for 91 HCF at office/ commercial factor of **.0729**	$88.78 (May – 1st month available)

- Received information to support the calculation of Connection Fees for all of the payments made by entities shown, other than Halliburton.
- Have not received information to validate the monthly sewerage fees.
- Noted confusion and a lack of clarity amongst Contracting Agencies about the treatment of industrial entities.
- Recommend Connection Fees and monthly sewerage charges be compared and contrasted for industrial entity connected to regional sewer system with fees and charges paid for contracting with either of the two NRWS lines.
- Recommend options to ensure that fees and charges are fair, equitable and not a detriment to businesses considering a location in the Inland Empire.

Regional Contract Review
Interim Audit Report

Chino Hills & Ontario (draft)




Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Internal Audit Department

City of Chino Hills
Public Service Facilities

Public Schools

School Name	Type of Construction or Renovation	Date placed in operation	Estimated Connection Fees Not Paid
Chino Hills High School	Pool, Showers and Locker room	Completed in past 3 years.	Cannot be determined. Similar school paid $43K for classroom wing, gymnasium expansion and athletic field complex

City Of Ontario

DRAFT

*The City of Ontario Interim Audit Report is in **draft** form so as to provide the City of Ontario with additional time and every opportunity to provide Internal Audit any additional supporting information needed to support and finalize the review.*

City of Ontario
Public Service Facilities

Public Schools

School Name	Type of Construction or Renovation	Date placed in operation	Estimated Connection Fees Not Paid
Richard Haynes Elementary, Ontario Montclair School District	Multi-purpose roomwith multiple restrooms and warming kitchen	Summer 2012	Cannot be determined. Similar schools paid $11K & $24K for similar construction.
Ray Wiltsey Middle School, Ontario Montclair School District	13 classroom modular facility with multiple restrooms and outdoor areas	Summer 2013	Cannot be determined. Similar school paid $63K for 14 classroom building
Ontario High School, Chaffey Joint Union High School District	New classroom building, restrooms, football stadium and pool	In progress	Cannot be determined. Similar school paid $43K for classroom wing, gymnasium expansion and athletic field complex

City of Ontario
Exhibit J Differences

EXHIBIT J CATEGORIES NOT INCLUDED ON ONTARIO WORKSHEET	
DESCRIPTION	F.U.
High efficiency clothes washer	2.0
Food waste grinder (commercial)	3.0
Floor drain, emergency	0.0
Shower, multi-head, each additional	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 – Bar	2.0
Receptor, indirect waste – Clinical	6.0
Receptor, commercial with food waste (1.5-in minimum fixture branch size)	3.0
Receptor, commercial with food waste (2-in minimum fixture branch size)	4.0
Receptor, commercial with food waste (3-in minimum fixture branch size)	6.0
Receptor, kitchen, domestic	2.0
Receptor, Service, flushing rim	6.0
Waterless Urinal	1.0

ONTARIO CATEGORIES NOT SPECIFIED IN EXHIBIT J	
DESCRIPTION	F.U.
Floor sinks	2.0
MH park trap - one trailer	6.0
Sink-food waste	3.0

City of Ontario
Connection Fees: Other Matters

* Manufacturing and Industrial Entities: Improve guidelines for manufacturing and industrial enterprises to ensure Connection Fees & monthly sewerage charges are assessed correctly, are fair and equitable, and are determined in accordance with the intent of the Regional Contract

* Permit applicants self-assess fixture units and determine the Connection Fees. City performs review during the site inspection process to confirm structure conforms to plans. This procedure omits step of verifying Connection Fee calculation conforms building/plumbing plans. City of Ontario not fully utilizing expertise of its Building Department staff

City of Ontario
Monthly Sewer Service Fees

Approximately 1/3 of monthly billings tested (24 of 73) noted erroneous rates or other concerns:

ISSUE		DESCRIPTION	# OF ITEMS	% 0F TOTAL
Errors and anomalies:				
	Businesses not found	Possibly a master meter/meter at another site or street	5	6.85%
	Restaurants billed at commercial factor	Master meter or different prior use	4	5.48%
	Funeral home & health clinic	Commercial factor used	2	2.74%
	Bakery	Billed at Laundromat factor	1	1.37%
	For-Profit college	Billed at medical office factor	1	1.37%
	Elementary School	may not be being billed	1	1.37%
Water services not provided by Ontario:				
	No sewerage billing, but Connection Fees collected	Water provided by Jurupa Water District	1	1.37%
New industrial and manufacturing entities in Ontario:				
	Commercial/Industrial businesses with fixed or other unusual rate structures	Additional information provided below	9	12.33%
Tested with no exceptions:			49	67.12%
TOTAL TESTED			73	100.00%

INFORMATION ITEM 2C

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: June 17, 2015

To: The Honorable Board of Directors

Through: Audit Committee *(06/10/15)*

From: Teresa V. Velarde
Manager of Internal Audit

Subject: Follow-Up of Outstanding Recommendations - Pre-Treatment and Source Control

RECOMMENDATION

This is an informational item for the Board of Directors to review.

BACKGROUND

Internal Audit (IA) has completed the follow-up evaluation of the outstanding recommendations for Pre-Treatment and Source Control (PTSC) according to the approved Fiscal Year 2014/15 Annual Audit Plan. The Internal Audit Department Charter requires that IA perform follow-up evaluations to determine the progress made to implement the recommendations provided in previous audits. The follow-up audit evaluates the status of the eleven recommendations made in the audit reports dated August 22, 2012 and February 26, 2013. Recommendations previously provided were made to strengthen controls over industry Self-Monitoring Reports (SMRs) review and IEUA's Enforcement Response Plan, along with invoicing and inspection activities of Significant Industrial Users (SIUs).

Based on the results of the follow-up evaluation, IA reviewed the corrective actions that have been made for two of the eleven recommendations provided in the 2012 PTSC audit. The other nine recommendations noted in the 2013 PTSC audit report are no longer applicable due to the new agreement between IEUA and the County Sanitation Districts of Los Angeles County (CSDLAC). In 2013, IEUA renegotiated the agreement with CSDLAC to ensure the rate structure provided cost-recovery, along with equitable and consistent application of the ordinance among the industries. On July 1, 2014, the new agreement became effective and resulted in changes to the invoicing methodologies and processes and procedures.

IA will evaluate PTSC's operations and application of the new agreement with CSDLAC during a future audit.

PRIOR BOARD ACTION

On September 17, 2014, the Board of Directors approved the Annual Audit Plan for Fiscal Year 2014/15.

On December 18, 2013, the Board of Directors reconfirmed the Internal Audit Department Charter.

IMPACT ON BUDGET

None.

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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DATE: June 1, 2015

TO: Joe Grindstaff
General Manager

Teresa V. Velarde

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Follow-Up of Outstanding Recommendations Pre-Treatment and Source Control

Audit Authority

The Internal Audit (IA) Department's Charter and the Annual Audit Plan require that IA follow-up on the status of audit recommendations to determine if corrective actions have been implemented. IA completed a follow-up review of the 11 outstanding recommendations provided in the Pre-Treatment and Source Control (PTSC) audit reports dated August 22, 2012 and February 26, 2013. The audit was performed under the authority provided by the Inland Empire Utilities Agency (IEUA) Board of Directors.

Audit Objective and Scope

The purpose of the follow-up audit was to evaluate the corrective actions implemented as a result of the 11 outstanding recommendations previously provided. The PTSC Interim Audit Report was issued in August 2012 and provided two recommendations to strengthen controls over the industry Self-Monitoring Reports (SMRs) review and IEUA's Enforcement Response Plan. Subsequently, IA issued the final PTSC Audit Report in February 2013, which provided nine recommendations for the Invoicing and Inspection activities of Significant Industrial Users (SIUs), resulting in a total of 11 audit recommendations.

At the time of finalizing the PTSC audit report, IEUA staff was already in discussions to review the rate structure for industries and make changes to the agreement between IEUA and County Sanitation Districts of Los Angeles County (CSDLAC). On December 18, 2013, the IEUA Board of Directors approved a new agreement between IEUA and CSDLAC that became effective July 1, 2014. With the renegotiation of the agreement, IEUA's processes and procedures have changed to meet the terms and provisions of the new agreement. Therefore, this follow-up review focuses on any previous outstanding recommendations whereby corrective actions were possible. The report that follows provides a summary of the status of each outstanding recommendation.

Audit Techniques

Audit techniques included:

- Interviews with Agency staff
- Review of prior audit reports
- Review of IEUA's Operating and Capital Program Budget (FY 2014/15)
- Review of PTSC's Standard Operating Procedures (SOPs)
- Review of IEUA's Enforcement Response Plan

Audit Results – Executive Summary

At the time of the original audit report, the department responsible for the Pre-treatment duties was under PTSC reporting to the Executive Manager of Engineering. Currently, the Pre-treatment duties fall under the Planning and Environmental Compliance Department, reporting to the Executive Manager of Engineering/Assistant General Manager in the Engineering Division.

Based on the results of the review, IA reviewed the corrective actions that have been made for two of the 11 recommendations provided in the 2012 PTSC audit. The other nine recommendations noted in the 2013 PTSC audit report are no longer applicable due to the new agreement between IEUA and CSDLAC. On July 1, 2014, the new agreement became effective and resulted in changes to the invoicing methodologies and processes and procedures.

IA will evaluate PTSC's operations and application of the new agreement with CSDLAC during a future audit when necessary or requested and as scheduled through the Annual Audit Plan.

Acknowledgements

We would like to extend our appreciation to PTSC and Planning and Environmental Resources Department staff for their cooperation during this review.

Discussions with Management

We provided the results of this follow-up review to Ms. Sylvie Lee, Manager of Planning and Environmental Resources and Mr. Craig Proctor, PTSC Supervisor on May 20, 2015, prior to finalizing this report for their review and comments.

Written Response to Internal Audit

All outstanding recommendations have been cleared. There are no outstanding recommendations and no new recommendations were provided in this report. No response is required.

TV:sn

Background

For an overview of IEUA's Regional Pre-Treatment program, Non-Reclaimable Wastewater System (NRWS), and the Agency's agreement with CSDLAC and Santa Ana Watershed Project Authority (SAWPA), IA refers the readers to the PTSC audit reports dated August 22, 2012 and February 26, 2013, which were received and filed by the Board of Directors, or these can be requested from the Manager of Internal Audit.

Readers are also encouraged to refer to IEUA's Operating and Capital Program Budget for FY 2014/15 to obtain additional information.

Status of Recommendations provided in the August 22, 2012 Audit Report:

Standard Operating Procedures

Recommendation #1: ***PTSC should develop a Standard Operating Procedure to include all key processes in the evaluation of an industry SMR and ensure required PTSC staff is trained on the procedures. PTSC should consider addressing/including the following in the SOP:***

- ***The SOP should provide a systematic process for staff to follow when analyzing and reviewing industry SMRs. For example, a checklist would serve as a good tool for staff to ensure that all review steps are followed.***

- ***The SOP should stipulate the industry criteria that is to be considered and the documents that are to be referenced when determining industry compliance (i.e. industry permits, 40 CFR 136, etc).***

- ***The SOP should establish procedures that are to be followed when violations are noted and require staff to document violation, enforcement actions taken, and brief explanation for determination of enforcement action taken.***

- ***Ensure PTSC staff is trained on the SOP requirements.***

Status: Implemented

During the previous audit, IA found that PTSC did not have documented Standard Operating Procedures (SOPs) that detail the steps that should be followed by PTSC staff when reviewing and analyzing industry SMRs. The purpose of SOPs is to ensure processes and procedures are consistently and uniformly performed by staff during absences, staffing changes, and cross-training. Having written procedures serves as an added control to ensure functions are performed consistently and uniformly.

During this follow-up evaluation, IA noted that PTSC has the following SOPs:

- Inspection of Industrial Users (Dated XX/XX/XX, and signed) – provides guidelines and procedures to be utilized in performing inspections of industrial users within IEUA's service area and compliance with Pretreatment Program standards and requirements.

- Industrial User Self-Monitoring Reports (SMRS) (Dated XX/XX/XX, and signed) – establishes guidelines and detailed procedures for the review of Industrial User's SMRs and compliance with the Code of Federal Regulations (40 CFR 403.8 (f)(2)(iv)), and

- Sample Collection and Testing (Dated XX/XX/XX, and signed) – establishes guidelines for the collecting, handling and preserving of wastewater samples and compliance with the requirements of the Code of Federal Regulations (40 CFR Part 136).

IA reviewed the SOPs, which have been finalized, approved, and signed off by the Manager of Planning and Environmental Resources in May 2015. Going-forward, IA recommends that PTSC continue to ensure SOPs are up-to-date, added as required, and reflect current business practices/procedures to ensure consistency.

IEUA's Enforcement Response Plan

Recommendation #2: ***With regards to the Agency's Enforcement Response Plan, PTSC should:***

- ***Ensure that enforcement actions are in accordance with the Agency's ERP or document the judgment used when deviating to prevent the appearance of inconsistent application.***

- ***Determine if revisions are needed and incorporate them the next time the ERP is taken before the Board of Directors for adoption.***

- ***Determine the need for an NRWS Enforcement Response Plan.***

Status: Implemented

During the previous audit, IA found instances of enforcement actions taken by PTSC staff that were not consistent with the IEUA Board-approved Enforcement Response Plan (ERP) and enforcement actions that were not carried out in a timely manner. The Code of Federal Regulations, 40 CFR 403.8 (f)(5)), requires all pre-treatment programs to develop and implement an ERP, which is currently utilized by IEUA for both the RSS program and NRWS industries. The ERP provides the guidelines and criteria to

determine whether industrial users (SIUs) are in compliance with the pre-treatment standards, and outlines the enforcement actions to be carried out for non-compliance.

With the renegotiation of the new agreement between IEUA and CSDLAC, the Department updated and revised the Agency's ERP, which was presented to IEUA's Board of Directors for approval and adoption on October 15, 2014.

IA did not perform any test work to verify if enforcement actions are in accordance with the new ERP. The new agreement between IEUA and CSDLAC resulted in changes to the processes and procedures; therefore, IA will evaluate PTSC's operations and compliance with the Agency's ERP during a future audit.

Status of Recommendations provided in the February 26, 2013 Audit Report:

The audit report dated February 2013 provided nine recommendations (as shown in the table below) for the Invoicing activities and Inspection operations related to Industrial users. Because of the changes resulting from the new agreement between IEUA and CSDLAC, the recommendations are no longer applicable.

Number	Recommendation
1	IA recommends that AFM and FP coordinate to perform periodic reconciliations of total actual IEUA expenses to total actual IEUA revenues collected. This periodic reconciliation process would highlight where IEUA stands financially and provide more information for setting appropriate rates that more closely recover all IEUA administrative expenses.
2	IA recommends that FP take the lead to establish a contact and ongoing coordination with the CSDLAC finance group to gather additional, detailed, financial information on CSDLAC projected costs that will assist in the development of more appropriate IEUA rates.
3	IA recommends that FP establish a process to document the analysis of the CSDLAC costs/expenses and its cost drivers by reviewing year-to-date and historical data at the time of rate setting. FP should inquire from CSDLAC about any anomalies observed during their evaluation.
4	IA recommends PTSC work with AFM to review invoices from CSDLAC and ensure these are accurately calculated before processing for payment; any discrepancies identified should be immediately resolved with CSDLAC.
5	IA recommends that PTSC initiates the process to work with other IEUA staff to evaluate the costs and benefits, and the need to retain the current level of capacity in the Brine Line, and evaluate the possibilities for selling, leasing, or relinquishing unused capacity.
6	IA recommends AFM evaluate the current invoicing methodology, and determine if greater efficiencies could be achieved by synchronizing the timing of the South NRWS industries invoices to correspond with the payment of the SAWPA monthly invoice, and ensure there is an adequate reconciliation process coordinated with PTSC.
7	IA recommends PTSC document Standard Operating Procedures to address the various processes as they relate to the NRWS program and functions, for example, coordinating the review of invoices with AFM, implementing special or new agreements, and inspection activities. Agency Policy A-51 should be used as a reference when documenting departmental Standard Operating Procedures.

8	IA recommends PTSC coordinate with CAP to determine and implement a plan to formalize, as needed, the special agreements, such as obtaining formal Board approval and/or documenting the contracts or amendments.
9	IA recommends PTSC coordinate with CAP to determine and implement controls to ensure future special agreements are fully documented and disclosed, and approved by the Board of Directors as needed and required by the Ordinance.

AFM = Accounting and Fiscal Management; FP = Financial Planning

At the time of finalizing the original PTSC audit report (date February 2013), IEUA staff and CSDLAC had already begun discussions to renegotiate the agreement and review the NRWS rate structures. IA supported the discussion efforts and recommended that any proposed revisions to the agreement and rate structure consider equity among the industries and rates are consistent with the level of services provided to the industries.

According to PTSC the current process is adequate and ensures payments are made timely. Because of the changes resulting from the new agreement with CSDLAC, IA will consider an evaluation the invoicing processes and procedures for both the North and South NRWS systems in a future audit as scheduled through the Annual Audit Plan.

INFORMATION ITEM 2D

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: June 17, 2015

To: The Honorable Board of Directors

Through: Audit Committee *(06/10/15)*

From: Teresa V. Velarde
Manager of Internal Audit

Subject: Report on Outstanding Audit Recommendations

RECOMMENDATION

This is an informational item for the Board of Directors to review.

BACKGROUND

The Internal Audit Department Charter (Charter) and professional standards require that Internal Audit Department (IA) follow-up on the status of open and outstanding audit recommendations to determine if corrective action efforts have been made. The Charter also requires IA to annually provide, to the Audit Committee and Board of Directors, a report listing all outstanding audit recommendations with implementation plans and planned resolution dates.

The table that follows on the next page summarizes the total outstanding recommendations by audit report name and date when the report was issued. The attached provides a list of all outstanding recommendations.

All audit reports request that the audited businesses unit submit a corrective action plan to IA. Additionally, upon completion of the audits and during exit meetings, follow-up audit action is discussed with the auditees. The IA website on AIMS, available to all Agency employees, also provides information on the audit approach and describes the purpose and process of an internal audit and the follow-up action requirements. During audits, including follow-up audits, IA coordinate and work in collaboration with the auditees to make the follow-up process efficient.

Of the 72 open recommendations reported in the FY 2014/15 Annual Audit Plan, 39 recommendations do not require a follow-up review at this time because they relate to audits completed during FY 2013/14 and staff requires sufficient time for full implementation, therefore, these are noted as "recommendations remaining to be verified by IA". The other 28 recommendations are in progress of being evaluated. IA staff has been working closely with various Agency representatives to follow up on the status of those recommendations. Once the in progress follow up reviews are completed, IA will provide the results in separate, documented audit reports.

List of Outstanding Recommendations

Area Audited	Report Issued Date	Follow-up review in progress by IA	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up by IA
Intercompany Receivables - CDA	February 24, 2011	2		
Intercompany Receivables - RCA	March 30, 2011	2		
Intercompany Receivables - Watermaster	August 30, 2011	6		
IT Equipment	August 21, 2012	16		
IT Equipment Follow-Up	November 14, 2012	2		
Payroll Audit	August 24, 2010		1	FY2016
Human Resources Follow-Up	June 20, 2012		1	FY2016
Contracts and Procurement Follow-Up	August 29, 2012		2	FY2016
2013 Petty Cash	May 31, 2013		5	FY2016
SCE Utility Payments	August 28, 2013		3	FY2016
Accounts Payable Follow-Up	August 29, 2013		9	FY2017
Automobile Insurance Requirements	March 3, 2014		2	FY2017
Vehicle Security Procedures	March 3, 2014		3	FY2017
Vehicle Inventory Procedures	March 12, 2014		13	FY2017
Total		**28**	**39**	

Regional Contract Review
In addition to the outstanding recommendations from the various audits noted above, to-date, IA has completed eight different audit reports related to the Regional Contract Review:

- Interim Audit Report for Cucamonga Valley Water District (March 2015)
- Interim Audit Report for the City of Chino (December 2014)
- Interim Audit Report for the City of Fontana (December 2014)
- Interim Audit Report for the City of Montclair (September 2014)
- Interim Audit Report for the City of Upland (September 2014)
- "Survey of Comparative Information of the Seven Contracting Agencies" (September 2014)
- "Regional Contract Review – Review of the Ten Year Forecast" (June 2014)
- "Regional Contract Review – Survey of Comparable Agencies" (June 2014)

Upon completion of all reviews related to the Regional Contract Review, IA will submit a comprehensive report with final recommendations for IEUA to consider in moving forward with renegotiating the Regional Contract. To-date, IA has provided 31 recommendations.

IA anticipates completion by June/September of 2015.

PRIOR BOARD ACTION

On September 17, 2014, the Board of Directors approved the Annual Audit Plan for Fiscal Year 2014/15.

On December 18, 2013, the Board of Directors reconfirmed the Internal Audit Department Charter.

IMPACT ON BUDGET

None

Outstanding Audit Recommendations
June 2015

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Payroll Audit August 24, 2010	4	HR and FMD should work together to revise and update the Agency's Resolution No. 2005-2-9 and clarify which employees are required to sign a Confidentiality Agreement, based on their job duties and responsibilities, specifically those whose roles involve handling sensitive and confidential information. Having employees sign a Confidentiality Agreement reinforces that confidential and sensitive information is being handled, the Confidentiality Agreement also provides the expectations and consequences for sharing or misusing confidential information.	No edits to Resolution as of June 2013.
Human Resources Follow-Up June 20, 2012	1	Document standard operating procedures to address the many administrative practices of the department.	During FY 2014/15, the HR Department's staffing level decreased and no progress has been made to address this recommendation. IA will verify during follow-up evaluation.
Contracts and Procurement Follow-Up August 29, 2012	1	The Contracts and Procurement Department should ensure adequate separation of duties exist in procurement transactions. Specifically the functions of creating and approving the Purchase Request, creating the Purchase Order and having the ability to receive should involve a second knowledgeable individual.	Requires IA verification. IA will verify during follow-up evaluation.
Contracts and Procurement Follow-Up August 29, 2012	2	For all grant-related procurements, the Contracts and Procurement Department should print the confirmations from the debarment website at the time the vendor debarment is verified. The confirmation should be filed as evidence of verification, to show whether a vendor was debarred or not at the time of the procurement.	May 20, 2010. Departmental SOP number CPC-09001 has been revised to include a screen print of the debarment result page whether or not the vendor/contractor is listed as debared. April 30, 2014. Need to perform addt'l testing to verify debarment checks are being performed.
2013 Petty Cash May 31, 2013	1	IA recommends that Accounting and Fiscal Management Department personnel should take the lead in working with the responsible Agency personnel in making revisions and updates to the following Agency policies: A-02, A-75, A-68 and A-34.	IA to verify during follow-up evaluation.
2013 Petty Cash May 31, 2013	3	IA recommends that monthly fund reconciliations be performed by personnel independent of the petty cash reimbursement processes and that the fund reconciliation subsequently be reviewed and signed by the Petty Cash Custodian's supervisor or manager as required by SOP CM PR-13, "Cash Management Procedures-Petty Cash", further ensure all Petty Cash Custodians understand the requirements of the SOP.	IA to verify during follow-up evaluation.
2013 Petty Cash May 31, 2013	4	IA recommends that either a new SOP be developed or the current SOP CM PR-13, "Cash Management Procedures-Petty Cash" be updated to include detailed procedures over the entire petty cash reimbursement processes.	IA to verify during follow-up evaluation.
2013 Petty Cash May 31, 2013	5	IA recommends that Accounting and Fiscal Management review current petty cash reimbursable budget codes within SAP and develop a "Master Listing" of budget codes or "roles" within SAP for all Petty Cash Custodians to have access to and utilize them when coding expenditures.	IA to verify during follow-up evaluation.
2013 Petty Cash May 31, 2013	6	IA recommends that Accounting and Fiscal Management evaluate the petty cash needs of each location throughout the Agency and make any necessary adjustments to the petty cash assignments.	IA to verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
SCE Utility Payments August 28, 2013	1	P&EC and Maintenance Management should work with the City of Chino and SCE to adequately transfer the electricity expense related to City of Chino property. The street lights in front of IEUA's HQ-A building have been identified by the Agency and SCE as the financial responsibility of the City of Chino. It was noted that over $900.00 a year is paid for the street lights expense. P&EC and Maintenance previously identified this issue and had initiated discussions to transfer the account and related expense to the City of Chino. It is anticipated that by the end of calendar year 2013 this will be resolved.	IA to verify during follow-up evaluation.
SCE Utility Payments August 28, 2013	2	CAP management should evaluate the entire CAP Department staff's responsibilities and leverage all department resources to achieve all tasks and at the same time avoid internal control conflicts. In addition, IA recommends that SAP authorized access be modified for employees as noted in the report section "SAP Segregation of Duties – CAP Personnel" to address existing internal control conflicts identified. The report details the specific conflicts. This has previously been recommended in prior CAP Follow-Up Audit Reports dated May 24, 2010 and August 29, 2012.	IA to verify during follow-up evaluation.
SCE Utility Payments August 28, 2013	3	CAP personnel should take the lead in working with the responsible Agency personnel to make the necessary updates to Agency policies A-32 and A-33, and department specific SOP's.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	1	AFM and BIS need to work together to ensure users have appropriate access within SAP based on job responsibilities and remove/modify access privileges that are not necessary to reduce the risk of unauthorized transactions and SOD conflicts. All user access should be immediately removed when an employee resigns his/her position with the Agency.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	2	Access to the Vendor Master File (VMF) should only be granted to one Manager/Supervisor for AFM and CAP department with only one back up employee, if necessary, due to Segregation of Duties conflict. This is a standard best practice across many industries. Furthermore, we recommend access be removed from all other current and past employees.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	3	AFM department should institute controls to ensure payment of invoices by the due date.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	4	AFM should work with the appropriate Agency personnel to update Agency policies and remind employees of the requirements of Agency Policy A-12, Employee Personal Computer Purchase Program; Policy A-37, Reimbursement for Attendance at a Conference, Seminar or Meeting; Policy A-50, Non-Purchase-Order Invoice Approval Procedures; Policy A-55, Agency Credit Cards; and Agency Policy A-14 Vehicle Use.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	5	Human Resources department, in conjunction with Information Support Systems, should ensure that loans for personal computers are not approved for items not covered by the loan program as described in Agency Policy A-12. Additionally, consider revising Agency Policy A-12 to clarify the applicability of the computer loan program to tablet computers and operating systems other than Microsoft Windows.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	6	AFM department should strengthen Vendor Master File procedures to establish uniformity in entering, altering and deleting vendors, and to provide guidelines for the maintenance of vendors, to ensure vendors are authorized, including the requirement that a supervisor or manager in FMD CAP approve additions, deletions, or changes to vendors.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	7	AFM department should ensure all new vendors provide a current, physical business address for the Vendor Master File. Additionally, AFM should establish a plan to update the master file for all active vendors that do not currently have a physical address on file.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	8	AFM department should work with BIS to test the features of SAP related to purging inactive vendors. Upon successful completion of the testing, AFM should identify vendors with no activity in the previous three to five years and deactivate or delete from the Vendor Master File as appropriate.	IA to verify during follow-up evaluation.
Accounts Payable Follow-Up Audit August 29, 2013	9	AFM department should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system.	IA to verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Automobile Insurance Requirements March 3, 2014	1	IA recommends that the Contracts and Facilities Department: Take the lead to review and update and/or consolidate the existing Agency Policy A-14 "Vehicle Use Policies and Procedures" and A-36 "Automobile Insurability and Driver's License Requirements for Current and Prospective Employees." The policies should define and specify the requirements for employees to maintain personal automobile insurance, clarify the coverage limits and any other responsibilities and provisions. Ensure policy updates and requirements are communicated to all employees.	IA to verify during follow-up evaluation.
Automobile Insurance Requirements March 3, 2014	2	IA recommends that the Contracts and Facilities Department: Consider developing an appropriate "Acknowledgment Statement" form or other verification/certification document or process that outlines and verifies the requirements of the Agency's policies related to personal automobile insurance coverage and driver's license. Determine the need to require all employees sign the acknowledgement/verification document each year as a certification that the employee understands and accepts responsibilities when driving a personal or Agency vehicle.	IA to verify during follow-up evaluation.
Vehicle Security Procedures March 3, 2014	1	CAP should take the lead to properly inventory and account for all assigned and unassigned gate transmitters. CAP should continuously work with department managers who request gate transmitters to monitor and revise access based on staff duties and responsibilities. CAP should promptly deactivate any improperly assigned/unassigned gate transmitters or for those employees and contractors that separate employment from the Agency.	IA to verify during follow-up evaluation.
Vehicle Security Procedures March 3, 2014	2	CAP should ensure the appropriate signed gate transmitter form is maintained on file for all issued gate transmitters. Additionally, CAP should ensure the employee/contractor who is issued a gate transmitter understands the requirements of Agency Policy A-24 "Issuance and Inventorying of Gate Transmitters and Keys to Agency Facilities, Vehicles and/or Equipment." This can be done at the time the employee/contractor is issued the gate transmitter via the signed form and is provided a copy of the Agency policy.	IA to verify during follow-up evaluation.
Vehicle Security Procedures March 3, 2014	3	IA recommends CAP staff inventory all Certificates of Title and work to locate or replace the missing titles for Agency vehicles. Additionally, CAP should implement and communicate the proper procedure to ensure that all Certificates of Title are promptly submitted to Records Management for filing and retention.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	1	Maintenance Department and HR Department should work together to develop and/or consolidate into one updated policy, the proper procedures for refueling Agency vehicles in order to streamline processes and clearly define the procedures for refueling Agency vehicles. Specifically, the policy should include: payment method, when to fuel, and specify if the requirement applies to assigned, pool or all vehicles. Take the lead to review and update and/or consolidate the existing Agency Policy A-14 "Vehicle Use Policies and Procedures" and A-36 "Automobile Insurability and Driver's License Requirements for Current and Prospective Employees." The policies should define and specify the requirements for employees to maintain personal automobile insurance, clarify the coverage limits and any other responsibilities and provisions. Ensure policy updates and requirements are communicated to all employees.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	2	Maintenance Department should take the lead to update Agency Policy A-86, "Refueling Agency Vehicles" to include a clear definition of a "pool" versus an "assigned" vehicle and these definitions should be carried across all Agency policies that relate to Agency vehicle procedures.	IA to verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Vehicle Inventory Procedures March 12, 2014	3	Maintenance Department should revise Agency Policy A-86 to specifically address how Voyager fuel cards for Agency "pool" vehicles will be issued and used by employees in order to establish separate guidelines for Agency "pool" vehicles.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	4	Maintenance Department should work with Business Information Systems (BIS) to develop an online/electronic "vehicle reservation and approval process." Approval should be obtained through the online/electronic process by either the employee's supervisor or manager. If the travel in an Agency "pool" vehicle will be for the calendar day only, online/electronic approval obtained from the employee's direct supervisor is sufficient. If travel utilizing an Agency "pool" vehicle will be overnight or several nights, or outside the service area, the employee should obtain online approval from the responsible manager and/or a member of Executive Management.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	5	Maintenance Department should work with the HR Department to incorporate mileage limitations and/or geographic boundaries (i.e. out-of-state) for Agency vehicles in updated Agency policies.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	6	Maintenance Department should evaluate the overall purpose of the VIF, to determine what elements are necessary to be reported by employees after use of an Agency vehicle, as well as determine what elements to hold the employee accountable for. Additionally, fewer incomplete forms may be returned if wording is revised to require only exceptions (an example might be: "Indicate damage to vehicle, if any").	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	7	Maintenance Department should determine the need to require that the VIF include an area for the employee's direct supervisor/manager to approve and sign, specifically acknowledging where the vehicle will be used and permitting the use of the Agency vehicle, prior to checking out the vehicle as an added control and accountability measure for the vehicle and the employee.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	8	Maintenance Department should ensure the recipients of the VIF (currently, the receptionists) no longer accept incomplete VIF forms from an employee upon the return of the vehicle to Headquarters. The receptionist should return the form to the employee and request they fill out the VIF completely before checking-in the vehicle.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	9	Maintenance Department should continue to work with "Voyager Fleet Systems" and U.S. Bank to review the card issuer's reporting capabilities, in order to develop the reports needed with the appropriate inputs (e.g. odometer readings, date of purchase, amount, credit card number, cardholder name, number of gallons purchased at point-of-sale) so that the Agency can perform a thorough analysis of fuel consumption monthly.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	10	Maintenance Department should develop one policy or update the existing policy (ies) to outline the proper procedures for washing Agency vehicles.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	11	Maintenance Department should perform a routine inventory as well as regular safety/maintenance inspections for all Agency vehicles at least annually and ensure necessary safety and emergency equipment is available and operational. Issues identified should be addressed and corrected timely. Specifically, items required for safety reasons such as fire extinguishers, insurance information and accident instructions, etc. should be current and readily available in the vehicle. Documented maintenance and safety inspection results should be retained and placed in the vehicle's file as evidence of examination.	IA to verify during follow-up evaluation.
Vehicle Inventory Procedures March 12, 2014	12	Maintenance Department should consider including a vehicle bumper sticker on all Agency vehicles that display the Agency's logo and a hotline or contact phone number where issues may be reported by any member of the public.	IA to verify during follow-up evaluation.

Audit Performed	Reco #	Internal Audit Recommendation	Target Date for Implementation & Comment
Vehicle Inventory Procedures March 12, 2014	13	Periodic reconciliations for fleet (vehicles and equipment) should be performed by the Maintenance Department between any report(s) or system databases that are utilized by management to ensure accuracy when reporting fleet information and making decisions regarding fleet.	IA to verify during follow-up evaluation.

Total of 39 outstanding recommendations as of June 10, 2015 requiring IA verification and/or supported response.

INFORMATION ITEM 2E

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: June 17, 2015

To: The Honorable Board of Directors

Through: Audit Committee *(6/10/15)*

From: Teresa V. Velarde
Manager of Internal Audit

Subject: Internal Audit Department Status Report for June 2015

RECOMMENDATION

This is an information item for the Board of Directors to review.

BACKGROUND

The Audit Committee Charter requires that a written status report be prepared and submitted each quarter. The Internal Audit Department Status Report includes a summary of significant internal and external audit activities for the reporting period. Attached is the Status Report for June 2015.

PRIOR BOARD ACTION

On September 17, 2014 the Board of Directors approved the Annual Audit Plan for Fiscal Year 2014/15.

On December 18, 2013, the Board of Directors reconfirmed the approved Audit Committee Charter.

IMPACT ON BUDGET

None.

Internal Audit Department
Status Report for June 2015

Projects Completed This Period

Audit: **Regional Contract Review**

Scope:
The objectives of the Regional Contract review include:

- Evaluation of how the seven Contracting Agencies apply the Regional Contract provisions
- Determine if the seven Contracting Agencies comply 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 covers the period from July 1, 2012 through December 31, 2013 and where possible considers events subsequent to that period. 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

City of Ontario ***DRAFT*** **June 2015**

Expected Completion Date: September 2015

Refer to the *draft* report under separate cover for a complete report to date of the observations and recommendations. IA has submitted the Interim Audit Report for the City of Ontario in *draft* form so as to provide the City of Ontario every opportunity to provide additional information to finalize the evaluation. IA noted the following:

- Connection Fees: Prior to the June 19, 2013 revision of Exhibit J, guidance about fixture unit counts was limited to the California Plumbing Code. As a result, the City (like all Contracting Agencies) had improvised their own calculation worksheets resulting in fewer categories and varying fixture unit amounts than that shown in the revision to Exhibit J, in most cases leading to calculations made by the City that understated Connection Fees. For the items tested, Ontario under-collected about $75,000 in Connection Fees. The review found that the City of Ontario's automated calculation worksheet, built into their permits system, utilized to calculate Connection Fees, still has fewer and differing categories than outlined in Table 1 of Exhibit J, although the fixture unit values for the categories shown do now agree with Table 1. IA has included multiple recommendations to improve the Connection Fees calculation and collection processes.

- Ontario asks permit applicants to self-assess their fixture units and determine the Connection Fees they owe. This procedure omits the step of verifying that the actual Connection Fee calculation conforms to the building/plumbing plans. In addition, the City of Ontario is not fully utilizing the expertise of its Building Department staff in collecting fees.

- Public Service Facilities: Recent construction information was obtained from a variety of public records for testing. The City does not collect connection fees from construction at schools in the community. Fees of $1.4 million are reported as having been paid for Kaiser Permanente's Ontario Medical Center. IA has included recommendations suggesting enhanced communication and collaboration with the School Districts in the community as a means of encouraging connection fee payments.

Internal Audit Department
Status Report for June 2015

- Commercial Volumetric Sewerage Accounts: Approximately a third of the monthly sewerage billing items tested noted erroneous rates or other concerns. IA has asked the City for additional information.

- Manufacturing and Industrial Entities: There appears to be a need to improve guidelines to Contracting Agencies for manufacturing and industrial enterprises to ensure that Connection Fees and monthly sewerage charges are assessed correctly, are fair and equitable, and are determined in accordance with the intent of the Regional Contract.

City of Chino Hills **COMPLETED** **June 2015**

Refer to the final report under separate cover for a complete report of the observations and recommendations. IA noted the following:

- Connection Fees: In most cases the calculations made by the City were materially accurate. Prior to the June 19, 2013 revision of Exhibit J guidance about fixture unit counts was limited to the California Plumbing Code. As a result, the City (like all Contracting Agencies) had improvised their own calculation worksheets resulting in fewer categories and varying fixture unit amounts than that shown in the revision to Exhibit J. IA has included multiple recommendations to improve the Connection Fees calculation and collection processes.

- Public Service Facilities: The City collected Connection Fees for all Public Services Facilities tested other than Chino Hills High School which added a pool, showers and locker rooms. The City does not generally collect Connection Fees from construction at schools in the community. IA has included recommendations suggesting enhanced communication and collaboration with the School Districts in the community as a means of encouraging connection fee payments.

- Commercial Volumetric Sewerage Accounts:
  - The Regional Contract does not provide guidance for businesses included under a master meter. Many businesses in Chino Hills are located in commercial centers served by master meters, meaning the City bills the owner or anchor tenant of a commercial center based on one water meter that serves all tenants. IA has recommended a minimum commercial rate of 1 EDU per month.
  - The Regional Contract does not provide for minimum sewer service fees of at least one EDU for commercial customers. Commercial customers are billed for sewer services based on water usage. It would seem that a commercial customer should be billed a minimum rate for 1 EDU (rate for a residential customer) even if commercial consumption is lower than one calculated EDU. IA noted instances where commercial customers are billed a lower amount than what a residential customer pays. IA has recommended that Exhibit J provide additional guidance.

Cucamonga Valley Water District	**COMPLETED**	**March 2015**
City of Chino	**COMPLETED**	**December 2014**
City of Fontana	**COMPLETED**	**December 2014**
City of Montclair	**COMPLETED**	**September 2014**
City of Upland	**COMPLETED**	**September 2014**

Refer to the final reports under separate cover for details on all observations and recommendations

IA also submitted the following audit reports related to the Regional Contract Review:

Internal Audit Department
Status Report for June 2015

- The 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 review 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.

- The report titled "Regional Contract Review – Survey of Comparable Agencies" was completed in June 2014. The report compared IEUA's Regional Contract and program with four similar agencies/programs in California. The review evaluated the structure used to bill and collect Connection Fees 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.

- The "Survey of Comparative Information" was completed in September 2014. This report provided a comprehensive side-by-side comparison of the preliminary responses received from each Contracting Agency about how the Regional Contract provisions are applied.

- The first "Internal Audit Recommendations" report was completed in September 2014. This report provided a comprehensive list of recommendations and the related relevant Contracting Agency. This report was limited to the two Contracting Agencies that had been completed: Upland and Montclair.

- A new "Internal Audit Recommendations" report has now been completed. This report has been updated to include all seven Contracting Agencies. This report is complete and is presented under separate cover for this agenda. There are three sections of recommendations:
  - Connection Fees Recommendations
  - Public Service Facilities Recommendations
  - Monthly Sewerage Billing Recommendations

Final/Comprehensive Regional Contract Review Report ***In Progress***
Date for full completion: September 2015
Upon completion of all reports for each of the seven Member Agencies, IA will document a final report to provide Executive Management and the Board of Directors with a summary of all IA recommendations and suggested direction to take. A brief presentation has already been made to the Executive Management team. A complete and comprehensive documented report will be the final product of the Regional Contract Review.

Audit: **Pre-Treatment and Source Control Follow-Up Review**

Scope:
Follow-up evaluation of the 11 outstanding recommendations provided in the Pre-Treatment and Source Control (PTSC) audit reports dated August 22, 2012 and February 26, 2013.

Status: **COMPLETED**
Of the 11 outstanding recommendations, two have been implemented as provided in the 2012 PTSC audit report. The other nine recommendations noted in the 2013 PTSC audit report are no longer applicable due to the new agreement between IEUA and County Sanitation Districts of Los Angeles County (CSDLAC). No additional findings or recommendations noted.

See the report under separate item in the Audit Committee Agenda.

Internal Audit Department
Status Report for June 2015

On-going Projects

Audit: **Follow up of Outstanding Recommendations Intercompany Receivables:**

- **Chino Desalter Authority,**
- **Inland Empire Regional Composting Authority (RCA), and**
- **Chino Basin Watermaster**

Scope:
IA is in the progress of performing a follow-up evaluation to determine the status of the 10 outstanding recommendations provided in the Intercompany Receivables audit reports dated February 24, 2011, March 30, 2011 and August 30, 2011.

Status: **IN PROGRESS**
IA has met and discussed the outstanding recommendations with the assigned representatives in Accounting and Fiscal Management. Some of the initially requested documents and information have been received. Additional information and meetings may be requested to complete the follow-up evaluation.

IA will report on the status of each recommendation in three separate audit reports. Anticipated date for completion is July 2015.

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

Scope:
IA is in the progress of performing a follow-up evaluation to determine the status of the 18 outstanding recommendations provided in the Information Technology (IT) Equipment audit reports dated August 21, 2012 and November 14, 2012.

Status: **IN PROGRESS**
There are 18 recommendations that require follow-up evaluation. IA is currently in the planning phase of this project. IA met with Integrated Systems Services to discuss the outstanding recommendations with the assigned representatives. All 18 recommendations require audit follow-up procedures be performed to verify if corrective actions have been implemented.

IA will report on the status of each outstanding recommendation and the anticipated date for completion is July 2015.

Project: **Annual Audit Plan**

Scope:
The IAD and the Audit Committee Charters require that annually, IA submit a flexible plan of proposed audit projects for the following fiscal year.

Status: **IN PROGRESS**
The Manager of IA has inquired of all Agency key individuals of any recommendations, referrals, key areas for audit, such as a process, contract, activity or business unit. Inquiries have been made of the External Auditors, the Audit Committee Advisor, Executive Management, the Board, as well as consider audit trends and best practices. If information is provided, a risk assessment will be completed prior to finalizing the Annual Audit Plan for Board approval.

Internal Audit Department
Status Report for June 2015

Project: **Review of Internal Audit Department and Audit Committee Charters**

Scope:
The IAD and the Audit Committee Charters require that annually, IA review and ensure the Charters are updated as necessary.

Status: **IN PROGRESS**
The Manager of IA and the Audit Committee Advisor completed a review of both Charters to ensure these are in agreement with the leading practices such as the Institute of Internal Auditors (IIA), and the American Institute of Certified Public Accountants for similar committees. At this time no changes or amendments are recommended.

Project: **Review of Internal Audit Department SOP's**

Scope: As required by the Internal Audit Department Charter and the IIA Standards, the Manager of IA is responsible for documenting procedures and review/update procedures periodically to ensure these are aligned with current department practices/procedures, leading practices or new requirements.

Status: **IN PROGRESS**
IA has formally documented seven SOPs. SOPs serve various objectives: provide consistency in the audit methods applied, are a useful training/reference tool, establish ground rules of professional conduct and responsibilities, and provide continuity during staff changes. The seven SOPs and are provided for review and discussion under separate cover in this Audit Committee Agenda.

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 has been requested to serve on the Agency's Steering Committee for Managing Records and Information. Additionally, IA assisted the Records Management group during the 18 Enterprise Content Management (ECM) sessions where various Agency steps and stages of selected activities and processes were discussed to determine the types of documents and the course and or method of submitting/issuing/saving/processing the needed documents. Additional requests related to IA's interpretation or recommendations have been responded to and IA participates in various Agency-wide meetings and training sessions. Lastly, recently IA provided a brief workshop to Executive Management on options for moving forward with the Regional Contract recommendations.

Internal Audit Department
Status Report for June 2015

Planned/Future/Additional Projects

Audit: **Master and Rotating Contracts Audit**

Scope: To evaluate the Agency's Master and Rotating Contracts to ensure these follow the required Agency policies and procedures and ensure controls that enforce proper contracting, procurement transactions are in place.

Status: Projected start date: September 2015

IA will coordinate an audit kick-off meeting in mid-June will all the responsible managers/supervisors. IA will perform preliminary surveys, planning, interviewing and inquires of Agency personal in relation to the areas of the audit above. It is anticipated fieldwork will begin approximately in September 2015. A status report of the progress of the Master and Rotating Contracts Audit will be provided at the next Audit Committee Meeting.

Internal Audit Department

Internal Audit Department Staffing:
The Internal Audit Department is staffed as follows:

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

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

During the past quarter, IA staff continues to stay abreast of industry developments through review of industry periodicals. IA staff attended a half-day seminar on Combining Data Quality and Data Visualization, along with a full-day conference with insights on Executive Leadership, Risk and Strategic, Information Technology, and Ethics & Fraud. Two IA members continue to prepare for the 3-part Certified Internal Audit certification, the only globally-recognized certification for internal audit professionals. One Senior Auditor is a Certified Public Accountant. Additional professional development education will be scheduled in the near future.

Future Audit Committee Meetings:

- Wednesday, September 9, 2015 – Regularly Scheduled Audit Committee Meeting
- Wednesday, December 9, 2015 – Regularly Scheduled Audit Committee Meeting