



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

**MONDAY, JUNE 10, 2019
9:00 A.M.**

CALL TO ORDER

PUBLIC COMMENT

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

ADDITIONS TO THE AGENDA

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

1. ACTION ITEM

A. MINUTES

The Committee will be asked to approve the Audit Committee meeting minutes of March 11, 2019.

B. FY 2019/20 ANNUAL AUDIT PLAN (WRITTEN)

Staff recommends that the Committee/Board:

1. Approve the FY 2019/20 Annual Audit Plan; and
2. Direct the Manager of Internal Audit to implement the FY 2019/20 Annual Audit Plan.

**ACTION
ITEM**

1A



**MINUTES
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
MONDAY, MARCH 11, 2019
9:00 A.M.**

COMMITTEE MEMBERS PRESENT

Steven J. Elie, Chair
Kati Parker

COMMITTEE MEMBERS ABSENT

None

STAFF PRESENT

Kirby Brill, Interim General Manager
Randy Lee, Executive Manager of Operations/AGM
Christina Valencia, Executive Manager of Finance & Administration/AGM
Sapna Nangia, Senior Internal Auditor
Craig Proctor, Source Control/Environmental Resources Supervisor
Peter Soelter, Senior Internal Auditor
Teresa Velarde, Manager of Internal Audit
Laura Mantilla, Executive Assistant

OTHERS PRESENT

Travis Hickey, Audit Committee Advisor

The meeting was called to order at 9:07 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 11, 2018.

INFORMATION ITEMS

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

- ◆ Water Connection Fees Audit: Teresa Velarde reviewed the water connection fee revenues and discussed the recommendations.
- ◆ Account Receivable Follow-Up Audit – Watermaster Agreement: Ms. Velarde stated that there was one outstanding recommendation from the 2011 original audit and follow up review in 2015. The recommendation is regarding the quarterly billing in advance and payment from Watermaster for O&M costs. Ms. Velarde stated Accounting has made improvements in billing closest to the beginning of the quarter as required by the agreement and recommended this item be closed-out.

- ◆ Southern California Edison Utility Payments Follow-Up Audit: Ms. Velarde reported the utility account for lighting services was transferred from IEUA to the City of Chino as of April 30, 2018. Therefore, this item is closed-out.
- ◆ The Audit Function: Ms. Velarde reviewed the audit function, structure, and charter requirements. She informed the Committee that an audit committee toolkit is included for their reference.
- ◆ Internal Audit Department Quarterly Status Report

GENERAL MANAGER'S COMMENTS

Interim General Manager Kirby Brill had no comments.

AUDIT COMMITTEE ADVISOR COMMENTS

Audit Committee Advisor Travis Hickey thanked the Committee for having him on the team and looks forward to continuing working with the Agency.

COMMITTEE MEMBER COMMENTS

There were no Committee Member comments.

COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

There were no Committee Member requested future agenda items.

With no further business, the meeting adjourned at 9:42 a.m.

Respectfully submitted,

Laura Mantilla
Executive Assistant

*A Municipal Water District

APPROVED: JUNE 10, 2019

**ACTION
ITEM**

1B



Date: June 19, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

06/10/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: FY 2019/20 Annual Audit Plan

Executive Summary:

The Board-approved Audit Committee Charter requires the Audit Committee to approve a flexible Annual Audit Plan of proposed audit projects, and recommend the plan and periodic updates to the Board of Directors for review and approval.

The Board-approved Internal Audit Department (IA) Charter requires that IA submit a flexible Annual Audit Plan of proposed audit projects, with the goal of targeting for audit the activities and business units depending on the assessed risk, level of priority, and/or specific requests.

The Institute of Internal Auditors (IIA) audit standards require that periodic risk assessments be performed to ensure information captured is relevant, timely, and aligned with the Agency's changing environment, goals, and objectives. IA performs the required risk assessment, prepares the Annual Audit Plan, and submits quarterly status reports and amendments, as required. The audit projects proposed for FY 2019/20 include: Human Resources Operational Audit, Recycled Revenue Water Audit, Computer Loan Program Review, Travel Policy Review, and follow-up reviews to evaluate the implementation status of prior audit recommendations provided and miscellaneous on-going audit projects and responsibilities.

Staff's Recommendation:

1. Approve the FY 2019/20 Annual Audit Plan; and
2. Direct the Manager of Internal Audit to implement the FY 2019/20 Annual Audit Plan.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

Only when additional outside auditing or consulting services are required to provide assistance to IA or fulfill the responsibilities of the Audit Committee for appropriate action. Additionally, some audit projects are intended to identify opportunities for cost containment.

Full account coding (internal AP purposes only):

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- - -

Project No.:

Prior Board Action:

On December 19, 2018, the Board of Directors reconfirmed the approved Audit Committee and the IA Department Charters. Both Charters require the Manager of IA to complete and present the Annual Audit Plan.

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - FY 2019/20 Internal Audit Department Annual Audit Plan



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

***Fiscal Year
2019-2020***

*Internal Audit Department
Annual Audit Plan*

**Submitted by:
Teresa V. Velarde
Manager of Internal Audit Department
June 19, 2019**

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

Annual Audit Plan Contents

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Purpose of the Internal Audit Department

According to the Board-approved Charter, the purpose of the Internal Audit Department (Internal Audit or IA) is to assist the Board of Directors and the Audit Committee in fulfilling their oversight responsibilities for reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations, and to provide objective assurance about the Agency's operations.

The purpose of the Internal Audit Department is also to provide consulting services, analyses, recommendations and information concerning the operations of the Agency as a service to management and as a way of adding value to improve the operations of the Agency. Internal Audit assists management and staff in achieving organizational goals and objectives by providing recommendations and advisory services based on results of analysis of the Agency's processes, procedures, governance, internal controls, financial reporting, and compliance with applicable laws and regulations.

The Internal Audit Department follows the guidance of the globally accepted *International Standards for the Professional Practice of Internal Auditing (Standards)* as documented in the International Professional Practices Framework (IPPF) and the Code of Ethics issued by the Institute of Internal Auditors (IIA) (<https://theiia.org>). This guidance is documented in the Internal Audit Department Charter and a requirement in the Internal Audit Department Standard Operating Procedures, as all auditors are required to follow.

The Internal Audit Department reports directly to the Board of Directors through the Audit Committee. The Internal Audit Department has a dotted line reporting relationship to the General Manager and works in cooperation with the Executive Management Team to coordinate audit projects and resources. As described in the Charter and according to the IIA *Standards* and best practices, Internal Audit is an independent function from Agency management, to provide objective analysis and recommendations, as a value-added service for the Board and Agency Management. Independence is essential to the effectiveness of internal auditing and is emphasized by the Institute of Internal Auditors (IIA). The authority and responsibilities of the Internal Audit Department are specifically defined in the Internal Audit Department Charter approved by the Board of Directors.

Mission Statement

The Internal Audit Department seeks to improve the operations of the Agency by providing unbiased and objective assessments to ensure Agency resources are efficiently and effectively managed in order to achieve Agency goals and objectives. The Internal Audit Department will help the Agency achieve accountability and integrity, improve operations and instill confidence among its employees and the citizens it serves by:

- *Promoting a sound control environment.*
- *Providing independent, objective assurance and consulting services.*
- *Improving Agency risk management, control and governance.*
- *Promoting the Agency's vision and mission with a high degree of professionalism.*

Internal Audit Department Values

The Internal Audit Department has adopted the following value statements that form the foundation for the Internal Audit Department:

Independence

As documented in the Charter, the Internal Audit Department is an independent function of the Agency for the purpose of providing independent, objective, unbiased opinions.

Integrity

The Internal Audit Department staff is required to maintain the highest degree of integrity in conducting its audit work.

Professionalism

The Internal Audit Department will perform its work with professionalism at all times.

Collaboration

The Internal Audit Department will foster collaboration with all Agency personnel to promote teamwork within the various business units.

Purpose of the Annual Audit Plan

The Annual Audit Plan (Audit Plan) has been prepared in accordance with recommendations and best practices provided by the Institute of Internal Auditors (IIA). The Audit Plan allows the Manager of Internal Audit to carry out the responsibilities of the Internal Audit Department by prioritizing projects and allocating necessary resources where audit efforts are deemed appropriate and necessary. The Audit Plan is created to assist management and the Board in achieving organization goals and objectives.

The Audit Plan is a flexible plan of internal audit activities and was developed using an appropriate risk-based methodology, including any risks or control concerns identified or communicated by Management, the Internal Audit Department, External Auditors, the Audit Committee's Independent Advisor, the Audit Committee or Board. Additionally, IA discussed with the Agency's legal counsel information that came through the Agency's anonymous hotline, Ethics-Point, to determine if any of the reported items are under the responsibility and scope of IA's activities or should be considered in planning audit projects. The overall objective is to develop a plan consistent with the Agency's goals and objectives, to address the highest risk areas within the Agency and to evaluate and contribute to the improvement of risk management, control and governance processes, additionally to add value by recommending opportunities for improvements to increase effectiveness and efficiency of operations.

To provide practical guidance and an authoritative framework for the development of the Annual Audit Plan, the Internal Audit Department recognizes the following items: Achieving one hundred percent audit coverage each year is not practical or achievable. It should be noted that audit resources are limited; therefore, a system for prioritizing audits has been employed. The Annual Audit Plan must be a flexible plan and should be amended periodically as deemed necessary to reprioritize areas that require attention. In preparing the Annual Audit Plan, consideration is given to the work performed by other auditors, regulatory authorities, established rules, laws and ordinances and the Agency's system of controls. Auditable areas are ranked by knowledge of known or perceived areas of risk and understanding of the systems of internal controls. It should be noted that there are inherent risks, residual risks and limitations with any methodology applied when prioritizing risks and ranking audit projects; risk factors exist with any system of controls.

As stated in the Internal Audit Department Charter, the Manager of Internal Audit will set audit frequencies, select the subjects and set objectives, determine the scope of work and apply the techniques required to accomplish the audit objectives. The Manager of Internal Audit has the authority to deviate from the approved annual Audit Plan, when necessary, and if warranted by unforeseen issues that require immediate attention. The Manager of Internal Audit will use professional discretion and judgment in response to such unforeseen issues and resolve them according to the requirements of the Charter. Significant changes to or deviations from the approved Annual Audit Plan shall be reported to the Audit Committee and to the Board at the next regularly scheduled Audit Committee meeting.

Both the IAD Charter and the IIA's Code of Ethics have strict standards of ethical conduct for internal auditors. Internal auditors have a responsibility to maintain independence, ensure integrity, objectivity, confidentiality and competency in work performed.

Annual Audit Plan Methodology

In planning for the Internal Audit projects the following were also considered:

- The Internal Audit Department Charter
- The Audit Committee Charter
- Communications with the Audit Committee and the Board of Directors
- Communications with Executive Management and key Agency personnel
- Communications with the External Financial Auditors
- Communications with the Audit Committee Independent Advisor
- Prior audit findings and recommendations
- Assessed risks in business practices and operations
- Agency's goals and objectives, including activities, developments and changes
- Agency policies & procedures
- Key areas that affect revenue and expenses
- Identified opportunities to improve operations and add value to services
- New audit requirements, audit trends and leading practices
- Audit Department resources

For the Fiscal Year 2019/2020 Annual Audit Plan, the audits were selected based on all things considered as discussed above, the results of audits completed, risks identified, discussions with key individuals and auditor judgement. Significant deviations and changes to the Audit Plan will be communicated to the Audit Committee through an Amended Audit Plan and progress information is provided through Quarterly Status Reports presented to the Audit Committee.

FY 2019/20 Annual Audit Plan:

Human Resources Operational Audit

To evaluate all processes and operations of the Human Resources Department. To evaluate whether department standard operating procedures, policies and guidelines are implemented and followed. To evaluate the department's published mission statement, department purpose, business goals, key performance indicators and workload indicators to determine that those are met effectively and efficiently. To evaluate key functions and compare with other similar agencies. And finally, to follow up on any outstanding recommendations previously provided through other audit reports. The Human Resources Department and the Finance and Accounting Department will be the primary contact departments.

Recycled Water Program – Revenue

Recycled water revenue in FY 2017/18 was approximately \$16.9 million. An audit of this area would determine the accuracy of revenues and identify any additional revenue due the Agency. Additionally, the audit would evaluate that policies and procedures are being followed. The audit would also evaluate whether all reports presented provide complete information that is useful and reliable to the readers. The Finance and Accounting and the Planning departments will be the primary contact departments.

Personal Computer Loan Program and Policy Compliance

Review Agency policies and internal controls as they relate to the employee personal computer loan program and reimbursements to ensure adequate controls and that policy requirements are followed. The Finance and Accounting Department and the Integrated Systems Services Department will be the primary contact department.

Travel Expenses and Policy Compliance

Review Agency policies and internal controls as they relate to employee travel expenses and reimbursements to ensure adequate procurement methods are followed and policy requirements for appropriate approvals, limits and reimbursements are followed. The Finance and Accounting Department will be the primary contact department.

Follow-up Reviews to evaluate the status of outstanding recommendations

As required by the Charters and audit standards, IA will follow up on the status of outstanding recommendations to determine if corrective actions or alternate internal controls were implemented. There are currently 116 outstanding audit recommendations, 85 of which require follow-up action and 31 of which are associated with the renegotiation of the Regional Contract and are deferred. Follow-up reviews are scheduled as noted in the chart on Page 9.

On-Going Projects for FY 2019/20

- ❖ Internal Audit Department Quality Assurance and Improvement Program
- ❖ Assist with annual CAFR Review and Filing
- ❖ Review and update IA Department and Committee Charters
- ❖ Continue to assist with SAP internal control inquiries
- ❖ Continue to participate with the Enterprise Content Management System (ECMS) Committee, Safety Committee and the Technology/Cybersecurity Committee.
- ❖ Provide needed support related to audit topics, internal controls, Agency policies and procedures and compliance items
- ❖ Further utilize capabilities of SAP to enhance IA functions
- ❖ On-going required administrative reporting, such as budget, goals/objectives, staff appraisals, and other administrative items.
- ❖ Conduct special requests and/or unforeseen projects
- ❖ Provide recommendations to strengthen/streamline policies and procedures
- ❖ Update IA Annual Audit Plan and corresponding Risk Assessment
- ❖ Continue to work with auditees to resolve outstanding recommendations
- ❖ Assist with requests for internal controls questions, discussions and evaluations
- ❖ Continue to review, update and document IA Policies and Procedures
- ❖ Continuous Professional Development of all auditors
- ❖ Plan, prepare and coordinate Audit Committee Meetings
- ❖ Utilize the IA site on AIM as an Agency-wide communication tool
- ❖ Unannounced Petty Cash Audits
- ❖ Provide "audit approach" presentations to requesting departments and/or for/within professional associations as a guest speaker

Outstanding Recommendations

The Internal Audit Department Charter requires follow-up action be taken to ensure that management has effectively implemented recommendations or alternate controls have been incorporated to mitigate the risks identified. Follow-up audit work includes detailed testing and verification by Internal Audit staff. Below is a table of the Outstanding Recommendations:

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Payroll Audit	August 24, 2010	1	Annually
Accounts Payable Follow-Up	August 29, 2013	9	FY 2019
Vehicle Security Procedures	March 3, 2014	2	FY 2020
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2020
Master Trade Contracts	September 1, 2016	6	FY 2020
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2020
Audit of Master Services Contracts	December 5, 2016	3	FY 2020
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2021
Water Use Efficiency Programs Audit	June 5, 2017	6	FY 2021
Contracts and Procurement Follow-Up Audit	August 30, 2017	1	FY 2021
Payroll Operations Audit	August 30, 2017	6	FY 2021
Procurement Card Audit	March 1, 2018	7	FY 2022
Wire Transfers Audit	March 1, 2018	5	FY 2022
Garden in Every School®	May 31, 2018	7	FY 2022
Warehouse Annual Physical Inventory – IA Inventory Observation Report	August 22, 2018	4	FY 2022
Inter-fund Transactions Audit	August 30, 2018	3	FY 2022
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	November 29, 2018	3	FY 2022
Water Connection Fees Audit	February 25, 2019	7	FY 2023
Total Outstanding Audit Recommendations		85	
Recommendations related to the Regional Contract Review (these recommendations are planned for full implementation with the renegotiation of the Regional Contract IA will not follow up on these unless requested to do so or after the new contract is executed)			
Regional Contract Review – Final Audit Report	December 16, 2015	31	Pending – Renegotiation of the Regional Contract

**See the Report of Open Recommendations under separate cover.*

During FY 2018/19, IA reviewed and verified the implementation status of 30 open recommendations related to 7 different audits. The list reports there are 85 open recommendations, of which 24 recommendations relate to audits completed recently. An additional separate 31 recommendations stem from the Regional Contract Review, which will most likely be implemented through the renegotiation of the Regional Contract. Because all audit resources were utilized primarily for this effort, follow-up activities were temporarily on hold. Audit guidelines suggest that an adequate amount of time be granted to provide auditees with sufficient time to implement corrective action plans. Follow-up audit work for some of the open recommendations will be incorporated and completed along with the proposed projects. Required follow-up audit work will include a desk review of supporting documentation, follow-up discussions with the auditee, and/or the application of testing procedures to verify implementation.

Long Range Audit Planning - Additional / Possible Audit Areas

Internal Audit has identified additional audit areas. This list has been compiled as a preliminary list of future potential audits and as a list of additional, important audit areas where audit resources and efforts could be utilized. This is not a comprehensive/complete list. These audit areas have been selected based on identified risks at the time of completing this Audit Plan. If the risk/priority in any of the identified auditable areas increases, IA would perform the required audit/evaluation.

Duplicate Payments/Late Payments/Fees and Penalties

This area was covered during the previous Accounts Payable audit. The goal for this audit is to make this a recurring evaluation to check for the three types of payments (duplicates, late payments or preventable fees and penalties). This audit would cover a greater sample and would implement an audit program to periodically check for these types of payments.

Data Analytics

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

Accounts Payable Audit – Review of Agency Credit Cards

Select a specific vendor or types of payments, for example travel credit cards and gas credit cards to ensure that transactions do not bypass the required procurement processes.

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

Capital Projects

The external financial auditors have in the past noted deficiencies with the process for closing completed capital projects. Projects were left open long after the project had been completed, therefore, impacting the accounting value of capital assets. This audit would focus on evaluating when open capital projects have been completed and examining when the construction in progress balances are closed to capital assets. The departments primarily engaged are the Finance and Accounting and the Engineering departments.

Various or Other Agreements

Evaluate the variety of special and/or other types of agreements the Agency may have with other agencies or vendors that may or may not be formalized under an official Agency contract. This audit would also evaluate whether the special agreements provide preferential treatment or significant discounts/credits when compared to similar agencies for similar services.

Telephone Expense

The Agency pays for telephone services provided by landline phones, smartphones, and for data connections. Audit areas include the following:

- Determine efficiencies that could be achieved through consolidating billings
- Identify ways to streamline billing processes
- Comparison of charges on different bills to ensure consistency and accuracy
- Identify opportunities for savings
- Evaluate whether phones issued to employees are used for the intended purpose according to Agency policies

Bid and Selection Process for Construction Contracts

To review the bid and selection process to ensure all legal and regulatory requirements are considered in the process, including grant requirements, where applicable, and that all contracts include required language. Additionally, to evaluate the process to award contracts and projects to pre-qualified contractors/vendors and ensure processes conform to legal and Board-approved requirements and are documented in formal operating procedures.

Asset Management

The Agency currently has \$1.1 billion in total assets. An audit of this area would evaluate the accountability and controls to ensure assets are properly recorded in the Agency's financial records. Additionally, to determine if periodic inventories or other valuation processes are performed to validate the amount of assets reported in accounting records.

Operations

Facility Operations, Groundwater Recharge and Organics Management are programs under Operations Administration. The audit scope of any of these areas would focus on permit compliance requirements, preventive maintenance of plants, staff training and staff certifications to operate plants/facilities, chemical and equipment use, and customer service to the service area, where applicable.

Payroll Operations Audit

Payroll Operations Audits were performed in 2010, 2012 and again in 2017. This is a sensitive area that should be continuously monitored and evaluated. This review would be a new audit focusing on any current changes in payroll requirements or Agency policy changes as well as test to ensure employee requested changes took effect. This audit would also focus on any outstanding recommendations that resulted from the prior audits.

Risk Assessment Strategy

The IIA IPPF standard 2120 states that Internal Audit must evaluate the effectiveness and contribute to the improvement of risk management processes.

The IIA IPPF defines Risk as follows:

- **Risk** – The possibility of an event occurring that will have an **impact on the achievement of objectives**. Risk is measured in terms of impact and likelihood and;
- **Residual Risks** – As the risk remaining **after management acts to reduce the impact** and likelihood of an adverse event, including control activities in response to a risk.

The risk assessment is a general assessment performed using best practice guidance, professional judgment and consideration for the impact on the Agency's operations if the targeted units fail to function in the most effective and efficient manner or neglect to comply with required policies. In performing the Risk Assessment for this FY 2018/19 Annual Audit Plan, the following were considered:

- Agency Policies and Procedures
- Communication with the External Auditors
- Communication with the Audit Committee and Board
- Communications with key Agency personnel
- Assessing risks and exposures that may affect the organization
- New Agency activities, developments and major changes
- Key areas that affect revenue and expenses
- Observations resulting from previous audits and reviews
- New audit requirements and trends
- Opportunities to improve operations

Audit Universe

The IIA PPF defines Universe as all possible auditable areas. For the purposes of this Annual Audit Plan, the universe includes all Agency Departments, operations, contracts, transactions, processes, and activities.

Quality Assurance and Improvement Program

The Institute of Internal Auditing (IIA), International Professional Practices Framework (IPPF) defines a Quality Assurance and Improvement Program: “A quality assurance and improvement Program is designed to enable an evaluation of internal audit activity’s conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.”

Standard 1311 of the IPPF requires that internal assessments include ongoing monitoring of the performance of internal audit activity; and periodic reviews performed through self-assessments.

Standard 1312 of the IPPF requires that external assessments be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

As part of IA’s commitment for continued quality audit services, beginning FY 2019/20, IAD will perform internal assessments of the IAD. An external assessment by an independent reviewer is planned for FY 2020/21. Results will be presented and discussed at the regularly scheduled Audit Committee meetings.

Audit Committee

INFORMATION
ITEM
2A



Date: June 19, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

06/10/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: FY 2019/20 Financial Audit - Communications Required by SAS 114

Executive Summary:

Statement on Auditing Standards No. 114 (SAS 114) requires the financial statement auditors to communicate the planned scope and timing of the financial audit. SAS 114 also describes the auditor's responsibility to inquire of the Audit Committee information that should be considered in the auditor's risk assessment in planning the financial audit. The Agency's external auditors are Lance, Soll & Lunghard, LLP (LSL), independent Certified Public Accountants (CPA), based in Brea, CA. This year will be LSL's fourth year performing the financial audit and Single Audit of the Agency, as well as the financial statements of the Chino Basin Regional Financing Authority for the fiscal year ending June 30, 2019. It is their responsibility to provide an opinion as to whether the financial statements are presented fairly.

Attached is the required communication letter under SAS 114. During the Audit Committee meeting, Ms. Deborah Harper, a CPA and partner with LSL will provide a presentation about the audit scope and approach, as well as the required communications. Additional one-on-one meetings may be scheduled separately to discuss the scope and approach of the audit.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Full account coding (internal AP purposes only):

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Project No.:

Prior Board Action:

On March 16, 2016, the Board approved Contract Numbers 4600002079, in the amount of \$100,820, and 4600002081, in the amount of \$12,450 with Lance, Soll and Lunghard, LLP, to provide Annual Financial and Single Audit Services for the Inland Empire Utilities Agency and the Chino Basin Regional Financing Authority for the three fiscal years ending June 30, 2016, 2017 and 2018 with options for an additional two fiscal years. The first option for an additional year was exercised on November 5, 2018.

Environmental Determination:

Not Applicable

Business Goal:

The annual financial statement audit of the Agency is a requirement per the Agency's approved Fiscal Ordinance and other regulatory requirements and is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that the financial audit evaluate and promote a strong control environment and assist management in achieving organizational goals.

Attachments:

Attachment 1 - Communication Letter - LSL



CPAs AND ADVISORS

May 21, 2019

To the Honorable Chair and Members of the Board
Inland Empire Utilities Agency, California

We are engaged to audit the financial statements of each major fund, and the aggregate remaining fund information of the Inland Empire Utilities Agency (Agency), the financial statements of the Chino Basin Regional Financing Authority (Authority) and the Single Audit for the year ended June 30, 2019. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibilities under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards*, and the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we will consider the internal control of the Agency. Such considerations will be solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with Uniform Guidance, we will examine, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the City's compliance with those requirements.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.





CPAs AND ADVISORS

To the Honorable Chair and Members of the Board
Inland Empire Utilities Agency, California

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis, the schedule of changes in net pension liability and related ratio, the schedule of employer contributions related to pensions, schedule of change in net OPEB liability and related ratios which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on the combining and individual fund statements which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have not been engaged to report on the introductory and statistical sections which accompany the financial statements but are not RSI. Our responsibility with respect to this other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information will not be audited and we will not express an opinion or provide any assurance on it.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to issue our report on approximately December 15, 2019.

This information is intended solely for the use of the governing board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Lance, Soll & Loughard, LLP

Audit Committee

**INFORMATION
ITEM
2B**



Date: June 19, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

06/10/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Board of Director's Travel and Conference Expenses

Executive Summary:

In response to the Board's request at the March 20, 2019 Board of Directors Meeting, Internal Audit (IA) performed a review of Directors Travel and Conference Expenses and related guidelines and policies. The review included summarizing Board spending over the previous five years and surveying other public agencies to gather comparable information about "best practices". The complete report is attached.

In response to an additional request, IA provided a detailed analysis of expenditures and copies of the Agency's relevant resolution and policies. This is included in the report as Exhibit C. If the Board desires additional controls, IA provided suggestions on page 6 of the initial report, some which have been adopted by other agencies surveyed:

1. Consider establishing a "prior-to-conference" approval process.
2. Consider establishing a list of potential organizations, conferences and meetings that are important and beneficial to the Agency, where Board representation is desirable.
3. Consider establishing guidelines (minimum and/or maximum) for the number and cost of events to be attended per Board member.
4. Consider adopting IRS guidelines for per-diem reimbursements.
5. Consider having General Counsel review the Board Handbook regularly.

Staff's Recommendation:

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

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Full account coding (internal AP purposes only):

- - -
- - -

Project No.:

Prior Board Action:

On June 20, 2018, the Board approved the IA Annual Audit Plan. The Board of Directors Travel and Conference Expenses review was not included in the Annual Audit Plan. It is considered a Special Project as described in the quarterly Status Report as: "Special Projects can be short or long-term projects . . . requiring setting aside or delaying work on scheduled audit projects. The scope of the review is not generally known, and the work must be handled with the highest degree of confidentiality and care." Audit guidelines require IA be responsive to these requests.

Environmental Determination:

Not Applicable

Business Goal:

The Board of Directors Travel and Conferences Expenses report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing independent evaluations and audit/consulting services of Agency activities and making recommendations to foster a strong ethical and internal control environment, evaluate processes and make recommendations to improve efficiencies, safeguard assets and assist management and the Board in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Board of Director's Travel and Conference Expenses report



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DATE: May 16, 2019
TO: The Honorable Board of Directors
CC: Shivaji Deshmukh, General Manager
Jean Cihigoyenatche, General Counsel
Teresa V. Velarde
FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Board of Director's Travel and Conference Expenses

Audit Authority & Scope

This report is in response to the March 2019 Inland Empire Utilities Agency (IEUA or Agency) Board of Directors' request for a review of Directors Travel and Conference Expenses and related guidelines and policies. IA performed the review, which included summarizing Board spending over the previous five years and surveying other public agencies to gather comparable information about "best practices". The survey results are attached to this report.

This review focused only on evaluating the policies that guide travel and conference attendance for Board members. The Board of Directors' compensation for attendance at meetings and the types of meetings attended was not evaluated in this review. Meal and/or other expenses incidental to those meetings were not reviewed, nor were regular monthly mileage reimbursements and other related business expenses.

Background Information

The State of California has established regulations through the California Water Code in Sections 71255 and 20202 and Assembly Bill 1234 requiring public agencies to enact policies for director compensation and reporting of reimbursement of expenses.

The IEUA Board of Directors has established policies and resolutions that provide guidelines to comply with the State requirements. The policies and resolutions are included in the Board of Directors' Handbook, a two-volume guide for Directors which contains information about the Agency along with those Agency policies and other information.

The Board of Directors Handbook, Volume 2, also includes resource material including: *Guidelines for Conduct and AB1234, A Primer for Public Water Agency Officials, 2006 Update*, which is published by the Association of California Water Agencies (ACWA).

Water Smart - Thinking in Terms of Tomorrow

Paul Hofer
President

Jasmin A. Hall
Vice President

Kati Parker
Secretary/Treasurer

Michael Camacho
Director

Steven J. Elie
Director

Shivaji Deshmukh
General Manager

Board of Director's Travel and Conference Expenses

At the March 2019 IEUA Board of Directors meeting, Board members requested a review of the IEUA Board of Directors travel and conference expenses and the related policies and guidelines. IA performed the review with approval from the Audit Committee Chair.

The comments, questions and requested information included:

- Is there a need for more transparency?
- How are travel/conferences approved?
- How are expenses budgeted and what goes into that budget?
- What guidelines are in place and are those guidelines up to date?
- What are other agencies doing?

IA performed the following audit procedures:

- Obtained and reviewed the IEUA *policies currently in place*
- Compiled the *expenses over the past five years*
- Gathered *survey responses from other public agencies*
- Evaluated *other controls* that might be considered by the Board for adoption

IEUA Ordinances and Policies Currently in Place

The information and/or guidelines about Board of Directors Travel and Conference Expenses, are included in Volume 2 of the Board of Directors' Handbook and include:

- **Ordinance No. 107**, adopted by the IEUA Board Directors on May 15, 2019, establishes Compensation/Benefits and authorizes reimbursement of expenses for the Board of Directors and their appointed representatives to meetings and conferences, including the MWD Board and describes the compensable meeting types. It authorizes reimbursements pursuant to Water Code Section 71255 and 20202 and requires compliance with Agency Policies A-37 and A-77.
- **Agency Policy A-37** *Reimbursement for Attendance at a Conference, Seminar or Meeting*, last revised 7/24/2015. This policy applies to all Agency employees, and Board Members. The purpose of the policy is to establish guidelines for expense reimbursements for attendance at a conference, seminar or meeting. The guidelines include procedures for approval of expenses for accommodations, transportation, registration, per diem, etc.
- **Agency Policy A-77** *Board of Directors Expense Reimbursement Policy*, last revised 3/16/2015. This policy applies only to the Board of Directors. It establishes the procedure for submitting expense reimbursement requests for attendance at a conference, seminar or training. It also provides information about compliance with Government Code Sections 53232, 56232.1, 53232.2 and 53232.3 and amendments provided through Assembly Bill 1234.

Board of Directors Travel and Conference Expenses

June 10, 2019

Page 3 of 9

Board of Directors Budget

To account for all expenses, the Agency's financial system includes separate accounts for Board compensation and payroll taxes, health care expenses, meeting expenses, Agency service awards and a variety of other miscellaneous office and administrative expense categories. It also includes an account called "Directors Expense" that tracks travel and conference expenses. An amount of \$50,000 has been budgeted annually in each of the previous 5 years for "Directors Expense". Actual spending averaged approximately \$21,000 per year. In summary, of the \$50,000 budgeted every year, approximately 40% has been used by all directors combined for travel, conference and related expenses.

As part of the Agency's biennial budget process, all Agency departments are required to prepare the "Conference Training Travel Budget Form" to itemize the expenses for each type of training/conference for the employees in the department that are planning or anticipate attend in the next fiscal year. Documenting the "Conference Training Travel Budget Form" provides a basis and justification for the budgeted amount and serves as a planning tool for the budget about the types of training, conferences and related travel expenses expected to be incurred. Currently, the same process is not required for budgeting Board of Directors travel and conference expenses.

Summary of Board Expenses Over the Past Five Years

The "Directors Expense" which tracks Board conference and travel expenses, amount to approximately 10% of the total expenditures related to the Board of Directors expenses (see all expenses below). IA compared the expenses for travel and conferences to all other expenses related to Board of Directors' expenses, for comparative purposes:

Board of Directors Spending by Category and Year

CATEGORY	2018	2017	2016	2015	2014
Directors Expense Account					
Conference & Travel Expenses (Breakdown & details in next table, next page)	\$ 22,705	\$ 23,824	\$ 20,649	\$ 17,256	\$ 19,781
Meeting Compensation & Payroll Taxes	\$115,854	\$ 87,099	\$ 72,759	\$ 99,199	\$ 80,633
Healthcare	\$ 79,174	\$ 56,269	\$ 85,599	\$125,727	\$ 86,990
Other Board Related Expenses (incl. Reg. Policy Comp, etc. & meals for Board/other mtgs)	\$ 11,184	\$ 10,780	\$ 8,554	\$ 7,085	\$ 4,782
Mileage - Monthly reported	\$ 6,959	\$ 6,056	\$ 4,336	\$ 5,775	\$ 5,921
Service Awards & other Administration (Included in Board accounts)	\$ 5,131	\$ 4,799	\$ 4,757	\$ 5,425	\$ 3,685
TOTALS	\$241,007	\$188,828	\$196,654	\$260,468	\$201,792

**Directors Expense Account
 Conference and travel expenses (details)**

CATEGORY	2018	2017	2016	2015	2014
Conference Registrations and Fees	\$ 7,909	\$ 6,506	\$ 7,552	\$ 6,075	\$ 7,485
Lodging	\$ 8,796	\$ 7,988	\$ 6,726	\$ 5,793	\$ 6,988
Airfare	\$ 3,350	\$ 4,939	\$ 3,238	\$ 2,832	\$ 3,115
Car & Transportation	\$ 1,984	\$ 3,502	\$ 2,426	\$ 2,028	\$ 1,555
Meals & per diem	\$ 667	\$ 889	\$ 706	\$ 529	\$ 637
TOTALS	\$ 22,705	\$ 23,824	\$20,649	\$ 17,256	\$ 19,781

Survey Responses from Other Public Agencies

IA requested information about Board Member travel and conference expense practices and policies from other public agencies. The request was made through the California Society of Municipal Finance Officers (CSMFO). When available, IA also made phone calls and reviewed the Administrative Manuals of some comparable agencies. A total of 11 results were compiled from entities that included a City, a Parks District, a Fire Protection District and 8 Water and/or Wastewater Agencies:

- Beaumont-Cherry Valley Water District
- Central Contra Costa Sanitary District
- City of La Quinta
- Cucamonga Valley Water District
- East Bay Regional Park District
- Eastern Municipal Water District
- Moraga-Orinda Fire Protection District
- San Diego County Water Authority
- San Gabriel Basin Water Quality Authority
- West Valley Sanitation District
- Western Municipal Water District

The following survey questions were asked:

1. How is travel for conference and seminars approved or pre-approved or is it approved after? Who approves it?
2. How do Board members select the conferences or training they want to attend? Are there any restrictions to what they can select?
3. Are Board members limited to the number, dollar amount or types of Conferences and/or Seminars they may attend per year? If so, what limits are established?
4. Is there a budget for Board Member travel and conference expenses set by the agency or district or city for the year? If so, how much is it? Is it per Board Member or in total for all members?
5. Are Board Members required to follow per diem guidelines or limits for meal expenses? If so, what are they? If not, are there any other limits or parameters set for any other expenses?

Exhibit A (attached) summarizes the results of all the responses and provides suggestions for the Board's consideration and Exhibit B (attached) provides a compilation of the information from the individual agencies.

The surveys noted:

- All of the Agencies included in the survey have travel, conference and/or expense reimbursement policies, many of which are directed to everyone at the Agency, both employees and Board members. This is similar to IEUA's Agency Policy A-37 which applies to all Agency employees and Board Members and describes how reimbursements should be submitted.
- Seven of the eleven Agencies require approval in advance, either through the budgeting process or through the Board agenda for at least some forms of travel or conferences. That approval is obtained before the conference/training is attended. IEUA requires that regular Agency employees obtain prior approval from "their department manager and executive manager prior to attending a conference, seminar or meeting and also requires that staff submit details of anticipated travel and conference attendance as part of the budgeting process. For IEUA Board members, there is no advance notification requirement.
- One Agency restricts conference attendance to California Association of Sanitation Agencies (CASA) conferences, but five Agencies have some form of guideline, either by providing a recommended list or by restricting attendance to a particular organization or a maximum number of conferences or by including a policy statement about the conference addressing "topics related" to the industry. IEUA does not have a policy in place to restrict conference attendance nor that sets a maximum number of conferences per year. IEUA follows the Water Code and AB1234 that provides a limit of 12 events per year.
- All the Agencies surveyed establish a budget for conference attendance. IEUA budgets \$50,000 annually for "Directors Expenses". The amount budgeted has not changed over the 5-year period reviewed.
- Per diem* guidelines vary by organization; some use the IRS approved limits; one Agency has a daily maximum of \$75 for meals, another of \$80 and another has a daily maximum of \$500 for food, lodging and incidentals. IEUA's policy states that a "\$50 per diem rate guideline has been established for Agency employees" which includes meals and other miscellaneous expenses.

* The Agency has a per diem guideline of \$50 for Agency employees (for advance of funds) for travel/related expenses for attendance at conference, seminar or meeting, to be used for meals and other miscellaneous expenses, expenses are fully reimbursed with supporting documentation. Employees shall be reimbursed a maximum of \$50 per day for meals with supporting receipts.
- In accordance with State law, all Agencies require an oral report at the next Board meeting following conference attendance. IEUA's Policy includes this requirement.

Additional Controls for the Board to consider

If additional controls for travel/conference expenses are desired, the IEUA Board of Directors may want to consider the following additional controls and guidelines, or others suggested by the Agency's General Counsel:

- Consider establishing a "prior-to-conference" approval process, either as part of the budgeting process before the beginning of the fiscal year, or periodically, or on an event by event basis. This would ensure Board members are made aware of conferences each of the other Board members are planning to attend.
- Consider having the Board, along with the General Manager and/or Executive Management work together to establish a list of potential organizations, conferences and meetings that are important and beneficial to the Agency and plan for attendance at the event.
- Consider establishing guidelines (potentially a minimum and/or maximum) for the number of conferences and events that Board members are expected and/or encouraged to attend and a range of spending on conferences and events per Board member.
- Consider adopting IRS guidelines for meal reimbursements Agency-wide. These may be adjusted annually or periodically.
- Consider having General Counsel review the Board of Directors Handbook annually or at a minimum every two years to ensure all documents are up to date, specifically with regard to legal requirements. IA is available to assist with the review for Agency-wide policies and other pertinent information.

IA extends its appreciation to the Finance and Accounting department, Agency Management, and IEUA's General Counsel for their assistance during this review. Please contact Teresa Velarde, Manager of Internal Audit at 909-993-1521 for additional information or details related to this report.

The Board of Director's Travel and Conference Expenses Review of policies and guidelines is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide suggestions that foster a strong internal control environment, transparency in business practices to mitigate risks and assist in the achievement of organizational goals and objectives.

This review is also aligned with the responsibilities documented in the Internal Audit Department Charter, as approved by the IEUA Board of Directors.

Exhibit A – Survey Summary
Board of Directors Travel, Conferences and Expenses Policies and Practices

Survey Question	IEUA	Summary of Survey Responses from 11 Agencies	Additional guidance to consider
How is travel for conferences and seminars approved or pre-approved or is it approved after? Who approves it?	No pre-approval requirement for Board members. Receipts are submitted to the Board Secretary for reimbursement.	7 of 11 responses require approval in advance for at least certain types of events, remainder are less formal.	Consider establishing a prior-approval process either as part of the budget process or before the beginning of the fiscal year on before each event.
How do Board members select the conferences or training they want to attend? Are there any restrictions to what they can select?	No specific guideline mentioned in the policies; Ordinance provides compensation for “conference related to Agency business” not exceeding three days [for compensation].	8 of 11 have a stipulation requiring water or wastewater connection; 2 of the 8 have a recommended list or a restriction to a specific organization; 3 of 11 are informal based-on Board member interest	Consider planning ahead the various conferences along with the GM and/or Executive management to list all possible conferences and determine those that are important/beneficial to the Agency.
Are Board members limited to the number, dollar amount or types of Conferences and/or Seminars they may attend per year? If so, what limits are established?	No specific guideline mentioned in the policies; Policy A-37 states: “directly beneficial to the Agency”; Ordinance provides compensation for “conference related to Agency business” not exceeding three days [for compensation].	7 of 11 responses mention a budget for the overall Board for conference expenses, 1 Agency has a limit per Board member. Several mention the limit on monthly compensated meetings.	Consider establishing guidelines.
Is there a budget for Board Member travel and conference expenses set by the agency or district or city for the year? If so, how much is it? Is it per Board Member or in total for all members?	Yes, Agency budget for “Directors Expenses” account #510032 has a budget amount of \$50,000 per year for Director expenses per fiscal year not including regular meeting & mileage expenses.	7 of 11 mention a budget. 4 Agencies provided an amount for the fiscal year ranged from a low of \$2,500 total to a high of \$25,000 total. 7 Agencies did not provide a budget amount.	Consider establishing guidelines.
Are Board Members required to follow per diem guidelines or limits for meal expenses? If so, what are they? If not, are there any other limits or parameters set for any other expenses?	Not specific mentioned in Policy A-77, only alcohol is not allowed. Employee Policy A-37 provides limit of \$50 per day with suggested limits of breakfast \$10; lunch \$15; dinner \$25. Ordinance says Board should follow Agency reimbursement policies.	All have limits, examples include IRS limits, \$80 per day and “limits set by a policy”. One Agency allows up to \$500 per day to cover lodging, meals and incidentals.	Keep the current rates or consider adjusting to IRS guidelines and revising periodically.

**Exhibit B – Comparable Survey with External Organizations
 Board of Director’s Travel and Conference Expenses**

	How is travel for conference & seminars approved or pre-approved or is it approved after? Who approves it?	How do Board members select the conferences or training they want to attend? Are there any restrictions to what they can select?	Are Board members limited to the number, dollar amount or types of Conferences and/or Seminars they may attend per year? If so, what limits are established?	Is there a budget for Board Member travel and conference expenses set by the agency or district or city for the year? If so, how much is it? Is it per Board Member or in total for all members?	Are Board Members required to follow per diem guidelines or limits for meal expenses? If so, what are they? If not, are there any other limits or parameters set for any other expenses?
IEUA	Pre-approval not required for Board. Receipts are submitted to Board Secretary for reimbursement	No mention or guidance in the policies; Ordinance provides compensation for "conference related to Agency business" not exceeding three days; Policy A-37 states: "directly beneficial to the Agency"	Not mentioned; Policy A-37 states: "directly beneficial to the Agency"; Ordinance provides compensation for "conference related to Agency business" not exceeding three days.	Agency budget for "Directors Expenses" account #510032 has a total amount of \$50,000 for all Director expenses not including regular meeting & mileage expenses.	Not mentioned in Policy A-77, other than no alcohol. Employee Policy A-37 provides limit of \$50 per day with suggested limits of breakfast \$10; lunch \$15; dinner \$25. Ordinance says Board follows Agency reimbursement policies.
Western Municipal Water District	No pre-approval requirement for Board members. Receipts are submitted for reimbursement	Must have a water nexus. Directors must be informed of & familiar with . . . water district law . . . and about national, statewide, and local water and wastewater programs and issues. Each member of Board of Directors is encouraged to participate in those outside organizations that in the judgment of the Board further the interests of the District.	No limits, other than they are only compensated for up to 10 meetings a month.	No budget set	The maximum allowable pursuant to an IRS Accountable Plan.
Eastern Municipal Water District	No pre-approval requirement noted in the District's admin code	Board member can be compensated for educational seminars conducted by various organizations on topics related to water and wastewater issues. May also be compensated for nonprofit & service club meetings if advance approval of Board obtained.	Can be compensated for up to 10 meetings a month and no more than one per day	Not found in administrative code. Can be compensated for up to 10 meetings a month and no more than one per day.	Up to \$500 per day for lodging, meals and incidentals.
Cucamonga Valley Water District	Must be included on the District's "Calendar of Events" for approval on the Consent Calendar of the Board Meeting Agenda for approval prior to the event	Board members communicate their interest in attending an event to the Executive Assistant who then includes it on the Calendar of Events and should be "in the performance of their official duties as a representative of the District"	Can be compensated for up to 10 meetings a month and no more than one per day	Not found in administrative code. Can be compensated for up to 10 meetings a month and no more than one per day.	Reimbursed for actual meal expenses including taxes and gratuities for up to \$80 per day. Reimbursed for expenses for authorized business of the District.
San Diego County Water Authority	List of authorized meetings and organizations included in the policy. For organizations & policy events not specifically named, authorization from Board Chair required in advance	Self-select; for events not specifically mentioned in the Policy, need prior authorization from Board Chair	Can be compensated for up to 10 meetings a month and no more than one per day	Not found in administrative code. Can be compensated for up to 10 meetings a month and no more than one per day.	\$65 per day/\$80 for high cost cities and actual expenses of the event
Central Contra Costa Sanitary District	Certain dollars for travel are included in the budget each year to start	They make their selections & those are compiled into a document for entire Board to approve at a regular meeting before the budget year starts. They have to be closely related to District business, and some of them are closely involved in certain organizations, so will attend those.	There are no limits on the number of conferences & seminars, but they normally try to stay within a \$2,000 cap for each conference	Yes, there is a budget for each year. It varies from year to year. There are no limits on the number of conferences & seminars.	Yes, follow IRS Per Diem guidelines. Only difference Board is not held to the per meal per diem, they just cannot go over total for day. If they choose, they can utilize entire per diem for dinner for example

Board of Directors Travel and Conference Expenses
 June 10, 2019
 Page 9 of 9

	How is travel for conference & seminars approved or pre-approved or is it approved after? Who approves it?	How do Board members select the conferences or training they want to attend? Are there any restrictions to what they can select?	Are Board members limited to the number, dollar amount or types of Conferences and/or Seminars they may attend per year? If so, what limits are established?	Is there a budget for Board Member travel and conference expenses set by the agency or district or city for the year? If so, how much is it? Is it per Board Member or in total for all members?	Are Board Members required to follow per diem guidelines or limits for meal expenses? If so, what are they? If not, are there any other limits or parameters set for any other expenses?
San Gabriel Basin Water Quality Authority	No approval needed if travel is in accordance with policy and budget.	Select based on list of approved conference or training which is part of the policy	Yes, the budget is set annually during the budget process	Yes. A maximum of \$4,000 annually has been set for each board member	Limits are set by the policy
West Valley Sanitation District	The Board approves in advance as an agenda item	Only CASA related conferences are offered to board members. They choose which one they want to attend. Board's conference attendance is low to none in recent years.	Board members receive expense reimbursement & \$150 per day for attending conference, maximum 6 days per month including board meetings. Upon return, the member is to complete certificate & expense report	No set amount, annually the budget is based on board's interest to attend conferences. \$150 per day for attending conference, maximum 6 days per month for board meetings	Follows travel policy. The maximum that will be reimbursed for meals in one day is \$75, including gratuity.
Beaumont Cherry Valley Water District	Taken to Board, Board approves (note: Per manual approved by Board in advance)	Any Board member can recommend, or District Staff recommends, then taken to the Board meeting to see if Board is interested and approved if needed. District must benefit from information or education obtained by the Board member attending.	No. Limitation is based on their annual budget and board member's availability.	Yes. \$10,000 total for all board members. Limitation is based on their annual budget.	Yes, they have a per diem. No restrictions on meals other than no alcohol
Moraga-Orinda Fire Protection District	Yes	Board chooses. Has to comply with Policy	All can attend. Has to comply with Policy	Yes, \$2,500 total for the board	Yes, they have to comply with the Policy. Elected officials are required to submit receipts for food purchases
City of La Quinta	Policy addresses approvals; basically, if it involves overnight travel it must be approved in advance by Council (for anyone—even themselves). These items go as consent calendar items.	Not aware of restrictions as to what they can attend, & as far as I know they can select for themselves; but again, if it is going to involve overnight travel, they have to be ready to justify it at a public meeting if they get asked.	A total budget for entire department. This year it is \$25,000. Includes travel for all 5 members of Council & sponsorships like buying a table at a luncheon of local organizations	There is a total budget. This year it is \$25,000. It includes travel for all 5 members of Council, as well as sponsorships like buying a table at a luncheon of local organizations	There are meal limits in the policy that must be followed by everyone, including council members & do require detailed itemized receipts for all meals. Have rejected travel expenses for people who cannot provide receipts
East Bay Regional Park District	Board resolution is initiated by Clerk of the Board for out of state travel. It must be approved in advance by majority of Board in open session. Local travel/meetings do not have much formality for prior approval. Board members attend as they deem appropriate. If necessary, receive mileage & attendance fee at pre-set amounts	It is relevant to District activities, and the Board members express their interest	I am not sure if they are restricted, I believe they use their judgement and are very frugal	As part of annual budget, a cumulative lump sum is designated for such purposes not for each individual. Also, a Board Contingency Fund at a set amount annually that Board members decide how to allocate. Contingency fund amounts are always for relevant District purposes (never seen it used for travel expenses). They use their judgement and are very frugal.	Yes, follow IRS, (or Federal Govt.) approved limits.

Exhibit C -
Additional Information
RE: Board of Director's Travel and Conference Expenses



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DATE: May 22, 2019

Additional Information
RE: Board of Director's Travel and Conference Expenses

Attached, is additional detailed analysis of the Board of Director's (Board) Travel and Conference Expenses that is supplementary information to the Internal Audit Department's report on Board Travel and Conference Expenses.

The Internal Audit Department is available to provide additional information, details and/or respond to any other questions regarding this topic. Please contact Teresa Velarde at 909-993-1521, for any questions.

Water Smart - Thinking in Terms of Tomorrow

Paul Hofer
President

Jasmin A. Hall
Vice President

Kati Parker
Secretary/Treasurer

Michael Camacho
Director

Steven J. Elie
Director

Shivaji Deshmukh
General Manager

**INLAND EMPIRE UTILITIES AGENCY
SUMMARY OF ANALYSIS OF BOARD OF DIRECTORS
CONFERENCE AND TRAVEL EXPENDITURES**

	Camacho	Catlin	Elie	Hall	Hofer	Koopman	Parker	(blank)	Grand Total
2018	\$ 2,339		\$ 6,083	\$ 14,189	\$ 16		\$ 97		\$ 22,725
2017	\$ 2,017	\$ 1,877	\$ 5,852	\$ 14,282	\$ 1	\$ 135	\$ 504	\$ 970	\$ 25,638
2016	\$ 3,167	\$ 1,119	\$ 6,987	\$ 9,410					\$ 20,684
2015	\$ 2,707	\$ 75	\$ 4,453	\$ 10,092				\$ 1,059	\$ 18,387
2014	\$ 5,291	\$ 1,194	\$ 4,031	\$ 9,280		\$ 100		\$ 84	\$ 19,980
TOTALS	\$ 15,521	\$ 4,265	\$ 27,407	\$ 57,253	\$ 17	\$ 235	\$ 601	\$ 2,113	\$ 107,413

(blank) Amounts in this category consist primarily of IEUA logo clothing and/or Director Portraits

BOARD MEMBER CONFERENCE AND TRAVEL EXPENDITURES

General notes about approach to reviewing the amounts and types of events.

In order to determine the nature and types of conferences attended, IA:

- 1 Reviewed the account description "Registration" for all amounts in excess of \$100 to determine the event sponsor.
- 2 Scanned the "Director Expense" accounts for any other significant expenditures for events such as "summits", "meetings" and similar descriptions to provide context for other travel. The analysis was not exhaustive and IA did not review all invoices and/or other original documentation in all cases.
- 3 Items noted with "From expense review" were items that were noted during the scanning process.
- 4 IA also reviewed other accounts in the Board of Directors budget heading to add-back into the conference and travel category items that were included elsewhere, but related to conferences and travel. This review also did not include all invoices and/or other original documentation in all cases, so there may be other items not noted.
- 5 IA noted a small number of items in the "Directors Expense" category that could have been classified elsewhere, but IA did not move any expenditures out of this category. So, some items such as "Director Portraits", "IEUA logo clothing" and items that might have been characterized as "sponsorships" or "contributions" are included in this analysis.

2018

INLAND EMPIRE UTILITIES AGENCY
Analysis of Board of Directors Conference and Travel Expenditures

	Camacho	Elie	Hall	Hofer	Parker	Grand Total
Airfare	\$ 524	\$ 1,529	\$ 1,297			\$ 3,350
Car Rental		\$ 160	\$ 195			\$ 355
Conference			\$ 8			\$ 8
Event						\$ -
Flowers						\$ -
Gasoline			\$ 20			\$ 20
Lodging	\$ 591	\$ 1,876	\$ 6,329			\$ 8,796
Meals		\$ 307	\$ 360			\$ 667
Mileage	\$ 7	\$ 273	\$ 407			\$ 687
Parking	\$ 22	\$ 190	\$ 212		\$ 20	\$ 444
Photos						\$ -
Registration	\$ 1,175	\$ 1,572	\$ 5,061		\$ 77	\$ 7,885
Toll Roads		\$ 8				\$ 8
Tour						\$ -
Training				\$ 16		\$ 16
Transportation	\$ 20	\$ 169	\$ 302			\$ 491
Uniform						\$ -
Grand Total	\$2,339	\$6,083	\$14,189	\$16	\$97	\$22,725

CONFERENCES BY BOARD MEMBER:

Association of California Water Agencies	OC Summit	State of the Region
Association of California Water Agencies	National Water Policy DC	CA Water Policy
	Holiday Home Tour Program (s/b contributions)	Water Reuse
	Association of California Water Agencies	Association of California Water Agencies
	From Expense Review: Water Now Committee, Urban Wtr Conf.	Association of Women in Water, Energy and Environment
		California Association of Sanitation Agencies

2017

INLAND EMPIRE UTILITIES AGENCY
Analysis of Board of Directors Conference and Travel Expenditures

	Camacho	Catlin	Elie	Hall	Hofer	Koopman	Parker	(blank)	Grand Total
Airfare	\$ 518	\$ 518	\$ 3,147	\$ 756					\$ 4,939
Car Rental				\$ 288					\$ 288
Conference				\$ 745					\$ 745
Event	\$ 107		\$ 113						\$ 220
Flowers						\$ 135			\$ 135
Gasoline				\$ 15					\$ 15
Lodging	\$ 727	\$ 581	\$ 1,034	\$ 5,646					\$ 7,988
Meals		\$ 30	\$ 114	\$ 745					\$ 889
Mileage	\$ 8		\$ 66	\$ 822					\$ 896
Parking		\$ 33	\$ 126	\$ 373					\$ 532
Photos					\$ 1		\$ 472		\$ 473
Registration	\$ 657	\$ 715	\$ 344	\$ 4,013			\$ 32		\$ 5,761
Toll Roads									\$ -
Tour									\$ -
Training									\$ -
Transportation			\$ 907	\$ 879					\$ 1,786
Uniform								\$ 970	\$ 970
Grand Total	\$ 2,017	\$ 1,877	\$ 5,852	\$ 14,282	\$ 1	\$ 135	\$ 504	\$ 970	\$ 25,638

CONFERENCES BY BOARD MEMBER:

Association of California Water Agencies	Association of California Water Agencies	American Academy of Environmental Engineers and Scientists	Grow Riverside
	From Expense Review: California Special Districts Association	From Expense Review: Leg Mtg-Sac	Association of California Water Agencies
		From Expense Review: California Special Districts Association	American Academy of Environmental Engineers and Scientists
		From Expense Review: WaterNow Alliance Summit	CA Water Policy
	American Academy of Environmental Engineers and Scientists		Association of California Water Agencies
	From Expense Review: Leg Mtg-Sac		California Special Districts Association
	From Expense Review: California Special Districts Association		California Association of Sanitation Agencies
	From Expense Review: WaterNow Alliance Summit		

Director Portraits

2016

INLAND EMPIRE UTILITIES AGENCY
Analysis of Board of Directors Conference and Travel Expenditures

	Camacho	Catlin	Elie	Hall	Grand Total
Airfare	\$604		\$1,884	\$750	\$3,238
Car Rental			\$260	\$407	\$668
Conference		\$1,119			\$1,119
Event					
Flowers					
Gasoline				\$10	\$0
Lodging	\$773		\$2,241	\$3,712	\$0
Meals	\$81		\$299	\$326	\$10
Mileage	\$544		\$143	\$332	\$6,726
Parking			\$158	\$252	\$706
Photos					
Registration	\$1,165		\$1,731	\$3,537	\$1,020
Toll Roads					
Tour				\$25	\$410
Training					
Transportation			\$271	\$58	\$0
Uniform					\$0
Grand Total	\$3,167	\$1,119	\$6,987	\$9,410	\$20,684

CONFERENCES BY BOARD MEMBER:

American Water Works Association	From Expense Review: Association of California Water Agencies	OC Water Summit	Association of California Water Agencies
Association of California Water Agencies		From Expense Review: Annual Awards Dinner - Cal State	California Association of Sanitation Agencies
		Association of California Water Agencies	California Association of Sanitation Agencies
		Association of California Water Agencies	American Association of Blacks in Energy
		From Expense Review: Leg Mtg - DC	Association of California Water Agencies
		From Expense Review: Dlgn - SAC	American Association of Blacks in Energy
		From Expense Review: Wtr Agencies IE Leg Recptn	California Association of Sanitation Agencies

2015

INLAND EMPIRE UTILITIES AGENCY
Analysis of Board of Directors Conference and Travel Expenditures

	Camacho	Catlin	Elie	Hall	(blank)	Grand Total
Airfare			\$1,509	\$1,323		\$2,832
Car Rental						\$0
Conference				-\$300		-\$300
Event				\$50		\$50
Flowers						\$0
Gasoline				\$21		\$21
Lodging	\$883		\$1,120	\$3,790		\$5,793
Meals	\$44		\$131	\$354		\$529
Mileage	\$531		\$70	\$264		\$865
Parking	\$84		\$229	\$255		\$568
Photos						\$0
Registration	\$1,165	\$75	\$1,340	\$3,795		\$6,375
Toll Roads						\$0
Tour						\$0
Training						\$0
Transportation			\$54	\$540		\$594
Uniform					\$1,059	\$1,059
Grand Total	\$2,707	\$75	\$4,453	\$10,092	\$1,059	\$18,387

CONFERENCES BY BOARD MEMBER:

Association of California Water Agencies	Association of California Water Agencies	Association of California Water Agencies	IEUA Logo Wear
Association of California Water Agencies	Association of California Water Agencies	Water 101	
From Expense Review: Wtr Agencies IE/Orange Recp-Leg Recptn	From Expense Review: Legistlv Mtg-SAC	Joint: Association of California Water Agencies/California Association of Sanitation Agencies	
		California Association of Sanitation Agencies	
		Association of California Water Agencies	
		California Special Districts Association/SDLA	
		California Special Districts Association	
		California Association of Sanitation Agencies	

2014

INLAND EMPIRE UTILITIES AGENCY
Analysis of Board of Directors Conference and Travel Expenditures

	Camacho	Catlin	Elie	Hall	Koopman	(blank)	Grand Total
Airfare	\$428		\$944	\$1,743			\$3,115
Car Rental			\$70	\$55			\$125
Conference	\$399						\$399
Event	\$85		\$13	\$50			\$148
Flowers							\$0
Gasoline				\$7			\$7
Lodging	\$1,546	\$460	\$1,164	\$3,819			\$6,988
Meals	\$129		\$247	\$248		\$14	\$637
Mileage	\$605		\$56	\$262			\$923
Parking	\$120	\$24	\$136	\$105			\$385
Photos							\$0
Registration	\$1,955	\$710	\$1,271	\$2,625	\$100	\$70	\$6,731
Toll Roads				\$12			\$12
Tour				\$45			\$45
Training			\$130	\$225			\$355
Transportation	\$25			\$85			\$110
Uniform							\$0
Grand Total	\$5,291	\$1,194	\$4,031	\$9,280	\$100	\$84	\$19,980

CONFERENCES BY BOARD MEMBER:

Water Reuse Conference	Association of California Water Agencies	Joint: Association of Groundwater Agencies/American Groundwater Trust	Water Reuse Conference
Association of California Water Agencies		From Expense Review: SAC Legislative Mtg	California Special Districts Association
Association of California Water Agencies			Joint: California Association of Sanitation Agencies/Association of California Water Agencies
			California Association of Sanitation Agencies
			Association of California Water Agencies

ORDINANCE NO. 107

ORDINANCE OF THE INLAND EMPIRE UTILITIES AGENCY, A MUNICIPAL WATER DISTRICT, SAN BERNARDINO COUNTY, CALIFORNIA, ESTABLISHING COMPENSATION/BENEFITS, AND AUTHORIZING REIMBURSEMENT OF EXPENSES FOR THE BOARD OF DIRECTORS AND THEIR APPOINTED REPRESENTATIVES TO THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA BOARD OF DIRECTORS AND OUTSIDE COMMITTEE MEMBERS

BE IT ORDAINED by the Board of Directors of the Inland Empire Utilities Agency* (“Agency”) as follows:

WHEREAS, it is recognized that each member of the Board of Directors expends a considerable amount of time and effort serving on committees and attending meetings including, but not limited to meetings of the Board of Directors;

WHEREAS, in consideration for the expenditure of time and effort, it is appropriate to provide reasonable compensation and to authorize reimbursement of expenses for the Board of Directors, pursuant to Section 71255 of the Water Code; and

WHEREAS, California Water Code Section 20202 provides that the Board of Directors may adopt an ordinance authorizing compensation for the Directors for a total of not more than ten (10) days in any calendar month and in an amount in excess of \$100 per day, as may be adjusted each year.

NOW, THEREFORE, BE IT ORDAINED by the Board of Directors of the Inland Empire Utilities Agency* as follows:

Section 1. Compensation. Subject to the limitation of Section 2 of this Ordinance each member of the Board of Directors shall be compensated for attending:

- (a) Regular, special, emergency and adjourned meeting of the Board of Directors.
- (b) Regular, special, emergency and adjourned meeting of a committee of the Board of Directors, provided that attendance is as a member of that committee.
- (c) Regular special, emergency and adjourned meeting of a commission, Board, Joint Powers Authority, or committee, provided that membership on/in such body has been authorized by the Board of Directors. However, if such member receives compensation from the body, then the Agency shall compensate the member only the difference between the current Agency compensation rate and the compensation paid by the respective body.
- (d) A conference related to Agency business provided that such compensation shall not exceed three days.

(e) Regular, special, emergency and adjourned meetings of a Board or Committee of the Metropolitan Water District of Southern California provided that attendance is as a member of that committee.

(f) At City Council meetings, other water agency meetings and other community meetings where the member is requested to attend by the Board President or General Manager or is making a presentation on the Agency's behalf.

(g) Meetings with local, state or federal elected officials or staff members that are related to Agency business.

(h) Court hearings or other legal proceedings related to Agency business.

(i) Attendance at any meeting provided for under Sections 1.b, c, e, and f, shall also include payment to both the primary representative and the alternate representative to said body if they both attend said meeting.

(j) Training sessions mandated by law including, but not limited to, ethics training and harassment training.

(k) Attendance at Agency sponsored events, which are not considered Board Meetings or committee meetings such as service awards luncheons, leadership breakfasts, and similar events.

(l) The Board of Directors may retroactively approve payment for attendance at any meeting/event attended by a member of the Board, the Agency representative to the Metropolitan Water District of Southern California, or a committee member appointed from outside of the Agency by the Board to an Agency committee.

Section 2. Compensation for attendance at a meeting and/or conference as specified in Section 1, shall not exceed, on a per day basis, that amount of compensation as established by the Board, regardless of the number of meetings and/or conferences that are attended on the same day; provided that the total compensable days in a calendar month shall not to exceed ten days. Attendance shall mean that the Director is present during not less than seventy five percent (75%) of the duration of the meeting or conference presentations.

Section 3. Members of the Board of Directors are eligible to enroll in Agency sponsored group insurance plans available to eligible employees for health, dental, vision, and life insurance. The benefits allowed to the members of the Board of Directors shall not be greater than the most generous schedule of benefits being received by any category of Agency employees.

Section 4. Representatives to the Metropolitan Water District of Southern California Board of Directors and committee members appointed from outside of the Agency by the Board to an Agency committee or to MWD shall be paid the current Agency compensation rate under the same terms and conditions as a Board member.

Section 5. All compensation/benefits provided to members of the Board of Directors shall be reviewed at a regular meeting of the Board of Directors within the first

quarter of every year and if changes are approved by a majority vote of the Board said changes shall become effective at the beginning of the next fiscal year. Currently the rate of compensation for members of the Board of Directors of the Agency shall be \$260.00 per day's service.

Section 6. Reimbursement of Expenses. Each member of the Board of Directors, Metropolitan Water District representatives and committee members appointed from outside of the Agency shall be reimbursed for reasonable out-of-pocket expenses incurred by such member in performing services rendered pursuant to Section 1, or in performing services otherwise authorized or ratified by the Board of Directors. Reimbursement for lodging, conferences and travel expenses shall be in accordance with Agency Policy A-37 and A-77 as may be amended from time to time.

Section 7. The Directors, Metropolitan Water District representatives and outside committee members shall be paid based upon a duly executed pay sheet/expense voucher submitted monthly by the Directors, Metropolitan Water District representatives and outside committee members to be approved by the President of the Board of Directors. Said documents shall then be submitted to the Agency's Executive Manager of Finance and Administration for review on a monthly basis. In order to receive payment, each director/representative must submit monthly pay sheets/expense vouchers within 30 calendar days of the end of the month payment is requested.

Section 8. Repeal of Prior Ordinances and Resolutions. Ordinance 105 is repealed as of the effective date of this ordinance and this ordinance shall supersede any and all other prior ordinances or resolutions in conflict with the provisions hereof.

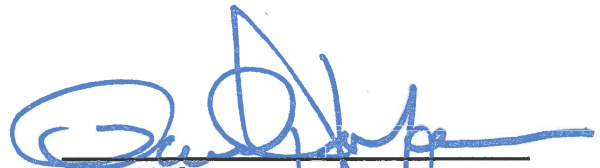
Section 9. Effective Date: This ordinance shall become effective upon adoption.

ADOPTED, the 15th day of May, 2019.

ATTEST:



Kati Parker
Secretary/Treasurer of the Inland Empire
Utilities Agency* and the Board of Directors
thereof



Paul Hofer
President of the Inland Empire
Utilities Agency* and of the Board
of Directors thereof

*A Municipal Water District

STATE OF CALIFORNIA)
COUNTY OF)SS
SAN BERNARDINO)

I, Kati Parker, Secretary/Treasurer of the Inland Empire Utilities Agency*, DO
HEREBY CERTIFY that the forgoing Ordinance being No. 107, was adopted at a regular
meeting on May 15, 2019, of said Agency by the following vote:

AYES: Hall, Parker, Elie, Hofer

NOES: Camacho


ABSTAIN: None

ABSENT: None



Kati Parker
Secretary/Treasurer of the
Inland Empire Utilities Agency* and on
behalf of the Board of Directors thereof

(SEAL)

Doc Number: A-37		
Doc Name: Reimbursement for Attendance at a Conference, Seminar or Meeting		
Revision No: 1	Owner: Finance & Accounting	Page 1 of 5
Effective: 7/24/15		

EXECUTIVE SUMMARY

The purpose of this policy is to establish the guidelines for expense reimbursements for attendance at a conference, seminar or meeting. It is the policy of the Agency that, where budget allocations permit, authorized employees shall be reimbursed for reasonable and necessary expenses incurred in the performance of official Agency business when such expenditures are authorized in advance and the employee’s attendance is deemed to be directly beneficial to the Agency.

This policy is consistent with the Agency’s business goal of Business Practices commitment of applying ethical, fiscally responsible principals to all aspects of the business and organizational conduct.

REVISION AND APPROVAL HISTORY

<i>REVIEWER</i>	<i>REVISED SECTION / PARAGRAPH / PAGE</i>	<i>REVISION</i>	<i>REVIEW DATE</i>	<i>RELEASED DATE</i>	<i>APPROVED</i>
<u>[First Last Name]</u>	<u>Entire Policy</u>	<i>XX</i>	<i>MM/DD/YYYY</i>	<i>MM/DD/YYYY</i>	<u>[First Last Name]</u>
Stephanie Riley	Entire Policy	01	7/24/15	7/24/15	Christina Valencia

*Draft and Archived/Obsolete revisions are not to be used.
Access AIM system to view current version.*



1. **POLICY**

It is the policy of the Agency that, where budget allocations permit, authorized employees shall be reimbursed for reasonable and necessary expenses incurred in the performance of official Agency business when such expenditures are authorized in advance and the employee's attendance is deemed to be directly beneficial to the Agency.

2. **PURPOSE**

The purpose of this policy is to establish the guidelines for expense reimbursements for attendance at a conference, seminar or meeting.

3. **SCOPE**

For the purposes of this policy, "authorized employees" shall include all regular employees and Board Members, and does not include intern, temporary, or limited-term staff.

4. **DEFINITIONS**

None.


5. **PROCEDURES**

5.1 Process Flow –



5.2 Authorization to Attend

- A. Agency employees shall secure the approval of their department manager and executive manager prior to attending a conference, seminar or meeting on an [Attendance and Advance Request form](#) (available on [AIM](#)).
 - 1. If overnight accommodations are required, the General Manager [Attendance and Advance Request form](#) and approve the [Travel Expense Report](#) (available on [AIM](#)).
- B. Due to the limited appropriation of funds, approval for local conference, seminar and meeting attendance shall be given highest priority.
- C. When possible, the employee should submit the [Attendance and Advance Request form](#) as early as possible to assure that adequate funds are available in the Agency's Annual Budget.

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- D. The employee should refrain from expending funds (i.e., registration, transportation, accommodations, etc.) prior to securing appropriate approval.
 - 1. Any expenses incurred prior to securing approval may not be reimbursed by the Agency.

5.3 Expenses

A. Accommodations

- 1. Reimbursement for the cost of overnight accommodations for a conference, seminar or meeting shall be limited to the reasonable cost of adequate accommodations, as determined by the General Manager.
- 2. Costs which are deemed to be unnecessary, unrelated or excessive will not be reimbursed or paid by the Agency.

B. Transportation

- 1. An Agency vehicle shall be utilized when practical.
- 2. Other transportation to a conference, seminar or meeting shall be reimbursed or paid directly by the Agency.
- 3. To secure the most economical mode of transportation in keeping with availability, convenience and propriety of the Agency, all travel arrangements shall be made with the endorsement of the respective Executive Manager.
- 4. When air travel is the most appropriate method of transportation, coach class shall be utilized.
- 5. An Agency vehicle shall be used when appropriate. Employees paid an auto allowance should use their personal vehicles when attending a local event.
- 6. Employees may use an Agency vehicle if other Agency employees are attending and carpooling to the event.
- 7. A private automobile may be used when necessary. Reimbursement for such shall follow the guidelines in the Agency Vehicle Use Policy, and mileage reimbursement shall be paid at the IRS approved rate if the employee does not normally receive an automobile allowance.
- 8. A rental car may be used when appropriate public transportation is unavailable or more expensive.
- 9. Shuttle and metro services should be used when most appropriate in lieu of a taxi or car rental.

C. Expenses

- 1. A \$50 per diem rate guideline has been established for Agency employees. Employees shall receive attendance approval by the appropriate level of management as provided prior to receipt of an advance for travel and/or related expenses for attendance at a conference, seminar or meeting.
- 2. The advance is to be used for meals and other miscellaneous expenses, such as parking fees, not including major transportation or registration fees.
- 3. Advances should be requested two weeks prior to the conference, seminar or meeting so that payments can be made prior to the dates of the trip.

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4. If it is necessary to use an Agency credit card, it should be limited to registration and air travel.
5. Except as otherwise provided, the guidelines for meal reimbursements, including tax and tip, shall be a maximum of \$50 per day with suggested limits as follows: breakfast \$10; lunch \$15; dinner \$25.
6. If the indicated guidelines are exceeded, written justification must be attached to the [Travel Expense Report](#) or approval must be obtained in advance for locations where these amounts may not be practical.
7. Alcohol consumption and entertainment expenses will not be reimbursed.
8. Within fourteen (14) days following attendance, the employee shall submit the completed [Attendance and Advance Request form](#) and the [Travel Expense Report](#) (available on [AIM](#)).
9. Original receipts are required for all expenses including those for meals, taxi, bus fares, parking, etc.
10. An employee will be required to reimburse the Agency for the amount of an advance that cannot be justified with original receipts.
11. Expenses that cannot be justified and are deemed unreasonable will not be reimbursed.
12. All applicable receipts and/or invoices shall be attached to the [Travel Expense Report](#).
13. The employee shall forward this form to the respective Department Manager, Executive Manager and in the case of Executive Managers or when overnight accommodations are involved, to the General Manager, for approval.

5.4 Registration

- A. Registration and related fees shall normally be reimbursed or paid in advance by the Agency for all authorized attendance.
- B. An Agency credit card may be used for the payment of registration fees.

5.5 Employee Compensation

- A. An employee who attends a conference, seminar or meeting on his/her regularly scheduled workday shall receive his/her regular compensation for such attendance.
- B. If a non-exempt employee attends a non-voluntary conference, seminar or meeting on his/her scheduled day(s) off, such attendance shall be compensated and counted as hours worked.
- C. A non-exempt employee who travels during his/her normal working hours shall be compensated for travel time as hours worked.

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6. RESPONSIBILITIES

6.1 Manager of Finance and Accounting - Overall administration and periodic review of this policy.

7. REFERENCES

7.1 [Attendance and Advance Request form](#) (available on [AIM](#))

7.2 [Travel Expense Report](#) (available on [AIM](#))



ATTENDANCE and ADVANCE REQUEST

REQUEST IS HEREBY MADE TO ATTEND THE FOLLOWING CONFERENCE, SEMINAR or MEETING:

EMPLOYEE / COST CENTER:

CONFERENCE, SEMINAR or MEETING:

LOCATION:

DATE(S):

ACCOUNT CODING:

Estimated Expenses are anticipated to be:

JUSTIFICATION FOR ATTENDANCE:

EMPLOYEE SIGNATURE

DATE

CONFERENCE, SEMINAR or MEETING APPROVALS: Attendance must be approved in accordance with Agency Policy A-37. Authorization is hereby granted for attendance at the conference, seminar or meeting specified above.

DEPARTMENT / EXECUTIVE MANAGER

DATE

CEO / GENERAL MANAGER

DATE

ADVANCE AMOUNT REQUESTED:

\$ _____

Return Check To:

Location: _____

Mail Check

Hold Check

Instructions: Complete this form for **Attendance Approval** and **Advance Request**. Submit to Department / Executive Manager and General Manager for approval at least ten (10) days prior to the date of attendance. Upon approval, if no advance is requested, the form will be returned to you.
Advance requests must be forwarded to the Fiscal Management Department, attention Accounts Payable.



Travel Expense Report

Expense Report No.:

(numerical number, i.e. 00001)

Employee: _____ Employee No. _____ Cost Center: _____ Functional Area: _____

Date: _____

Business Purpose: _____ WBS: _____ Starting Date: _____ Return Date: _____

ACCT NO.	EXPENSES	IEUA CREDIT CARD	COSTS PREPAID BY IEUA CHECK	SUN	MON	TUE	WED	THUR	FRI	SAT	TOTAL
511230	TRANSPORTATION (SPECIFY): Parking										-
511230	TAXI/CAR FARE										-
511250	LODGING										-
511290	TELEPHONE										-
511120	REGISTRATION -										-
511240	MEALS:										-
	BREAKFAST										-
	LUNCH										-
	DINNER										-
511220	MILEAGE REIMB.										-
511140	MISC. (SPECIFY)										-
	TOTALS.....	-	-	-	-	-	-	-	-	-	-
	LESS: PREPAID or CREDIT CHARGES										-
	LESS: CASH ADVANCE RECEIVED										
	AMOUNT DUE EMPLOYEE /										
	AMOUNT DUE < AGENCY >										-

Within fourteen (14) days of your conference / seminar / meeting, complete the above portion of this form (Part "B"), **attach all applicable receipts**, any used or unused transportation tickets, obtain Department / Division Manager/General Manager approval, and submit to Accounts Payable for processing. Meal Reimbursements are limited to \$50 per day. Reimbursement guidelines for meals are: Breakfast \$10.00; Lunch \$15.00; Dinner \$25.00. Mileage reimbursement is the IRS approved rate. Under the column headed "IEUA Credit Chg's/Prepaid By Check", list all other amounts charged by you directly to IEUA, and/or prepayments made on your behalf. If money is to be returned to IEUA, submit your Expense Report and personal check, or cash, to the Petty Cash Custodian at HQA. If money is due to you, Accounts Payable will send you a check.

I CERTIFY THAT THIS IS AN ACCURATE STATEMENT OF EXPENSES INCURRED ON BEHALF OF IEUA:

CONFERENCE / SEMINAR / MEETING EXPENSE, AND REIMBURSEMENT APPROVAL:

Dept./Div. Manager


Dated:

Employee Signature:

Dated:

General Manager (if applicable)

Dated:

Doc Number: A-77 Doc Name: Board of Directors Expense Reimbursement Policy		
Revision No: 1 Effective: 3/16/15	Owner: Agency Mgmt. Page 1 of 3	

EXECUTIVE SUMMARY


The Board of Directors (Directors) of the Inland Empire Utilities Agency (Agency) often are required to attend conferences, seminars and training events pertinent to Agency business. At times related costs are paid in advance, while other times the Directors pay out-of-pocket and need to be reimbursed.

This policy is in line with the Agency’s business goal, Business Practices key objective of cultivating a positive and transparent relationship with its stakeholders.

REVISION AND APPROVAL HISTORY

<i>REVIEWER</i>	<i>REVISED SECTION / PARAGRAPH / PAGE</i>	<i>REVISION</i>	<i>REVIEW DATE</i>	<i>RELEASED DATE</i>	<i>APPROVED</i>
<u>[First Last Name]</u>	<u>Entire Policy</u>	<i>XX</i>	<i>MM/DD/YYYY</i>	<i>MM/DD/YYYY</i>	<u>[First Last Name]</u>
Stephanie Riley	Entire Policy	01	10/25/2014	3/16/2015	Christina Valencia

*Draft and Archived/Obsolete revisions are not to be used.
Access AIM system to view current version.*

Doc Number: A-77		
Doc Name: Board of Directors Expense Reimbursement Policy		
Revision No: 1	Owner: Agency Mgmt.	Page 2 of 3
Effective: 3/16/15		

1. POLICY

The guiding principle of the policy is to provide the process of reimbursement for the Board of Directors of the Inland Empire Utilities Agency.

2. PURPOSE

The purpose of this policy is to comply with the provisions of Government Code Sections 53232; 53232.1, 53232.2 and 53232.3, as may be amended from time to time. This policy shall be applied in the implementation of the Board Compensation Ordinance of the Inland Empire Utilities Agency, as may be amended from time to time. Enacted Assembly Bill 1234 provides amendments to the California Government Code, which requires the enactment of policies by public agencies relative to director compensation, and reporting of reimbursement of expenses incurred by public officials in performing official duties.

3. SCOPE

This policy applies to the Board of Directors and is designed to demonstrate the process of reimbursement for attending conferences, seminars and training that pertain to the Agency.

4. DEFINITIONS

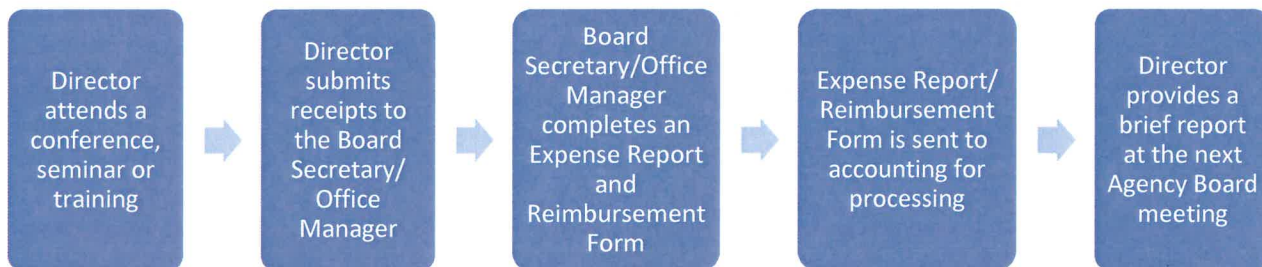
4.1 Board of Directors (Directors) – shall mean the IEUA Board of Directors.

4.2 Agency- shall mean Inland Empire Utilities Agency.

4.3 Director- shall mean a member of the Board of Directors of the Agency or an appointed representative to the Metropolitan Water District of Southern California Board of Directors and outside Committee Members.


5. PROCEDURES

5.1 Process Flow –



5.2 Reimbursements associated with attendance of a conference, seminar or training by a Director-

- A. Whenever possible, registration fees for conferences, seminars, training sessions including training required under Government Code Section 53234 et seq., shall be paid

Doc Number: A-77		
Doc Name: Board of Directors Expense Reimbursement Policy		
Revision No: 1	Owner: Agency Mgmt.	Page 3 of 3
Effective: 3/16/15		

by the Agency in advance, otherwise, the Director shall be reimbursed for such expense by:

1. Submitting receipts for expenses to the Board Secretary/Office Manager within 10 days of incurring the expense.
 2. The Board Secretary/Office Manager completes an Expense Report and Reimbursement Form and submits it to Finance & Accounting for processing.
- B. All documents related to reimbursable expenditures, including expense reports are public records subject to disclosure under the California Public Records Act.
1. Personal information including credit card numbers may be redacted from any documents.
- C. The following expenses are not reimbursable: alcoholic beverages, parking or traffic violation fines, personal phone calls, auto repairs, auto insurance, the personal portion of any trip, personal losses incurred while performing Agency business.
- D. Director must provide a brief report of the conference, seminar or training during the next Agency Board of Director meeting.
1. If multiple Directors attend the same event, a joint report may be made.

5.3 Penalties for violations of the codes above are set forth in Government Code Section 53232.4

6. RESPONSIBILITIES

- 6.1 Board of Directors: Submit all receipts to the Board Secretary/Office Manager within 10 days of incurring an authorized expense.
- 6.2 Board Secretary/Office Manager: Generate expense report(s) for the Director(s) and submit to Finance and Accounting for payment.
- 6.3 Finance & Accounting Department: Process the expense report and issue payment reimbursement to the Director if necessary.

7. REFERENCES

- 7.1 Expense Report
- 7.2 Board Compensation Ordinance

Audit Committee

INFORMATION
ITEM
2C



Date: June 19, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

06/10/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Voyager Fuel Card Audit

Executive Summary:

Internal Audit (IA) completed an audit of the Agency's Voyager Fuel Card program. The audit identified opportunities to further strengthen and tighten internal controls and to enhance the effectiveness of the program, including:

- Establish Goals and Objectives for fleet operations (such as fuel, vehicle, and maintenance). Having Key Performance Indicators and other metrics will provide direction for management of the program, and a basis to measure how the program is operating,
- Fully utilize the reporting tools and features available through US Bank Fleet Commander® Online system to obtain information/reports that would be valuable to management and perform analysis to ensure fuel purchases are appropriate,
- Enhance the role of the Fuel Card Administrator to include duties such as analysis and card oversight,
- Perform periodic reviews to ensure fuel cardholders have a signed agreement on file with the Human Resources Department,
- Review fuel cards that have no activity for an extended period of time to determine if they are needed. Otherwise, consider closing/canceling these cards to minimize the risk of misuse, and
- Review the Agency Policy/SOP. IA will report on this item in a separate report.

Staff's Recommendation:

The Voyager Fuel Card Audit report is an information item for the Board of Directors to receive and file and provide direction to Agency staff to implement/resolve the audit recommendations that have been provided.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Full account coding (internal AP purposes only):

- - -
- - -

Project No.:

Prior Board Action:

On June 20, 2018, the Board of Directors approved the Fiscal Year 2018/19 Annual Audit Plan. The Voyager Fuel Card audit was scheduled as part of the Fleet Management Audit - Vehicle Operational Audit & Follow-up Review in the Annual Audit Plan.

On December 19, 2018, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

The Voyager Fuel Card Audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing an independent evaluation of the Voyager Fuel Card program, suggesting recommendations for improvements, monitoring the internal control environment of the Agency, and assisting Agency management in achieving organizational goals and objectives.

Attachments:


Attachment 1 - Voyager Fuel Card Audit Report
Attachment 2 - PowerPoint



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DATE: May 30, 2019

TO: Shivaji Deshmukh
General Manager


FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Voyager Fuel Card Audit

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed an audit of the Voyager Fuel Card Program (Voyager or Fuel card). The audit was performed under the authority given by the IEUA Board of Directors and the Fiscal Year 2018/19 Annual Audit Plan. Attached is the report that discusses IA's observations and recommendations.

Audit Objective and Scope

The objectives of the Voyager Fuel Card Audit were to evaluate internal controls over the use of the Agency's Fuel Card, assess the adequacy of the internal controls in place to ensure fuel cards are safeguarded from loss, theft or misuse, and to identify improvements for the effectiveness of the program.

Audit Techniques:

Audit techniques included:

- Interviews of Agency staff
- Review of Agency policies, procedures, and practices
- Evaluate processes and transactions
- Analysis of purchase transactions

Water Smart - Thinking in Terms of Tomorrow

Paul Hofer
President

Jasmin A. Hall
Vice President

Kati Parker
Secretary/Treasurer

Michael Camacho
Director

Steven J. Elie
Director

Shivaji Deshmukh
General Manager

Audit Results – Executive Summary

The Voyager Fuel Card Program is administered by the Operations & Maintenance Department - North. In general, the Voyager Fuel Card Program has effective controls in place. The audit identified opportunities to further strengthen and tighten internal controls and to enhance the effectiveness of the program and safeguard card use. The attached report provides details of the observations and recommendations, the points below provide a summary:

- **Goals and Objectives:** Operations & Maintenance should establish goals and objectives for Fleet Operations including for fuel, vehicle and maintenance, including Key Performance Indicators and other metrics. Having goals and objectives, provides direction for the management of the program and expenses and provides a means to measure how the program is functioning.
- **Data Analysis:** The online reporting tools for the Fuel Card Program available through US Bank should be fully utilized to perform data analysis about the use of the credit cards and the Agency's fuel expenses. This will require determining the key information that will need to be captured and considered useful to management for decision-making. Operations & Maintenance should consider working with US Bank to determine the reporting tools that will provide the best and most valuable information to ensure fuel purchases are appropriate and reasonable, for example fuel use, type, sorting by user, card, vehicle, department, etc.
- **Fuel Card Administrator:** The role of the Fuel Card Administrator should be enhanced to include additional duties such as utilizing online reports and tools available from US Bank, performing data analysis on fuel spending and usage activity, making recommendations to improve the program, and using the online guides and participating in the training provided through US Bank.
- **Fuel Cards with No Purchase Activity:** Fifteen fuel cards were identified as having no purchase activity during the last two calendar years. Having additional unnecessary cards may put the Agency at risk of misuse of the card and unauthorized purchases. Operations & Maintenance should perform periodic reviews of the need and use of the credit cards. Fuel cards with no activity for a determined amount of time (1-2 years) or no longer needed should be deactivated.
- **Cardholder Agreements:** This audit found missing Cardholder Use Agreements in two of 20 items selected. The purpose of the agreement is to provide guidelines about the credit card program, and in the event of misuse, it provides for accountability and these should be maintained on file. A recommendation was provided to the department for consideration, which suggests a periodic review and/or spot checks be performed to ensure Cardholder Use Agreements are on file for all users.

- Agency Policy/Standard Operating Procedure (SOP): The Agency has multiple documents related to the refueling of Agency vehicles and the Voyager Fuel Card Program, including Agency Policy A-86, SOP document number 140-046, and an informal desk procedure. Operations & Maintenance is currently in the process of updating the Agency-wide policies related to Fleet Operations, which includes refueling procedures and use of the Voyager Fuel Card. The updated policy is planned for finalization in mid-2019; therefore, the recommendation provided in the previous report (*Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures, dated November 29, 2018*) continues to stand and will be reviewed by IA during a future audit as scheduled through the Board-approved Annual Audit Plan.

The Voyager Fuel Card Audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing an independent evaluation of the Voyager Fuel Card program, suggesting recommendations for improvements, monitoring the internal control environment of the Agency, and assisting Agency management in achieving organizational goals and objectives.

Acknowledgements

IA would like to extend our appreciation to the Operations and Maintenance staff for their cooperation and assistance during this review.

Discussions with Management

Drafts of this audit report were provided to management of the Operations and Maintenance Department for their review and input. IA also discussed the review with department staff and management and their comments have been incorporated prior to finalizing this report.

Background

Inland Empire Utilities Agency participates in the State of California (State), Department of General Services, Office of Fleet and Asset Management, Cooperative Agreement (Participating Addendum Agreement No. 7-16-99-27 and Amendment 1, agreement term November 1, 2016 – December 31, 2020) with US Bank to pay for fuel and emergency services associated with government vehicles, also known as the State of California Fleet Card Program. This program provides State and local government agencies with the Official State Fleet card. There are no fees or incentives (rebates/cash back) to participating agencies associated with this program. Organizations that can participate, include: State agencies, counties, cities, districts, and other local government bodies or entities that are empowered to expend public funds.

The purpose of the fuel cards is to allow for fuel (gas or diesel) to be purchased at any of the retail gas stations located throughout California (except for ARCO AM/PM fueling stations). In 2010, IEUA implemented the Voyager Fuel Card (Voyager or Fuel card) program with US Bank as a pilot program. The Agency expanded the program and issued additional cards to users in 2013.

Agency Policy A-86 (*Refueling Agency Vehicles*, effective date February 4, 2013) was created to provide guidelines for refueling Agency-owned vehicles, portable tanks, and containers. **Attachment 1** is a copy of the current Agency policy.

The Operations and Maintenance (O&M) Department - North administers the Agency's fuel card program, which include administrative related responsibilities: ordering cards and reconciling purchase receipts to the monthly statement. Fuel cards are issued to employees when requested by a Department manager.

The Voyager fuel card works like a credit card to purchase fuel. However, it is not like a personal credit/debit card because it does not have a VISA/Mastercard logo and can only be used for fuel, all other types of purchases are strictly prohibited and are blocked from purchasing with the card. Cardholders are allowed three transactions per day with maximum purchases of up to \$1,000 per monthly cycle, there is no single or daily dollar transaction limit or time restrictions. The Agency has an overall total credit line of \$40,000 for all the fuel cards.

US Bank plans to replace the current Voyager fuel cards with chip-enabled cards that will provide enhanced payment security when used with chip-enabled card readers. The new chip-enabled fuel cards will be issued by October 2020.

Voyager fuel cards are issued in the employee's name, however, there are a handful of fuel cards assigned directly to an Agency department or vehicle, such as a pool vehicle. A pool vehicle is an Agency vehicle that is checked out by an employee and driven to conduct Agency business. As of March 31, 2019, there were 159 fuel cards issued to Agency employees located at IEUA, Inland Empire Regional Composting Facility (IERCF), and Chino Basin Desalter Authority Chino I Desalter (CDA).

IEUA is responsible for making all payments to US Bank Voyager Fleet Card Systems. The Agency is exempt from paying Federal taxes, and this adjustment is reflected as part of the monthly payment. State and local taxes are not assessed at the time of purchase. Payments are made on time so that credit and late fees or penalties are not incurred.

Fuel Card Process

The process to obtain a fuel card is as follows:

- 1) A request for a Voyager fuel card is made through the New Employee Notification Form or by email from a Department Manager to the Fuel Card Administrator
- 2) Fuel Card Administrator provides and issues the Voyager fuel card
- 3) Employee will sign the Cardholder Agreement form and a copy of Agency Policy A-86 is provided
- 4) Fuel purchases are made as required
- 5) Receipts of the fuel purchases are provided to the Fuel Card Administrator, who reconciles the receipts to the Invoice Transaction Report and submits for approval
- 6) Finance and Accounting Department (FAD) pays the Voyager fuel credit card bill on time.

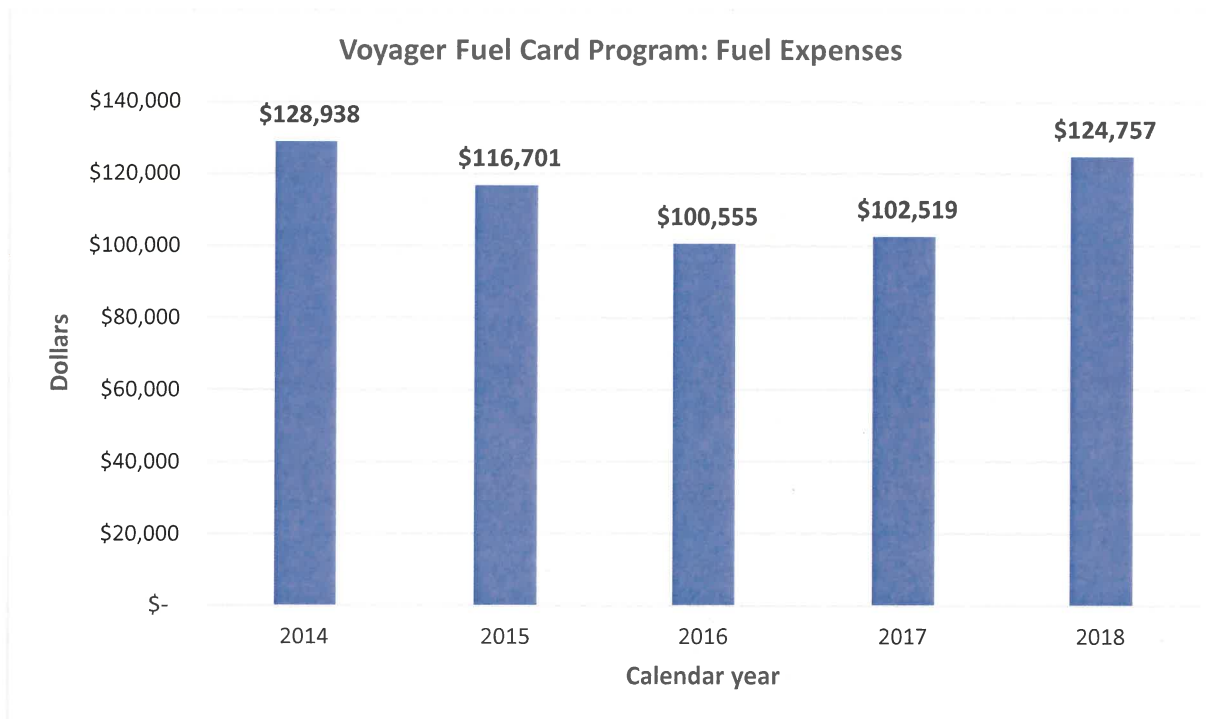
Attachment 2 provides a flowchart of the issuance and use of the fuel card process.

Total Fuel Purchases for the prior 5 years

Information related to the total fuel card spending for the last five calendar years was:

	Calendar Year				
	2014	2015	2016	2017	2018
Fuel expense	\$128,938	\$ 116,701	\$ 100,555	\$ 102,519	\$ 124,757
Number of transactions	1,779	1,886	1,937	1,836	1,802
Gallons purchased	35,994	38,610	39,422	36,818	37,501

Source: Payments made to US Bank Voyager Fleet Systems (information downloaded from SAP and calculated based on payment date.)



Fuel Spending by Department

For the 27-month period reviewed, January 1, 2017 through March 31, 2019, fuel card spending by Agency departments is as follows:

Entity/Department	Number of Transactions	Gallons Purchased	Total Fuel Spending
IEUA:			
Operations & Maintenance (Includes O&M's Pool Vehicles)	2,469	53,437.10	\$ 176,071.41
Groundwater Recharge	352	8,032.15	\$ 26,392.54
Facilities Management (Includes various Pool Vehicles)	436	6,752.89	\$ 21,991.34
Planning & Environmental Resources	217	4,855.76	\$ 15,836.03
Integrated Systems Services	184	2,701.9	\$ 8,770.36
Engineering & Construction Management	141	2,585.17	\$ 8,383.69
Laboratory	32	337.33	\$ 1,136.58
External Affairs	7	156.51	\$ 468.59
IERCF	157	2,232.16	\$ 7,569.34
CDA	146	2,195.01	\$ 7,266.63
Totals	4,141	83,285.98	\$ 273,886.51

Source: US Bank Fleet Commander® Online System (Transaction Detail Report)

Attachment 3 provides the breakdown of fuel spending by calendar year.

Cards issued by Department

The table below summarizes the breakdown of fuel cardholders as of March 31, 2019:

Entity/Department	Number of Cardholders
IEUA:	
Operations & Maintenance (Includes O&M's Pool Vehicles)	78
Engineering & Construction Management	13
Facilities Management (Includes various Pool Vehicles)	13
Laboratory	10
Integrated Systems Services	9
Groundwater Recharge	4
Planning & Environmental Resources	4
External Affairs (Department Pool Vehicle)	1
IERCF	23
CDA	4
Totals	159

Source(s): US Bank Fleet Commander® Online System, Agency's Position Control Reports

Top 10 Gas Station locations utilized – Table and GIS Map

From the US Bank Fleet Commander® Online system, the fueling stations primarily used to refuel the Agency's vehicles are as follows:

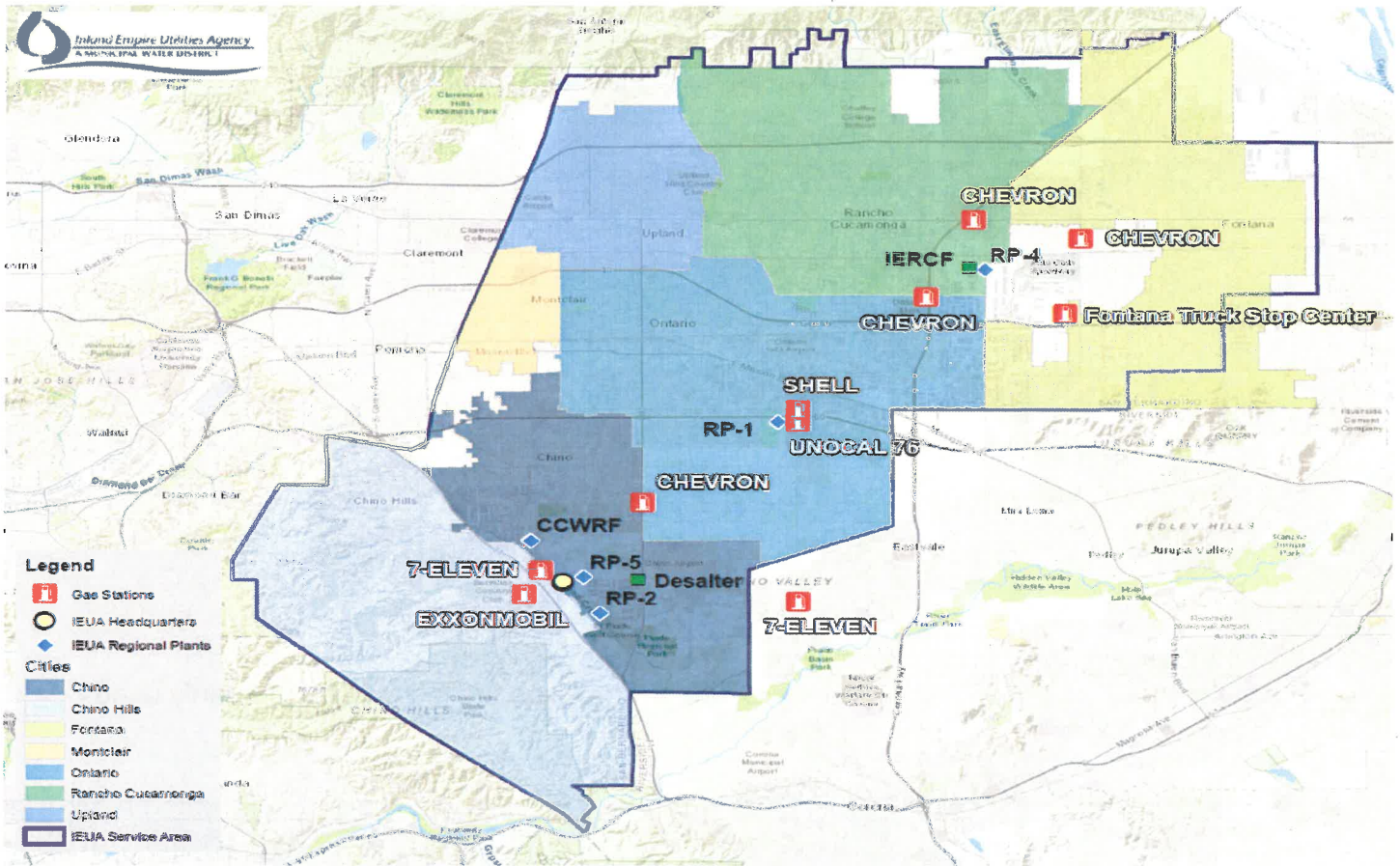
Time Period: January 1, 2017 – March 31, 2019

Merchant Name	Address	No. of Transactions	Total No. of Gallons purchased	Total Dollars
7-Eleven	15450 Fairfield Ranch Road Chino Hills, CA 91709	1,109	21,967.16	\$ 66,146.17
Union 76	2525 S. Archibald Avenue Ontario, CA 91761	1,138	21,986.55	\$ 65,820.71
Fontana Truck Stop Center	14226 Valley Blvd Fontana, CA 92335	137	7,026.27	\$ 24,308.37
Chevron	14088 Euclid Avenue Chino, CA 91710	213	3,492.92	\$ 11,786.40
Chevron	1090 Ontario Mills Drive Ontario, CA 91764	178	3,648.19	\$ 11,569.72
ExxonMobil	15960 Los Serranos Country Club Drive Chino Hills, CA 91709	183	2,994.65	\$ 9,078.14
Shell	2215 S. Archibald Ontario, CA 91761	124	2,545.56	\$ 7,721.10
7-Eleven	7040 Archibald Avenue Corona, CA 92882	119	1,826.79	\$ 5,644.58
Chevron	8515 Cherry Avenue Fontana, CA 92335	66	1,270.12	\$ 4,018.31
Chevron	12659 Foothill Blvd Rancho Cucamonga, CA 91701	84	1,174.77	\$ 3,746.51

The following was observed:

- Nine of the top 10 stations are in IEUA's service area
- One station is outside of IEUA's boundary lines and was primarily used by the Groundwater Recharge Program, and
- All 10 stations are located near an IEUA facility.

The map below shows the geographic locations of gas stations as compared to the Agency's service area.



Fuel Procurement

Agency Policy A-86 requires vehicles to be fueled with regular (87 octane) or diesel. Using the transaction data downloaded from the US Bank Fleet Commander® Online system, the table below shows the type and amount of fuel purchased between January 1, 2017 to March 31, 2019:

Type of Fuel*	2017		2018		2019***	
	Gallons Purchased	Total Dollar Amount	Gallons Purchased	Total Dollar Amount	Gallons Purchased	Total Dollar Amount
Unleaded	31,404.37	\$ 92,858.09	29,490.98	\$ 104,116.16	7,315.29	\$ 23,539.82
Unleaded Blend 7.7%	2,014.99	\$ 6,143.03	1,589.93	\$ 5,632.99	470.51	\$ 1,544.41
Unleaded Plus	54.41	\$ 171.13	63.17	\$ 234.04	-	\$ -
Unleaded Super	297.58	\$ 950.41	138.36	\$ 519.06	15.28	\$ 53.11
Diesel Fuel	3,029.80	\$ 9,395.12	6,046.93	\$ 23,612.87	1,210.75	\$ 4,574.15
Diesel Exhaust Fluid	-	\$ -	118.51	\$ 449.05	25.12	\$ 93.07
Totals**	36,801.15	\$ 109,517.78	37,447.88	\$ 134,564.17	9,036.95	\$ 29,804.56

Note: From the US Bank Fleet Commander® Online system: *Description is from the Transaction Detail Report (Column: Production Description), **Totals are calculated based on the transaction date which differs from the SAP Payment date, and ***Data is only for 3 Calendar months, January 1, 2019 – March 31, 2019.

For the 27 months, there were 33 transactions of fuel with the description of Unleaded Plus/Super, less than 1% of the total purchases during the period reviewed. The Fuel Card Administrator continuously reminds staff that the type of gas that can be purchased is regular unleaded.

US Bank Voyager Fleet Systems

When the fuel card program was initially launched, the Agency paid the amount due within 25 days after the closing date. Starting in September 2016, the payment due date became 45 calendar days from the billing cycle ending date, less any disputed or fraudulent items. The Agency's fuel card billing cycle generally ends on the 24th of each calendar month with the statement due date between the 7th and 10th of the following month. For example, the billing statement for January 2019 closed on January 24th with a payment due date of March 10th. IEUA pays the monthly balance in full each month, to avoid late fees/penalties, and no balances are carried forward. For 2017, the Agency paid US Bank between 13 and 35 days, and on average 24 days from the closing date, while for 2018 payment was made between 23 and 38 days, and on average within 31 days. All paid within the due date.

Observations and Recommendations

Department Goals and Objectives

O&M does not have documented goals for fleet operations, which would include goals, objectives and performance indicators for fuel, vehicles and maintenance costs. Establishing goals and objectives is considered a "best practice" to measure the program's effectiveness.

According to the Fiscal Year 2017/18 and 2018/19 Operating and Capital Program Budget (Budget Document), the Mission Statement for O&M is:

*"To provide quality water and wastewater treatment and ensure that all facilities, structures, **vehicles**, and utilities are operating at optimum efficiency to maximize the continued availability of high quality recycled water; to manager groundwater recharge and biosolids composting in the safest, most efficient, cost effective and environmentally compliant matter."*

The core of the mission statement is focused on the services to be provided to ensure the Agency's facilities and equipment will be working at the best possible level. *Vehicles* are included as one of the areas that should be operating at optimum efficiency according to the mission statement. However, in the Agency's Budget Document, **none of the 16 department goals** outlined by the Operations Division are related to the Agency's fleet operations.

Fleet operations (vehicles, fuel and preventive maintenance) has not been centralized or formally established as a “program”. The Agency’s fleet program is currently decentralized and being operated by two different sections within the O&M Department. Facilities Management under O&M - South manages the Agency’s vehicle fleet, whereas O&M - North is responsible for administration of the Voyager Fuel Card program.

According to the Agency’s financial system, the Agency’s fleet has an acquisition cost of \$2.7 million and a book value of approximately \$500,000 or more as of Fiscal Year 2017/18. The Agency is currently in the process of replacing older vehicles and purchasing new vehicles, which will increase the acquisition and book value costs of the fleet. If fuel and maintenance costs are also considered, then this would appear to be an important program to set goals and objectives for.

2019 Recommendation #1:

Operations & Maintenance Department should develop and document goals and objectives, Key Performance Indicators (KPIs), and/or other metrics for the Agency’s fleet operations for measurement, analysis, tracking and reporting the fleet program’s effectiveness. Goals should be aligned with the Division’s overall mission and could include cost of fuel, fuel usage/consumption, cost of maintenance, asset value of the fleet by type of vehicle, etc. Goals should be measured, evaluated and updated periodically.

DEPARTMENT RESPONSE:

The Operations & Maintenance Department agreed that goals and objectives for fleet operations should be developed. The Operations & Maintenance Department will consider discussing the roles and functions of the fleet program and determine if those responsibilities should be centralized and/or continue to remain segregated within the department.

Data Analysis

US Bank maintains Fleet Commander® Online system that provides fuel information and data management, the ability to view monthly statements, customized reports, etc. The Agency does not record fuel data in any of its own internal systems, other than vendor payment through the financial system (SAP) to US Bank Voyager Fleet Systems.

IA obtained the transaction data from the US Bank Fleet Commander® Online system for review and analysis for the period of January 1, 2017 through March 31, 2019. During this period, the Agency had over 4,000 transactions and procured more than 80,000 gallons of fuel totaling \$273,886. In reviewing the available reports from US Bank Fleet Commander Online system, IA noted the following:

• **US Bank Transaction Detail Report:**

- **Inaccurate Odometer Reading:** Information entered by the cardholder (Card ID 100011/80011) for the odometer reading at the time of refueling appears to be the 4-digit Vehicle ID, i.e., 600, 1101, 1203, 1402, 1901, instead of the vehicle’s actual odometer information. This inaccurate information can skew any data analysis.
- **Out-of-Sequence Odometer:** Various cardholders’ fuel purchasing activity were reviewed and the odometer reading entered at the time of fuel purchase appears to fluctuate and be out of sequence. This is a problem because without the accurate odometer reading, the administrator cannot perform analysis to ensure that the card was not misused and only Agency vehicles were fueled. An example is shown below:

Example of Out-of-Sequence Odometer Reading: *

Card ID/ User	Date	Time	Type of Fuel Purchased	Quantity of Fuel	Transaction amount	Odometer	
100020	9/5/18	08:51:00	Unleaded	41.16	\$ 144.00	14934	
	9/7/18	00:27:00	Unleaded	20.57	\$ 73.00	14987	
	9/13/18	08:29:00	Unleaded	14.53	\$ 52.00	42874	} Out of Sequence
	9/18/18	09:54:00	Unleaded Blend 7.7%	24.42	\$ 84.00	150775	
	10/1/18	05:01:00	Unleaded	38.21	\$ 149.00	15228	
	10/4/18	01:43:00	Unleaded	35.64	\$ 134.00	15274	
	10/15/18	10:45:00	Diesel	49.05	\$ 201.06	35097	
	10/17/18	08:20:00	Diesel	42.34	\$ 173.59	78088	} Change/ Variation
	10/22/18	06:36:00	Unleaded	34.16	\$ 140.01	15378	
	11/1/18	01:21:00	Unleaded	21.09	\$ 78.00	43989	
	11/16/18	14:07:00	Diesel	36.42	\$ 150.00	78746	} Out of Sequence
	11/16/18	14:12:00	Unleaded	24.22	\$ 90.06	15737	
	11/27/18	01:39:00	Unleaded	25.28	\$ 92.00	15786	
	12/5/18	01:39:00	Unleaded	21.72	\$ 76.01	15886	
	12/7/18	00:51:00	Unleaded	13.33	\$ 50.00	15996	} Change/ Variation
	1/9/19	10:54:00	Diesel	42.08	\$ 159.87	36786	
	1/9/19	10:54:00	Diesel Exhaust Fluid	3.53	\$ 13.06	36786	
1/16/19	11:24:00	Diesel	40.61	\$ 154.29	36998		
1/16/19	11:24:00	Diesel Exhaust Fluid	2.16	\$ 8.00	36998		

* It may be that this user had different vehicles on different days; however, if the report can capture vehicle ID # as required at the pump at the time of refueling, it would facilitate evaluating the transactions to ensure these were Agency related transactions.

The variation in the odometer information could have occurred for several reasons, such as driving different Agency vehicles or odometer reading being incorrectly entered by the cardholder at the time of fueling, etc. Having additional key information on the report, such as the Vehicle ID number, and/or other information would assist in analyzing and also in minimizing the appearance of any misuse.

According to Agency Policy A-86 (Section 3.00 Procedures, Section B. Refueling of Agency vehicles, Number 3), after the fuel card is inserted, the cardholder is required to respond to the pump queries by entering:

- i) Personal identification number (PIN) issued with the card
- ii) **Four Digit Vehicle Number**, and
- iii) Current odometer reading (whole number only).

In the Transaction detail report from US Bank Fleet Commander® Online, there is a column called Vehicle ID. This column primarily has 000000 for each fuel transaction, unless the fuel card used is assigned to a department and/or pool vehicle, then it would have the assigned pool vehicle number such as 001701, 001702, etc.

With the data that is currently available, O&M may want to obtain an understanding and review the fuel data to find out why the odometer reading seems to vary so much. Additionally, O&M should consider researching with US Bank to see if other information (such as the Vehicle ID#) could be captured at the time of purchase for assigned cardholders. This information would assist in any data analysis performed.

o **Two Transactions with the Same Date, Time, and Odometer Reading:**

In reviewing the transaction data from US Bank, there are several transactions that have the same date, time, and odometer reading. Without additional information, IA is unable to determine if these transactions are for one Agency vehicle, multiple vehicles or involve the refueling of a portable container or tank. Additionally, Agency Policy A-86 (Section 3.00 Procedures, Section C) requires the refueling of portable containers or tanks to be a separate transaction and in lieu of the odometer reading, zeros should be entered ("0000"). Examples follow:

Card ID	Date	Time	Type of Fuel Purchased	Quantity of Fuel	Transaction amount	Odometer	Observations
800011	3/20/2017	17:50:00	Diesel	54.81	\$ 164.38	1203	Same date, time & odometer. Different types of fuel purchased. No receipt available for review.
800011	3/20/2017	17:50:00	Unleaded	2.55	\$ 7.15	1203	
800020	5/11/2017	09:54:00	Diesel	43.70	\$ 131.06	26105	Same date, time & odometer. Different types of fuel purchased. No identifying information on the receipt, other than employee signature & number.
800020	5/11/2017	09:54:00	Unleaded	2.76	\$ 7.74	26105	
800011	8/13/2018	10:48:00	Diesel	68.57	\$ 274.22	33455	Same date, time & odometer. No receipt available for review.
800011	8/13/2018	10:48:00	Diesel Exhaust Fluid	2.60	\$ 9.62	33455	
100022	1/23/2019	13:45:00	Diesel	55.34	\$ 210.26	37101	Same date, time & odometer. No identifying information on the receipt, other than employee signature and number.
100022	1/23/2019	13:45:00	Diesel Exhaust Fluid	1.80	\$ 6.67	37101	
100012	3/25/2019	11:45:00	Diesel	58.98	\$ 229.97	38754	Same date, time & odometer. Unable to locate monthly Voyager statement with gas receipts.
100012	3/25/2019	11:45:00	Diesel Exhaust Fluid	4.45	\$ 16.49	37854	

Without additional information on the US Bank report, the purchases may appear to be questionable. In analyzing the transactions, it may be that drivers filled up the vehicle and a container in the vehicle; but that information is not documented or captured on the online reports. O&M should research these types of transactions as part of their data analysis and determine if additional information needs to be captured at the time of refueling or if cardholders require additional training in using the Voyager fuel cards to ensure all the needed information is inputted and documented.

- **Multiple Transactions on the same date:**

Using the US Bank Fleet Commander® Online system, IA obtained a report that provides *Cards with Multiple Purchases per day*. The report identified 77 instances where different cardholders had 2 transactions on the same date of purchase. There was 1 instance where the same cardholder had 3 transactions on the same date of purchase. The report from US Bank does not indicate if the transactions were for different vehicles, as it does not identify the vehicle number. See the examples below:

3 Fuel Transactions on the Same Day

Card ID	Date	Time	Location/ City	Type of Fuel Purchased	Quantity of Fuel	Transaction amount	Odometer	Observation
800205	12/28/2017	07:52:00	Shell Ontario, CA	Diesel	14.41	\$ 49.85	10181	Reviewed gas receipts. Noted the same number (1601), but the employee signature <i>does not match</i> the name of the Cardholder. No other identifiable information was provided.
	12/28/2017	09:38:00	Shell Fontana, CA	Diesel	20.21	\$ 74.78	10206	
	12/28/2017	09:41:00	Shell Fontana, CA	Unleaded	5.48	\$ 17.56	10206	

The number of purchases is allowable according to the restrictions established in the US Bank Fleet Commander® Online system. However, IA observed, in a two-hour period, a total of 40.10 gallons of fuel (34.62 diesel, 5.48 unleaded) were purchased and \$142.19 dollars spent at two different gas stations in one day.

IA also reviewed the individual gas receipts for these transactions and observed minimal information was listed on the receipts (i.e., a number and employee signature). Even with the limited information, it does not clarify why multiple purchases occurred on the same day within a short period of time, nor does it clearly state if the number was an Agency Vehicle, and the employee signature *does not match the name of the fuel cardholder*. Without additional information on the electronic report and/or the gas receipts, the purchases may appear questionable. To minimize any perception of misuse, it is imperative that additional information should be captured at the time of purchase, or at the very least documented on the individual gas receipts.

Noted instances with 2 transactions per day, the times were a few minutes to several hours apart and the odometer reading was different:

2 Fuel Transactions procured in the Same Day – Different Odometer Reading

Card ID	Date	Time	Location/ City	Type of Fuel Purchased	Quantity of Fuel	Transaction amount	Odometer	Observation
800203	10/31/2017	10:55	Chevron Fontana, CA	Unleaded	17.00	\$ 54.39	38447	No receipt available for review.
800203	10/31/2017	12:54	Chevron Fontana, CA	Unleaded	23.76	\$ 76.01	34764	Vehicle ID # noted, no other identifiable information provided.
800095	5/31/2018	11:48	Circle K Chino Hills, CA	Diesel	34.81	\$ 135.75	13265	Unable to locate Voyager statement with gas receipts.
800095	5/31/2018	11:55	Circle K Chino Hills, CA	Diesel	26.52	\$ 103.43	32165	
100020	11/16/2018	14:07	Union 76 Ontario, CA	Diesel	36.42	\$ 150.00	78746	Gas receipts identified Vehicle type & number, and employee number.
100020	11/16/2018	14:12	Union 76 Ontario, CA	Unleaded	24.22	\$ 90.06	15737	
100108	3/7/2019	08:50	7-Eleven Chino Hills, CA	Unleaded	16.85	\$ 52.04	38478	Gas receipts identified entity, Vehicle type and ID#, and employee information.
100108	3/7/2019	10:34	7-Eleven Chino Hills, CA	Unleaded	18.84	\$ 58.18	8997	
100203	3/21/2019	01:01	Chevron Chino, CA	Unleaded	21.28	\$ 76.58	17171	Gas receipts identify Vehicle ID#, and employee number and information.
100203	3/21/2019	11:35	Chevron Ontario Mills, CA	Unleaded	18.97	\$ 67.12	46205	

For the transactions above, IA noted the following: an individual gas receipt was unavailable for review, monthly statement with the gas receipts could not be located, and receipts that were reviewed contained identifiable information.

If the electronic report does not show the vehicle number and/or other identifying information, it is difficult to trace the transaction or to determine if they were for an Agency-owned vehicle. IA suggests these types of transactions be reviewed by O& M to ensure the fuel purchases are appropriate.

- **Additional Analysis - Fuel Tank Capacity**

The Agency does not have fuel tank capacity information for the vehicles in its fleet. This information would be useful for analysis, for example, to compare the fuel purchased to tank capacity to determine if quantity purchased exceeds capacity. This would provide a tool to review for any possible misuse.

Efficient fuel management and analysis can be performed with the various reports available through US Bank Fleet Commander® Online. With the transaction data, various reports can be run within the online system and/or data could be downloaded and analyzed to sort by date, user, location, etc. However, effective analysis is also dependent on the accuracy and the type of information entered by cardholders at the pump. **Attachment 4** has a table with the list of reports available through US Bank.

IA recommends that O&M determine what type of information will be useful and practical to assist in operation and management of the fuel program, adequately train card users to input and include the correct information to ensure reports provide useful data. Having key information inputted and/or documented at the time of purchase will assist in strengthening and tightening the controls in place and will provide a clearer snapshot of the Agency’s fuel activity. Additionally, IA previously provided a recommendation to work

with US Bank on the reporting capabilities, and perform report analysis on the Agency's fuel consumption, which can be found in the audit report *Review of Vehicle Inventory Procedures*, dated March 12, 2014. Therefore, the original recommendation #9 provided in 2014 has been updated, restated, and incorporated into 2019 Recommendation #2.

2019 Recommendation #2:

Operations & Maintenance should work with US Bank to evaluate the reporting tools and features that are available to provide useful information about the Agency's fleet to identify inefficiencies, areas of improvement, and instances of unusual card usage where follow-up is be required and reduce potential risks of misuse.

DEPARTMENT RESPONSE:

The Operations and Maintenance Department agree there is significant benefit in performing data analysis and generating reports for Management to review, and additional research can be performed accordingly.

Fuel Card Administrator

The role and responsibilities of the Fuel Card Administrator are documented in Agency Policy A-86 (Refueling Agency Vehicles) as follows:

- Collection of the transaction receipts from cardholders after vehicles and portable containers have been refueled,
- Receipt of a copy of the completed *Cardholder Use Agreement*,
- Notification by the cardholder if their fuel card has been reported lost or stolen, and
- Address any questions or problems related to using the card.

The Fuel Card Administrator role is currently assigned to a staff member in O& M (North). Duties performed include ordering and issuing cards, providing training, collecting receipts and reconciling to the billing statement, and providing information to FAD for the payment to the vendor.

IA recommends enhancing the role of the Fuel Card Administrator to include additional responsibilities, including for example:

- Analysis/Reporting: To fully utilize US Bank reporting tools to perform analysis on spending activity, fuel economy, consumption, etc., and communicate to management for review, evaluation, measuring and monitoring. . (I agree removed highlight)
- Training/Guides: Review guides and/or manuals and participate in web-based training offered through US Bank to learn about the features, reports, and the various tools available to assist in managing the fuel program.

- **Oversight:** evaluate card activity, ensure Cardholder Use Agreements are on file with HR, provide training and information about the use of the cards and remind users of the guidelines outlined in Agency Policy A-86.

2019 Recommendation #3:

The Fuel Card Administrator role should be clarified and enhanced, either in Agency Policy A-86 and/or other related policy. The Fuel Card Administrator role should be enhanced to include greater oversight roles and responsibilities, to include:

- ***Responsibilities to maximize the use of online reports and tools available through the US Bank Fleet Commander® Online system.***
- ***Analysis and evaluation reports and communications to provide Operations & Maintenance information about the fuel card program.***

Fuel Cards with No Activity

The cardholders' use and activity should be reviewed periodically to determine if changes should be made. The audit identified 15 Voyager fuel cards that had no fuel purchases in the previous two years, as follows:

Entity/Department	Number of fuel cards with no activity
Engineering & Construction Management	2
Laboratory	4
Operations & Maintenance	2
Pool Vehicle	1
IERCF	6
Totals	15

Credit cards should be issued based on need. Unused Voyager fuel cards increase the risk for potential misuse and the opportunity for unauthorized purchases. It also exposes the Agency to additional risk if the US Bank system is breached or compromised. Unused or unneeded cards should be cancelled.

2019 Recommendation #4:

Operations & Maintenance should establish a process to periodically review the use of fuel cards and ensure cards no longer needed or used are deactivated to reduce risks to the Agency.

DEPARTMENT RESPONSE:

The Operations and Maintenance Department agreed the Fuel Card Administrator should periodically perform a review of the active fuel cards, and any cards identified without activity for an extended period of time will be evaluated to determine if the card is needed, otherwise fuel cards that are deemed no longer necessary will be canceled/closed.

Cardholder Agreements

According to Agency Policy A-86 (Section 3.00 Procedures, Section D), employees who receive a Voyager Card are required to complete a training session and sign the “*Cardholder Use Agreement*” acknowledging their understanding of the program requirements. IA selected a sample of 20 employees (15 current, 5 separated) to review the *Cardholder Use Agreement* form:

- 2 of 20 employees reviewed did not have a signed agreement on file.
- Return of Agency Card section of the *Cardholder Use Agreement* was not completed for the remaining 4 separated employees. According to language stated on the form, the bottom section must be completed when the card is returned to the Agency. This acknowledges that the card issued has been returned to the Agency and all charges placed on the card were for official Agency business only. The Human Resources (HR) Department noted as part of the separation process, they inquire whether employees have any Agency property that needs to be returned including credit cards, etc. HR noted the “physical” card is taken from the employee at the time of separation, however, the bottom portion of the form is not completed. There may be a delay in deactivation of the Voyager fuel card if the Fuel Card Administrator is not notified in a timely manner. O&M and HR should determine if this is the procedure they will follow.

The *Cardholder Use Agreement* describes and outlines the employee’s responsibilities to use the fuel card. Not having employee’s complete and sign the *Cardholder Use Agreement*, increases the risk of the Voyager fuel cards used improperly and cannot hold the employees accountable to the guidelines. IA provides the following soft recommendation for consideration by the department:

O&M should work with HR to develop a process to ensure the Cardholder Use Agreement forms are completed and retained for all fuel cardholders. O&M and HR should consider developing a process to periodically review the list of Voyager fuel cardholders and perform spot checks to confirm the agreement forms are on file. In addition, O&M should work with HR to review the Cardholder Use Agreement form and determine if the bottom portion of the agreement (Return of Agency Card) is needed and either complete it or consider removing it from the form or determine a process to remind employees of their responsibilities under the user agreement and ensure compliance with agreement terms.

DEPARTMENT RESPONSE:

The Operations and Maintenance Department agreed an employee receiving a fuel card should have a Cardholder Use Agreement on file, the original form with HR and a copy retained locally for reference. Additionally, the Fuel Card Administrator should conduct annual spot checks to ensure agreements are on file and retained with HR. Lastly, HR should provide to the Fuel Card Administrator timely notification of employees that have separated to ensure the fuel card is deactivated and cancelled.

Agency Policy/Standard Operating Procedure (SOP)

IA identified the following policies, procedures and/or documents related to the refueling of Agency vehicles and/or the Voyager Fuel Card program:

Document	Title Topic	Last date of revision	Observations
Agency Policy A-86	Refueling Agency Vehicles	02/04/2013	<ul style="list-style-type: none"> Policy is focused on refueling procedures for assigned vehicles, no information is provided for pool vehicles No updates have been made since initial implementation of the policy No mention of the Fuel Card Administrator's roles and responsibilities
Standard Operating Procedure Document Number 140-046	Maintenance Vehicle Refueling	06/27/2011	<ul style="list-style-type: none"> Procedures and content outlined in the SOP appear to be outdated, document was last updated in June 2011 Update SOP to comply with the guidelines and format outlined in Agency Policy A-51
Informal desk procedure	Voyager Fuel Card Program (Process)	No date listed, provided to IA in January 2019	<ul style="list-style-type: none"> Established to outline the various processes performed by the Fuel Card Administrator and about the Voyager Fuel Card program, including ordering, issuance, and usage of fuel cards, and monthly billing and reconciliation

Having outdated or inconsistent information can create confusion for staff and procedures can be incorrectly and/or inconsistently applied. Good internal controls require formal written procedures to ensure consistency and accuracy in executing processes and procedures. SOPs serve as a training tool and manual for staff. Policies and procedures should be reviewed periodically to ensure they are updated and consistent with current business practice. Department SOPs are part of the Agency's internal control framework.

IA has already provided a recommendation related to this area in a prior audit report, which continues to stand and will be followed up on during a future review.

Agency Vehicle Operational Follow-Up audit, dated November 29, 2018:

Facilities Manage should continue to work with the appropriate departments to make necessary updates, and/or consolidate Agency policies and procedures for Agency vehicles and ensure the reviewed policy(ies) address refueling and washing procedures, security, safety times, insurance, license requirements, etc. The new and final policy should be approved by Executive Management and make available for all Agency employees for their reference.

DEPARTMENT RESPONSE:

O&M is in the process of updating the Agency-wide policy related to Vehicle Operations, which includes fueling procedures and the use of the Agency Voyager Fuel card. According to O&M, the Agency policy is planned for finalization in June/July 2019.

Attachment 1

Agency Policy A-86: Refueling Agency Vehicles

**INLAND EMPIRE
UTILITIES AGENCY**

Administrative Policies
and Procedures Handbook

Document No.: A-86
Page No.: 1 of 3
Revision No.: N/A
Effective Date: 2/4/13

POLICY: REFUELING AGENCY VEHICLES

1.00 PURPOSE

The purpose of this policy is to establish the process for refueling Agency-owned vehicles.

2.00 SAFETY ISSUE CONSIDERATIONS

Employees shall exercise due care and vigilance at all times when refueling Agency vehicles and equipment.

3.00 PROCEDURES

A. Accounts have been established through US Bank, the issuer of Voyager Fleet Cards. Using personal funds or credit to refuel Agency vehicles without prior approval from the employee's department or division manager is prohibited.

B. Refueling of Agency vehicles:

1. When an Agency vehicle requires refueling, the driver should proceed to the nearest gas station that accepts "VISA" credit cards.
2. Drive to the pump and safely secure the vehicle.
3. Insert or slide the card as if it were a standard credit card transaction.
 - a. Respond to the pump queries by entering:
 - i. The personal identification number (PIN) issued with the card.
 - ii. The four digit vehicle number.
 - iii. The current odometer reading (whole number only).
 - b. Fuel the vehicle with regular (87 octane) or diesel, as required.
 - c. Obtain a transaction receipt and promptly forward the form to the respective Program Administrator.

C. Refueling approved portable tanks and containers:

1. When refueling portable tanks and containers, a separate transaction is required.
2. Insert or slide the card as if it were a standard credit card transaction.
3. Respond to the pump queries by entering:

- a. The PIN issued with the card
 - b. The applicable equipment number (e.g., portable generator No. XX).
 - c. In lieu of an odometer reading, enter "0000."
4. Fill the tank or container using care to secure on the vehicle, as required.
 5. Obtain a transaction receipt and promptly forward the form to the Program Administrator.
- D. Prior to receiving a Voyager Fleet Card, each authorized employee ("cardholder") is required to attend a brief program review and training session. At the conclusion of the training session, the employee shall read, sign, and date a "Cardholder Use Agreement," acknowledging their understanding of the program requirements, procedures, processes, and restrictions. The original form will be maintained in the employee's personnel file with copies distributed to the employee, their supervisor, and the Program Administrator. Additionally, a record on the card assignment will be added to the "My Assigned Asset(s) List" on the Agency Portal.
- E. Upon receipt of the signed Cardholder Use Agreement, the card will be activated and issued.
- F. It is the responsibility of the employee using the card to safeguard the card from theft, loss, and/or misuse.
- G. Cards are embossed with the cardholder's name and employee number. Under no circumstances should employees allow anyone, including another employee, to use their assigned card, nor divulge the card number or assigned PIN to anyone. PINS should be treated with the same care and custody as a computer or personal password.
- H. The card is to be used solely for purchasing fuel for Agency vehicles, portable containers or tanks specifically-designed and approved for such use. Using the card for services or merchandise, including sundries, is strictly-prohibited.
- I. The card is **not** to be used for employee's personal use. Intentional misuse or fraudulent use of the card will result in immediate cancellation of card privileges, followed by disciplinary action, up to and including termination.
- J. Falsifying receipts by entering erroneous equipment numbers is also grounds for disciplinary action, up to and including termination.
- K. The cardholder is to immediately report (i.e., same business day) any lost or stolen cards to the card issuer, their supervisor, and the Program Administrator. The card company's telephone number may be found on the back of the card. It is important for the Program Administrator to document and confirm the telephone conversation with the credit card company personnel with written notification, such as e-mail, noting the date, time, and name or number of the person to whom you spoke with

in your documentation.

- L. Employees shall immediately surrender their Agency-issued card upon separation, suspension, or upon request from management. Use of a card after a request to surrender has been made is expressly prohibited.

4.00 Responsibility Assignments

Any questions or problems related to using the card should be promptly directed to the Program Administrator.

5.00 Exhibit

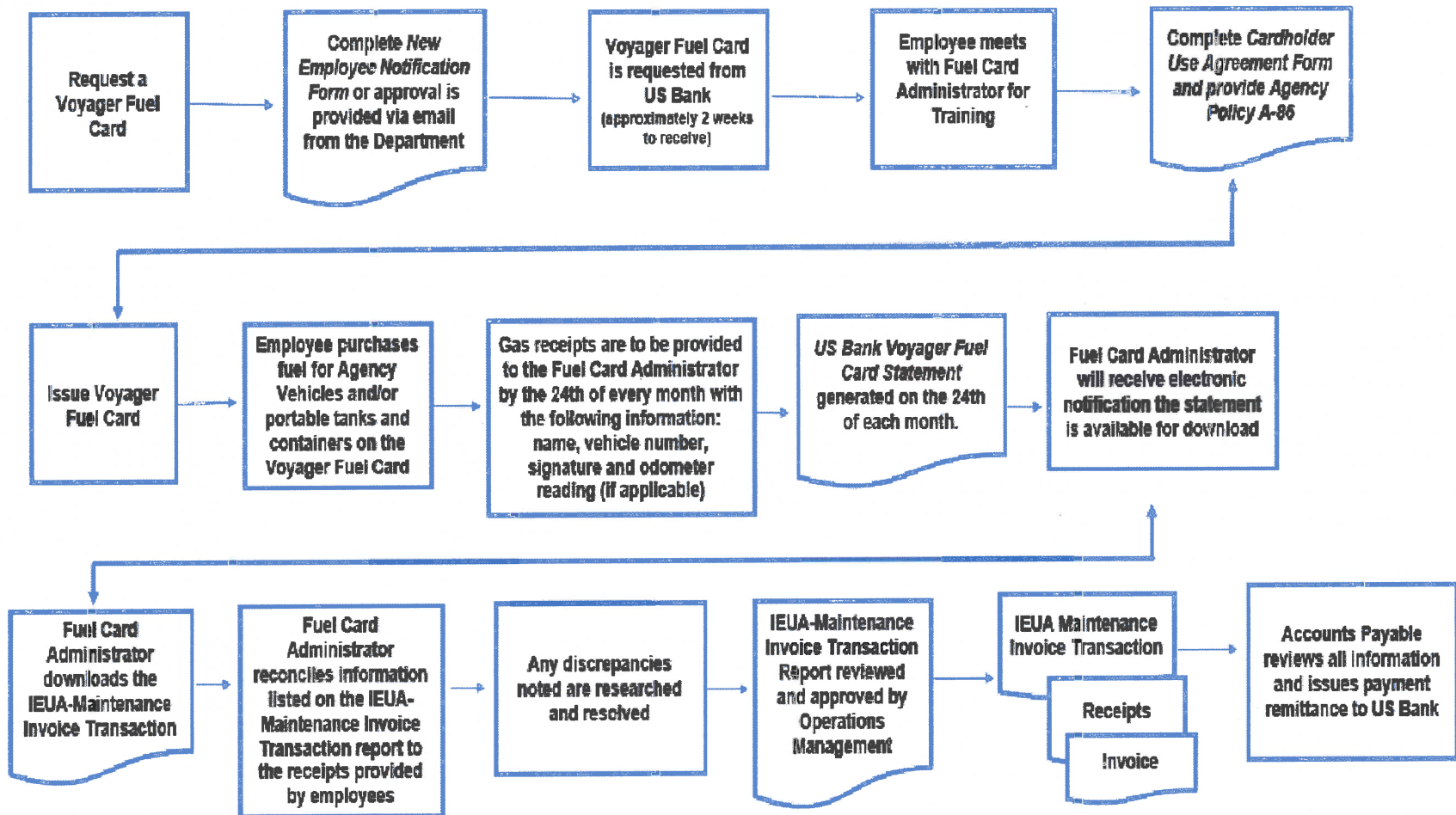
Cardholder Use Form

APPROVED:

General Manager

Attachment 2

Flowchart of Voyager Fuel Card Process:



Attachment 3
Fuel Spending by Calendar Year for the period of January 1, 2017 through March 31, 2019

Entity/Department	2017		
	Number of Transactions	Gallons Purchased	Total Fuel Spending
IEUA:			
Operations & Maintenance (Includes O&M's Pool Vehicles)	1,125	23,339.92	\$ 69,174.71
Groundwater Recharge	164	3,987.36	\$ 12,017.78
Facilities Management (Includes various Pool Vehicles)	197	2,900.22	\$ 8,608.74
Planning & Environmental Resources	102	2,264.00	\$ 6,813.95
Engineering & Construction Management	73	1,365.02	\$ 4,073.07
Integrated Systems Services	85	1,287.41	\$ 3,833.23
External Affairs	6	129.90	\$ 387.19
Laboratory	2	20.71	\$ 61.18
IERCF	64	895.39	\$ 2,751.75
CDA	38	611.82	\$ 1,796.18
Totals	1,856	36,801.15	\$ 109,517.78

Entity/Department	2018		
	Number of Transactions	Gallons Purchased	Total Fuel Spending
IEUA:			
Operations & Maintenance (Includes O&M's Pool Vehicles)	1,077	24,243.72	\$ 87,422.25
Groundwater Recharge	145	3,210.19	\$ 11,606.96
Facilities Management (Includes various Pool Vehicles)	192	3,045.09	\$ 10,798.92
Planning & Environmental Resources	96	2,157.54	\$ 7,652.32
Integrated Systems Services	84	1,197.11	\$ 4,234.25
Engineering & Construction Management	58	1,043.39	\$ 3,742.16
Laboratory	14	158.35	\$ 566.52
External Affairs	1	26.61	\$ 81.40
IERCF	74	1,067.24	\$ 3,894.96
CDA	90	1,298.64	\$ 4,564.43
Totals	1,831	37,447.88	\$ 134,564.17

Entity/Department	2019*		
	Number of Transactions	Gallons Purchased	Total Fuel Spending
IEUA:			
Operations & Maintenance (Includes O&M's Pool Vehicles)	267	5,854.06	\$ 19,474.45
Groundwater Recharge	43	834.60	\$ 2,767.80
Facilities Management (Includes various Pool Vehicles)	47	807.58	\$ 2,583.68
Planning & Environmental Resources	19	434.22	\$ 1,369.76
Integrated Systems Services	15	217.38	\$ 702.88
Engineering & Construction Management	10	176.76	\$ 568.46
Laboratory	16	158.27	\$ 508.88
External Affairs	-	-	\$ 0-
IERCF	19	269.53	\$ 922.63
CDA	18	284.55	\$ 906.02
Totals	454	9,036.95	\$ 29,804.56

*Data for 3 Calendar Months: January 1, 2019 – March 31, 2019

Attachment 4

Reports available to the Agency through US Bank Fleet Commander® Online System:

Category/Name of Report	Type of Information
Inventory Reports:	They provide lists of the cards, vehicles, or drivers in the program to monitor and manage the fleet program.
Card Report Vehicle Report Driver Listing Report	Report provides a complete listing of all the cards, vehicles, or drivers in the fleet program
Transaction Reports:	They provide reports that allow you to actively manage and monitor your program by giving you a picture of transactions associated with the specific vehicles or drivers.
Transaction Detail Reports	Report provides a comprehensive picture of the transactions in your program. This report allows for all transactions to be included, or filter the transactions using multiple parameters.
Real Time Activity Report	The report provides a view of real-time activity by card, driver or vehicle for the last 7 days. This information will allow you to manage your fleet transaction limits and/or view transaction information prior to posting.
Transactions by Vehicle Report	The report provides transaction information associated with a specific vehicle in the program. This report can be used to monitor and manage card usage for the vehicle, such as identifying vehicles that are heavily used and those with only few transactions, and/or vehicles that have a high number of specific transaction types.
Transactions by Driver Report	The report provides transaction information associated with specific drivers in the program. Use of this report will identify cardholders that are heavy and light users, or to find specific transaction types by driver.
Transactions without Drivers ID	This report is listed as an option, but no results were produced for the Agency.
Management Reports:	They provide reports that can be used to measure and track key aspects of the fleet program, such as program's dollar volume, identification of top merchants, identification of cards with the highest number of transactions, dollar volume, non-fuel transactions, gallons, and multiple purchases per day. Also, you can pinpoint card by purchase method. In addition, it can help measure and track vehicle fuel economy for specific vehicles or by vehicle type.
Top Dollars by Merchant Report	The report provides the list of merchants where dollars are spent from highest to lowest. This information can be used to manage key vendor relationships for maximum program value.
Cards with High Dollars for Non-Maintenance Transactions	The report provides an overview of card use by listing cards with a large volume of non-maintenance transactions.
Cards with High Gallons	The report provides information about cards that have a high gallon volume. This will assist in the identification of high-use cards.
Cards with Non-fuel purchases	The report identifies any cards that have been used to purchase something other than fuel.
Cards with Highest Number of Transactions	The report identifies cards that have the highest number of transactions.
Cards with Multiple Purchases per day	The report identifies cards that have multiple purchases per day. In addition, the information from this report can assist in identification of potential card misuse.
Cards by Purchase Method	The report identifies how the cards were used for purchases, such as at the pump
Fuel Economy by Vehicle ID	The report can be used to monitor fuel economy for vehicles in the program.
Fuel Economy by Vehicle Description	The report can be used to monitor fuel economy for vehicles in the program.
Vehicle Cost Analysis	The report provides a picture of the cost of each vehicle in the program.

Emergency Merchant Availability Report	The report can be used to find fueling locations during a storm or natural disaster.
Card Expiration	The report provides information on the expiration dates of cards in the program. Using this information, you can track expiration and reissuance.
Exception Reports:	They provide reports to monitor card limit usage. In addition, the reports can also be used to identify accounts and transactions that meet one or more exception parameters that are established. These are reporting tools that can be used to monitor the program for potential misuse or to identify needed adjustment in program parameters.
Percent of Limit Report	The report provides a snapshot of a card's current limit dollar use and percentage use. Using this information, card limits can be adjusted, monitored, and/or program adjustments can be made.
Declined Transactions Reports	The report can be used to track transactions with a declined authorization with a declined reason code. The report can only be run for 7 days from the current date.
Billing Reports:	They provide reports with a summary of transactions in your program.
Invoice Report	The report can be used to view a summary and details of transactions for each card, including card number, date, transaction description, invoice number, amount and additional detail.
Detailed Invoice Report	
Invoice Statement Status Report	The report can be used to track the status of your invoice statements by payment status and billing cycle.
Sales and Marketing Reports:	They provide information related to sales and marketing (if applicable).
Customer Sales	The report can be used to track sales by product type and product category for transactions posted in a specified time period.
Customer 12 month sales	The report can be used to track product type, product category, or a specific product's sales for transactions that posted during a previous period.

Attachment 5

2019 Audit Recommendations provided in the report.

Rec #	Recommendations
1	<p>Operations & Maintenance Department should develop and document goals and objectives, Key Performance Indicators (KPIs), and/or other metrics for the Agency's fleet operations for measurement, analysis, tracking and reporting the fleet program's effectiveness. Goals should be aligned with the Division's overall mission and could include cost of fuel, fuel usage/consumption, cost of maintenance, asset value of the fleet by type of vehicle, etc. Goals should be measured, evaluated and updated periodically.</p>
2	<p>Operations & Maintenance should work with US Bank to evaluate the reporting tools and features that are available to provide useful information about the Agency's fleet to identify inefficiencies, areas of improvement, and instances of unusual card usage where follow-up is be required and reduce potential risks of misuse.</p>
3	<p>The Fuel Card Administrator role should be clarified and enhanced, either in Agency Policy A-86 and/or other related policy. The Fuel Card Administrator role should be enhanced to include greater oversight roles and responsibilities, to include:</p> <ul style="list-style-type: none"> • Responsibilities to maximize the use of online reports and tools available through the US Bank Fleet Commander® Online system. • Analysis and evaluation reports and communications to provide Operations & Maintenance information about the fuel card program.
4	<p>Operations & Maintenance should establish a process to periodically review the use of fuel cards and ensure cards no longer needed or used are deactivated to reduce risks to the Agency.</p>

Voyager Fuel Card Audit



Background

- Number of Voyager Fuel Cardholders: 159*

(*as of March 31, 2019)

- Spending:

	Calendar Year				
	2014	2015	2016	2017	2018
Fuel expense	\$128,938	\$ 116,701	\$ 100,555	\$ 102,519	\$ 124,757
Number of transactions	1,779	1,886	1,937	1,836	1,802
Gallons purchased	35,994	38,610	39,422	36,818	37,501

Source: Information downloaded from SAP and calculated based on payment date.

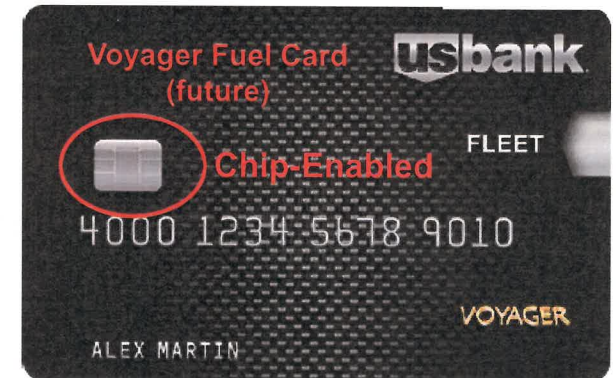
- Fueling Stations:

- Top 10 gas stations used to purchase fuel are located near an Agency facility: 9 within the service area, while 1 is outside the boundary lines. (See Page 8 in the report for the map)

- Rebates (Cash Back): **No incentives are received.**

- Controls in place:

- Purchase restrictions (**fuel only**), odometer reading collected (if applicable)



Observations and Recommendations

- **Goals and Objectives:** Develop and document goals and objectives, and establish Key Performance Indicators/other metrics for the Agency's Fleet Program (including fuel, vehicle and maintenance costs).
- **Data Analysis:** Consider using tools and reports available through US Bank to obtain information/reports that would be valuable to Operations management. Also, perform analysis to ensure fuel purchases are adequate and minimize any risk of misuse.
- **Fuel Card Administrator:** Enhance the role to provide card oversight and analysis.
- **Voyager Fuel Cards with no activity (for extended period of time):** Review to determine if the card is needed, or consider closing/canceling the cards.
- **Cardholder Agreements:** Periodic review should be performed to ensure a signed agreement is on file with the Human Resources Department.
- **Agency Policy/Standard Operating Procedure:** Currently under review.



Questions & Discussion

The Voyager Fuel Card Audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing an independent evaluation of the Voyager Fuel Card program, suggesting recommendations for improvements, monitoring the internal control environment of the Agency, and assisting Agency management in achieving organizational goals and objectives.

Audit Committee

INFORMATION
ITEM
2D



Date: June 19, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

06/10/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Accounts Payable Follow-Up Audit

Executive Summary:

IA performed follow-up procedures to verify whether prior recommendations had been implemented related to Accounts Payable (AP) functions. Additional alternate controls have been established to reduce the risks of potential conflicts of duties and unauthorized changes to the Vendor Master Data (VMD) to improve controls over adding/changing vendors and the related payments approved and issued.

As a result of this audit, IA has one new recommendation and four restated recommendations:

- Business Information Systems (BIS) should work with Finance & Accounting Department (FAD) and Human Resources (HR) to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties.
- FAD should take the lead and work with BIS to implement efficiencies by fully utilizing SAP work-flows to process and approve invoices to migrate to a paperless environment.
- FAD should perform a review of all existing VMD records and ensure all vendor information is complete and up-to-date and includes a verified physical address.
- FAD should perform a review of VMD records to ensure only active vendors remain active. Vendors no longer used should be blocked and those never used should be deleted or blocked.
- FAD should update SOPs to reflect business process.

Staff's Recommendation:

This is an information item for the Board of Directors to receive and file and to provide direction to Agency staff to implement/resolve the audit recommendations that have been provided.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

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

Prior Board Action:

On June 20, 2018, the Board approved the IA Annual Audit Plan. The Accounts Payable Follow-Up Audit was scheduled in the Annual Audit Plan. The Board has previously received Accounts Payable audit and follow-up reports dated May 12, 2010, October 25, 2011 and August 29, 2013.

Environmental Determination:

Not Applicable

Business Goal:


The Accounts Payable Follow-Up Audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing independent evaluations and audit services of Agency activities and making recommendations to foster a strong ethical and internal control environment, provide efficiencies, safeguard assets and assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Accounts Payable Follow-Up Audit Report
Attachment 2 - PowerPoint



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DATE: May 30, 2019
TO: Shivaji Deshmukh
General Manager

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: ACCOUNTS PAYABLE FOLLOW-UP AUDIT

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed a follow-up audit of Accounts Payable operations. The audit was performed under the authority given by the IEUA Board of Directors and the Fiscal Year 2018/19 Annual Audit Plan. As required by the Internal Audit (IA) Department's Charter and the Annual Audit Plan, IA must follow-up on the status of open audit recommendations to determine whether corrective actions have been taken.

Audit Scope

The purpose of this follow-up audit was to determine the progress made by the Finance and Accounting Department (FAD) to implement 9 outstanding recommendations made in the prior audit and follow-up reports dated May 12, 2010, October 25, 2011 and August 29, 2013. IA refers readers to those audit reports for a comprehensive understanding of all the details of the original audit and subsequent follow up reviews. Reports can be obtained from the Agency intranet website or by contacting IA. This report provides an evaluation of the status of the open recommendations and considered controls related to those recommendations.

Audit Techniques Applied

Audit techniques applied during the audit included:

- Interviews of Accounts Payable and other Agency staff
- Analysis of financial transactions
- Review of supporting documents
- Review of policies and procedures
- Review of vendor master data (VMD)
- Review of vendor disbursements and controls
- Analysis of accounts payable aging
- Analysis of access and roles within SAP

Water Smart - Thinking in Terms of Tomorrow

Paul Hofer
President

Jasmin A. Hall
Vice President

Kati Parker
Secretary/Treasurer

Michael Camacho
Director

Steven J. Elie
Director

Shivaji Deshmukh
General Manager

Audit Results - Executive Summary

The follow up audit found that, overall, the Agency has effective controls in place over accounts payable transactions. IA found opportunities to tighten controls and improve efficiencies in addressing the original recommendations. Of the nine outstanding recommendations from the prior audits, IA deferred two recommendations about updating Agency policies and will follow up with the respective departments at a later time. Of the remaining seven recommendations, three have been addressed and are considered implemented. IA identified one new recommendation related to these implemented recommendations. Additionally, one recommendation is in process, and three have not been implemented. IA has restated those four outstanding recommendations (the one in process and the three not implemented). As a result of this review, there are a total of five outstanding recommendations. The details of the observations and recommendations are included in the attached report, the following list provides a summary of the follow up review:

- Additional alternate controls have been established to reduce the risks from potential conflicts of duties and unauthorized changes to Vendor Master Data (VMD); changes to vendors established in the accounting system. The mitigating control that has been implemented extends beyond just Accounts Payable activity, which is considered a positive step. The control requires accounting supervisory staff to regularly review changes to Vendor Master Data and General Ledger (GL) Account Numbers in SAP. IA recommends that the reviews be documented and communicated on a regular basis to the department manager, to ensure there is an additional verification and ensure agreement with any changes made. Additionally, IA suggests the department consider establishing a checklist to document results and findings from the review and document what steps were performed to address.
- In evaluating access controls over all IEUA staff that have Accounts Payable (AP) authorizations in SAP (the Agency's accounting system), IA noted that some staff members, with AP authorizations, have transferred to other departments or to different functions within FAD and no longer require the AP authorizations but continue to have the same authorizations. There is a need to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Business Information Systems (BIS) should work with FAD and Human Resources (HR) to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Options include:
 - BIS work closely with IA and FAD to perform regular (at minimum annual) reviews and evaluations of roles and authorizations to search for conflicts of duties.
 - BIS work with HR to establish a formal notification method/checklist when changes occur as a result of employees changing job duties and responsibilities that may present a risk and potential conflict of duties and may require authorizations be modified.

- BIS determine the feasibility of seeking to implement an automated program or service to scan SAP for conflicts of duties on a regular basis, either through SAP or another third-party vendor (New Recommendation #1).
- FAD should take the lead and work with BIS to implement greater efficiencies by fully utilizing automated workflows to process and approve invoices to migrate to a paperless environment, additionally to eliminate/reduce: Printing, manual/handwritten approvals, manual duplicate scanning of invoices/documents and additional emailing of documents. FAD should consider improving efficiencies and process changes necessary to efficiently utilize an automated process (New Recommendation #2).
- FAD should perform a comprehensive review of all existing VMD records (particularly older records and those created by the conversion to SAP) and ensure all vendor information is complete and up-to-date and includes a verified physical address (New Recommendation #3).
- FAD should perform a comprehensive review of the VMD records to ensure only active vendors remain active and those with no activity in the previous 3-5 years are blocked from use/misuse. *Additionally, vendors created through the conversion process to SAP (those brought forward from the legacy accounting system) that have never been used and have no financial data tied to them should be deleted, but at minimum, should also be blocked* (New Recommendation #4).
- FAD should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system of mid-2007 and any enhancements to internal controls since then. (Restated from prior audits: New Recommendation #5).

The attached audit report provides details of the observations and recommendations. Attachment 1 summarizes the results of IA's review of outstanding recommendations. Attachment 2 summarizes the new recommendations.

Acknowledgements

Internal Audit would like to extend our appreciation to the Finance and Accounting Department and Business Information Systems staff for their cooperation and assistance during this review.

Discussion with Management

IA shared the results of this audit with Kanes Pantayatiwong in BIS and Connie Campbell in FAD and provided a draft report for their review and comments on May 1st and 7th, 2019. The draft report was also provided to Javier Chagoyen-Lazaro in FAD and Christina Valencia, Executive Manager of Finance and Administration for their review and comments on May 7, 2019. Where possible, comments have been incorporated.

If you have any questions or need additional information, please contact me at Extension 1521 or at tvelarde@ieua.org.

Accounts Payable 2019 Follow-Up Audit

Background

The Finance and Accounting Department (FAD) is responsible for recording, maintaining, and safekeeping of the Agency's financial information. FAD functions include the areas of general accounting and financial reporting, including accounts payable and receivable, cash applications, fixed asset accounting, payroll, financial reporting, and various financial analyses. The Accounts Payable (AP) staff is responsible for processing vendor invoices and issuing payments for goods and services, utilities, and employee reimbursements for business related expenses. The AP staff consists of a supervisor and four staff members. Other staff in FAD and CAP (and some staff that have transferred from FAD to other departments) also have various levels of access/authorization to Accounts Payable information in SAP.

NOTE: At the time of the 2013 follow-up audit the Finance and Accounting Department was referred to as the Accounting and Fiscal Management Department (AFM). The Department is now called the "Finance and Accounting Department" or "FAD". The report also references the Agency's Enterprise Resource Planning (ERP) Software system generally referred to as "SAP" and the Agency's Vendor Master Data abbreviated as "VMD". Additionally, the Agency's Business Information Systems (BIS) department is responsible for the technology (such as SAP) used in the Accounts Payable processes and Contracts and Procurement (CAP) is responsible for the establishment of all contractual relationships with Agency vendors. All references in this audit report have been updated to reflect current naming conventions.

The VMD is the central location in SAP that stores and provides information about the Agency's vendors including name, address, contacts and other required information. VMD information is used throughout the procurement cycle, from the issuance of purchase orders to the payment of invoices. The accuracy of the information in the VMD affects the Agency's ability to track and pay its vendors. Additionally, it is good business practice to safeguard VMD information and have strong internal controls to ensure information is accurate and mitigate risks of inappropriate or unauthorized payments.

Status of Open Recommendations from the 2013 Follow-Up Audit Report:

Access, Privileges, Roles & Responsibilities: SAP and VMD

Original Recommendation #1 from the 2013 audit (provided for reference):

FAD and BIS should 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 Segregation of Duties conflicts. All user access should be immediately removed when an employee resigns his/her position with the Agency.

Original Recommendation #2 from the 2013 audit (provided for reference):

Access to the Vendor Master Data (VMD) should only be granted to one

Manager/Supervisor for the FAD and CAP departments with one back up employee, if necessary, due to Segregation of Duties conflicts. This is a standard best practice across many industries. Furthermore, IA recommends access be removed from all other current and past employees.

Original Recommendation #6 from the 2013 audit (provided for reference):
FAD should strengthen Vendor Master Data 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 CAP approve additions, deletions, or changes to vendors.

Status: Recommendation #1 has been restated as New Recommendation #1 and Recommendations #2 and #6 Implemented (with mitigating/alternate controls)

Recommendations #1, 2, and 6 all reflect concerns about segregation of duties (SOD) within SAP in conjunction with AP staff duties and maintenance of Vendor Master Data information. SAP access is defined by “authorizations” and “roles” that limit which employees may make changes to vendor data and which only have “view access”. For instance, AP staff need to have the ability to view information about purchase requisitions, purchase orders and vendors (Vendor Master Data) to properly process AP transactions, however they do not need to be able to make changes to vendor information (for example change a vendor name or address). AP staff need to have the ability to enter data and process information to ensure that AP payments are made in a timely manner.

The 2010, 2011 and 2013 audit and follow-up reviews all examined potential conflicts of duties in FAD and made recommendations for changes to those authorizations and roles within SAP, some of which have been addressed.

For the current review, IA evaluated SAP user roles with assistance from BIS and FAD staff for potential conflicts of duties. IA noted that some FAD staff members have transferred to other Agency departments or to different functions or roles within FAD, and continue to have the same authorizations in SAP, some related to AP functions. Based on IA’s discussions with BIS and FAD staff, in most cases not all “functions” are assigned or available to each specific “role” in SAP, so determining specific conflicts of duties is not immediately apparent with an analysis/review of the reports available. Specifically, IA noted this with an authorization granted to the accounting supervisor. IA physically observed and tested to determine if the access was available and noted that the supervisor is not able to make modifications as the authorization normally allows. Although some conflicts may appear to exist based on the roles and authorizations assigned, further analysis, including physically testing the access, of the “role” may determine that the access is not as extensive as it appears. There is also an approval process within FAD that follows the organization chart, and this reduces the likelihood that an employee would have access to both create and approve their own transactions.

After the 2013 audit, FAD created additional, alternate controls to reduce the risks from conflicts of duties concerns. The Accounts Payable Supervisor established this mitigating

and important control that extends beyond Accounts Payable activity. The Supervisor performs a regular review for changes to both Vendor Master Data and General Ledger (GL) Account Numbers in SAP. This is an important control to detect and protect against unauthorized vendors and payments. *IA recommended FAD prepare and maintain documentation of these internal supervisory reviews and communicate the results of the reviews to the Department Manager on a regular basis, which the department now does.* IA also suggests that a review checklist or other form of documentation be used to indicate what information has been confirmed (such as: "Vendor address present" and "change made by an authorized Agency employee", etc.) in the review. This would be useful to provide a record of what steps were performed during the reviews. The reviews document that additional supervisory review was completed and there is agreement with any changes made to VMD.

BIS stated that when SAP was implemented, the Agency worked closely with the consultants to structure authorizations and roles to ensure segregation of duties. According to BIS, the process was extensive and has not been changed since SAP was implemented unless something comes to their attention or changes are required or requested.

This review noted that when an Agency employee changes job duties or responsibilities, there is no standard procedure in place for the department to evaluate conflicts of duties with roles and authorizations in SAP or to inform BIS of the job change to prompt evaluation of the SAP accesses. Therefore, the department nor BIS review their SAP access for potential conflicts of duties or other required changes or updates. IA noted that since the 2013 review, several employees have transferred to different departments or now have different job duties/responsibilities; however, no changes were made to their SAP access/authorization. These employees were not specifically AP staff, but they did transition from Accounting to other Agency departments or between different roles in the Accounting department and still have varying levels of access to the Accounts Payable systems. This creates the risk that employees could have conflicts of duties with the access they have because their responsibilities changed but their access was not evaluated and modified to agree with the change in duties.

IA periodically evaluates SAP roles and responsibilities and provides recommendations when potential conflicts of interest exist. IA's reviews are performed during an operational audit of the area under review. If recommendations result from IA's review, needed changes are the responsibility of the management of that area. IA only follows up on any changes when a follow up review is performed, which can be 12 to 18+ months after the initial review. Given the risk exposure and the complexity of "authorizations" and "roles" in SAP, IA recommends that the Agency consider additional reviews/evaluations and controls to **regularly and continuously monitor** for conflicts of duties. For example, BIS could work with IA and FAD to evaluate potential conflicts on a more regular basis, at minimum annually. Additionally, the Agency should establish procedures to ensure HR notifies BIS of any job changes, transfers, promotions or changes in responsibilities to alert BIS of any needed changes to an employees' SAP authorizations. Lastly, another

option is to obtain automated tools that have the capability to scan authorizations and roles in SAP to search for conflicts of duties, either through SAP or a 3rd party vendor.

New/Restated Recommendation #1: In evaluating access controls over all IEUA staff that have some level of AP authorization, IA noted that some staff members have transferred to other departments at IEUA or to different functions within FAD. There is a need to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Options include:

- ***Business Information Systems (BIS) working closely with IA and FAD to perform regular (at minimum annual) reviews and evaluations of roles and authorizations to search for conflicts of duties.***
- ***BIS working with the Human Resources Department to establish a formal notification method/checklist when changes occur as a result of employees changing job duties and responsibilities that may present a risk and potential conflict of duties.***
- ***BIS determining the feasibility of seeking to implement an automated program or service to scan SAP for conflicts of duties on a regular basis, either through SAP or another third-party vendor***

BIS Response:

SAP security management is not perfect and can certainly be improved. IA has provided some information on third-party SOD tools that BIS will review and consider if they are deemed feasible (financially, technically and operationally). It is also true that when an employee moves to a different department, and most likely role, BIS does not have visibility about the change. This is something that BIS should work with HR on to communicate these changes.

FAD Response:

FAD stated that this is a good recommendation that may be applicable to all Agency departments because of the various accesses in SAP and the various changes with employee responsibilities and duties across the Agency and it is not isolated to AP.

IA also agrees that this recommendation may be applicable to all other Agency departments. IA provides this recommendation as a result of the evaluation and analysis performed of all employees who have AP duties and responsibilities within FAD and those with SAP roles and authorizations since this review focuses on those functions.

Late Payments

Original Recommendation #3 from 2013 audit (provided for reference): *Finance and Accounting Department should institute controls to ensure payment of invoices by the due date.*

Status: Not implemented – Restated

According to FAD staff, the department’s accounts payable system has been updated since the 2013 follow-up review. At the time of the 2013 review, FAD’s strategy was to issue invoice payments as close as possible to the due date in order to hold cash and maximize potential interest earnings. This led to occasional late payments and penalties noted in the prior audit. However, in recent years low interest rates have changed the Agency’s strategy and FAD pays AP invoices on a timely basis and take advantage of any potential discounts, when possible.

Payments are delayed if FAD does not receive the approved invoices from the respective departments before the due dates, such as on large construction projects or where multiple locations must approve the charges, and large utility payments. For instance, Southern California Edison (SCE) billings are often issued late (sometimes past due based on their own due dates) due to manual invoice adjustments SCE must make to accommodate specific contract requirements with IEUA. Both SCE delayed issuance of invoices/bills and late approval by Agency staff are outside the AP department’s control. FAD is working with construction management staff to ensure that their workflow results in FAD receiving invoices on a timely basis and FAD works with large utility vendors such as SCE to ensure no late fees are incurred for these delays that are outside FAD’s control.

IA reviewed the Agency’s general ledger expense accounts for the past three fiscal years through March 31, 2019, to review late fees and fines. **IA noted that no fees were paid in that three-year period.**

Additionally, after the 2013 follow-up review, BIS created an AP Monitoring Report available on the Agency’s internal website. The report shows all accounts payable transactions for a chosen period and documents information about all invoices received including invoice date, received date, posting date and date paid. Although the report is not used regularly by either IA or FAD, it does provide a snapshot of payment activity.

IA reviewed the report for the month of December 2018. The report generated 765 individual trade vendor (“1xxxxx” accounts payable vendor numbers, i.e. not utility, payroll or other special categories) invoices totaling \$15,882,057 and an additional 115 for utility vendors totaling \$743,645. All the utility vendor payments were made on a timely basis. The timing of payments of trade vendor invoices showed payments occurring over varying amounts of time, however only 33 invoices totaling \$88,736 were paid after 60 days:

Analysis of December 2018 Trade Vendor Invoices:

Type	Paid within 30 Days	Paid within 60 Days	Paid after 60 Days (generally 60-90 days, but instances of 200-300 days)	TOTAL DECEMBER 2018 Payments
#	624	108	33	765
%	82%	14%	4%	100%

Analysis of “Paid after 60 Days” category:

Category of Invoice	Total # of Invoices	Dollar Amount
Acetylene cylinder rentals at RP-1 – minor amounts (averaging \$4-\$5 ea.)	10	\$46
Executive credit card invoices – Bank of America	5	\$10,734
Goods and Services (Parts, pest control, membership, canopies, RP4 field evaluation, security assessment, etc.)	17	\$77,956
TOTALS	33	\$88,736

IA verified supporting information in SAP and examined the approval dates. In most cases the 17 invoices for goods and services were delayed beyond the original invoice and/or invoice receipt date due to delays in obtaining departmental approvals.

IEUA’s method for processing payments for these invoices is:

- 1) Hard-copy or electronic invoice arrives at AP
- 2) AP staff prints invoice (if received electronically), date-stamps, scans and enters into SAP
- 3) AP staff emails the scanned invoice to the approver requesting approval
- 4) Approver prints the invoice, signs, dates and includes employee number
- 5) Approver scans the approved invoice and emails to AP staff;
- 6) AP staff process approved invoice for payment.
- 7) The approved document is sometimes reprinted by AP to attach to payment document information for supervisory review.

SAP & Paperless Environment

The Agency’s ERP SAP system has now been in place for approximately 12 years (since 2007), having been implemented in July 2007. A modern ERP system may provide the capability to help the Agency migrate to a paperless environment by facilitating the process of reviewing and approving documents through electronic channels. SAP provides the capability to streamline the Accounts Payable process for reviewing and approving invoices electronically and can eliminate/reduce printing and use of paper to document and process approvals.

The benefits of a paperless environment include:

- o Increased processing speed
- o Reduced labor/time spent printing, scanning, reprinting, rescanning
- o Reduced paper use and handling
- o Automated tracking of activity, reviews, etc.
- o Reduced or eliminate storage of multiple copies of printed items

SAP should be fully utilized to ensure all invoices are paid timely, and users/approvers are reminded through the SAP workflow process to approve and process their respective invoices. SAP has the capability to track when an invoice is received, uploaded/input into SAP, trigger an approval requirement, track the approver and approval date, and trace when the invoice is processed. As IA has noted in previous internal audit reports, the

Agency should consider the opportunities for efficiencies from establishing these SAP workflows and migrating to a paperless environment to process and approve invoices, eliminating/reducing printing, manually approving, scanning and emailing invoices.

New Recommendation #2: FAD should take the lead and work with BIS to implement efficiencies by fully utilizing automated workflows to process and approve invoices to migrate to a paperless environment, eliminate/reduce printing, manual/handwritten approvals, manual duplicate scanning of invoices/documents and additional emailing of documents. FAD should consider the process changes (to current largely manual procedures) necessary to efficiently utilize an automated process

BIS/FAD Response:

BIS and FAD indicated that the entire payment process extends beyond AP alone. Invoices from vendors come in various forms (e.g., hardcopy papers, email attachments) and are outside of AP's control. If received hardcopy, then scanning is a necessary step. When invoices are routed for approval, this process is also outside of APs control. BIS/FAD stated they can implement workflow solution (SAP or non-SAP) to help with electronic invoice approval process, which can, in theory, reduce the hardcopy papers and scanning and provide better accountability. This is agreed to.

Additionally, BIS/FAD stated that workflow will not force users to execute timely.

Additionally, BIS/FAD also stated that paperless initiatives are not isolated to AP and improvements can be made across all departments. Staff stated that paper or paperless environments do not violate any AP processes.

IA determines there is general agreement with the observation and recommendation provided. BIS/FAD noted there may be other challenges with changes in processes. IAs role is to provide recommendations to assist the Agency in achieving organizational goals, improve efficiencies and tighten internal controls. The recommendation encourages to move to a paperless environment by fully utilizing the Agency's ERP SAP system and reduce/eliminate hardcopies and encourages better tracking of documents.

Agency Policies

Original Recommendation #4 from 2013 audit (provided for reference): Finance and Accounting Department 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.

Original Recommendation #5 from 2013 audit (provided for reference): 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.

Status: Deferred to future audit related to Agency policies.

Original Recommendations #4 and #5 are being deferred to a separate audit of the Agency’s policy setting process through the Human Resources Department.

Vendor Master Data: Physical Addresses and Inactive Vendors

Original Recommendation #7 (provided for reference): *FAD should ensure all new vendors provide a current, physical business address for the Vendor Master File. Additionally, FAD should establish a plan to update the master file for all active vendors that do not currently have a physical address on file.*

Status: Restated recommendation

Since the last AP audit FAD and CAP have instituted procedures to ensure any vendor doing business with the Agency has a valid physical address on file. A physical address is important to assist in validating that the vendor is a legitimate business and prevents the risk of issuing checks to fraudulent vendors. In instances where vendors prefer to receive payments to a PO Box, risk of fraudulent payments/activity is minimized when both the physical and mailing addresses are retained and verified.

IA reviewed a current Vendor Master File, listing all Agency vendors as of February 2019. IA sorted the vendors to review all vendors added since January 1, 2014 (the period following the previous IA follow-up review). A total of 714 new vendors were added in the “Trade Vendors (PO/AP)” category (the 1xxxxx series) during this period. Of these vendors, IA reviewed the SAP information and determined that 5 of the new vendors (less than 1%) did not have a physical address and only had a PO Box #. FAD reviewed these vendors and is following up on the missing physical addresses or will ensure that the vendors are blocked.

IA also reviewed the current status of vendors added prior to the previous follow-up report – also, all in the “Trade Vendors (PO/AP)” category (the 1xxxxx series) to determine if all addresses had been obtained as previously recommended, and noted the following:

CATEGORY	TOTAL VENDORS CREATED	NO ADDRESS & NOT BLOCKED	% OF TOTAL
Vendors created during conversion to SAP-during mid-2007	4,605	698	15.16%
Vendors created after conversion mid-2007 until 12/31/2013	1,198	65	5.43%

FAD created an additional alternate control to regularly review changes to Vendor Master Data and General Ledger Account Numbers in SAP. With this review, FAD can detect instances where vendors are created without a physical address. However, this does not result in corrections or additions to missing information on older records. The 2013 review

recommended that the Vendor Master File be updated to ensure all active vendors have a physical address on file. Therefore, the prior recommendation is restated to consider the results of this review since existing vendors from the initial conversion to SAP and those created prior to the 2013 follow-up review were not updated.

New Recommendation #3: FAD should perform a comprehensive review of all existing VMD records (particularly older records and those created by the conversion to SAP) and ensure all vendor information is complete and up-to-date and includes a verified physical address.

An additional best practice for an organization is regularly to compare vendor addresses to employee addresses to mitigate against the possibility of potential fraudulent transactions. Vendors established with an employee's home address would present a potential risk. This is not a control that FAD can implement, but a regular review using an automated comparison could be done by BIS with the assistance of HR. IA asked BIS if this comparison is currently feasible and if information/reports may be available for IAs review. As of the date of the first draft report (May 1) information had not been provided for IA's review. IA will follow up on this request during a future HR audit.

Original Recommendation #8 from 2013 audit (provided for reference): Finance and Accounting Department should work with BIS to test the features of SAP related to purging inactive vendors. Upon successful completion of the testing, FAD should identify vendors with no activity in the previous three to five years and deactivate or delete from the Vendor Master File as appropriate.

Status: Not implemented – Restated

FAD stated that SAP provides a historical record and transaction details since implementation in mid-2007. Purging vendors is not feasible or recommended because financial and historical information would be incomplete. Instead, SAP provides a means to "block" an "inactive vendor"; a vendor with no activity/transactions over a specified period of time. A best practice is to block vendors with no activity in the prior 3-5 years to prevent misuse, misappropriation, etc.

The Vendor Master File has a total of 6,516 Trade Vendors. Of these, only 1,641 are "blocked". The remaining 4,875 are considered active vendors, although they may have never had any activity or have not had activity in the most recent years. IA, BIS and FAD have discussed the importance of retaining any vendors in the system if they have had any financial activity, since that information is all linked in SAP. For those that have had financial activity but have not had any transactions in the past 3 to 5 years, the prudent course of action is for the Agency to block their use in SAP to mitigate potential risks. IEUA has 3,369 active vendors that were entered into SAP as part of the conversion process in mid-2007. Many of them appear not to have ever had any financial activity. All 4,875 vendors should be reviewed to determine if they should continue to be active vendors or blocked. In addition, any vendors that have never had any financial activity or were created through the conversion process and never had any financial activity should be removed/deleted or at minimum be blocked as well.

IA also noted a number of names and addresses of individuals on the Trade Vendor list (rather than the employee numbering sequence), most of which were created by the AP conversion process to SAP. Since this numbering sequence is reserved for "Trade Vendors" the listing should not include individuals, except in those relatively rare instances where an individual is a Trade Vendor. In addition, the addresses of individuals (that may include former employees) may raise privacy concerns. If these VMD vendors were created during the conversion process and have never been used, their inclusion in the VMD is irrelevant and they could be removed.

New Recommendation #4: FAD should perform a comprehensive review of the VMD to ensure only active vendors remain active and those with no activity in the previous 3-5 years are blocked appropriately. Additionally, vendors created through the conversion process to SAP and never used should be deleted.

Standard Operating Procedures (SOP)

Original Recommendation #9 from 2013 audit (provided for reference): Finance and Accounting Department should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system.

Status: Not implemented – Restated

It is a best practice to have formal written Agency policies and procedures within AP and other related departments. Policies and procedures effectively manage the department's processes and provide clear guidance to management, employees and external/internal auditors. FAD indicated they plan to update all SOPs for critical tasks by June 30, 2019.

IA noted that FAD has added new resources about using SAP to obtain Vendor information on the Agency's internal website. These Guides include sample SAP display screens and descriptions of how to use these aspects of SAP:

1. Vendor/Employee Invoice & Remittance Status – Inquiry FBL1N
2. Vendor Transactions Search by Vendor Type

Guides such as these are very helpful for Agency employees. IA encourages FAD to continue to provide additional resources to assist Agency staff.

As recommendation #9 is still "In Progress," IA plans to re-visit this area and test in a future audit. This has been a recommendation on all FAD audits going as far back as 2007. SOPs serve as guidelines and manuals to train employees, to reference during cross training and during staff leaves. SOPs also provide a tool to measure employee performance and to hold employees accountable to their responsibilities. *Agency Policy A-51 provides guidelines on how departments should document their own Standard Operational Procedures, IA refers FAD to A-51 for documenting their formal SOPs.* The recommendation has been restated as New Recommendation #5.

New Recommendation #5

FAD should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system of mid-2007 and any enhancements to internal controls since then.

Attachment 1 – Status of the 2013 Follow-Up Audit Recommendations

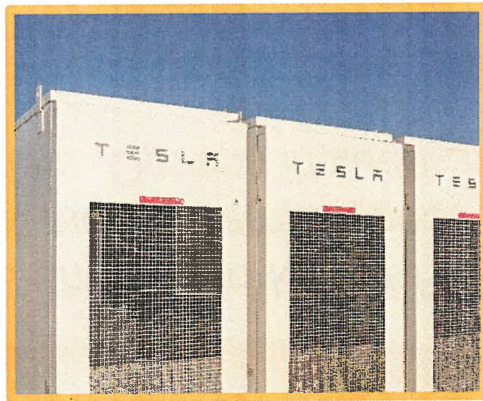
Rec #	Recommendation	Implemented or mitigating control established	Review deferred to future audit	Not Implemented or Restated
1	Finance and Accounting Department and Business Information Services need to work together to ensure users have appropriate access within SAP based on job responsibilities and 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.	X		New Recommendation #1
2	Access to the Vendor Master Data (VMD) should only be granted to one Manager/Supervisor for the FAD and CAP departments with only one back up employee, if necessary, due to Segregation of Duties conflicts. This is a standard best practice across many industries. Furthermore, IA recommends access be removed from all other current and past employees.	X		New Recommendation #1
3	Finance and Accounting Department should institute controls to ensure payment of invoices by the due date.			New Restated Recommendation #2
4	Finance and Accounting Department 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.		X	
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.		X	
6	Finance and Accounting 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 CAP approve additions, deletions, or changes to vendors.	X		
7	Finance and Accounting Department should ensure all new vendors provide a current, physical business address for the Vendor Master File. Additionally, FAD should establish a plan to update the master file for all active vendors that do not currently have a physical address on file.			New Restated Recommendation: #3
8	Finance and Accounting Department should work with BIS to test the features of SAP related to purging inactive vendors. Upon successful completion of the testing, FAD should identify vendors with no activity in the previous three to five years and deactivate or delete from the Vendor Master File as appropriate.			New Restated Recommendation: #4
9	Finance and Accounting Department should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system.			New Restated Recommendation: #5
Totals		3	2	1 New & 4 New Restated

Attachment 2 – 2019 Follow-Up Recommendations

The table below consolidates outstanding recommendations from the prior audits (restated) with new recommendations from the current audit. These are the new, remaining recommendations.

Rec.	Audit Recommendations
1	<p>In evaluating access controls over all IEUA staff that have some level of AP authorization, IA noted that some staff members have transferred to other departments at IEUA or to different functions within FAD. There is a need to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Business Information Systems (BIS) should work with Finance and Accounting Department (FAD) and Human Resources (HR) to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Options include:</p> <ul style="list-style-type: none"> • Business Information Systems (BIS) working closely with IA and FAD to perform regular (at minimum annual) reviews and evaluations of roles and authorizations to search for conflicts of duties. • BIS working with HR to establish a formal notification method/checklist when changes occur as a result of employees changing job duties and responsibilities that may present a risk and potential conflict of duties. • BIS determining the feasibility of seeking to implement an automated program or service to scan SAP for conflicts of duties on a regular basis, either through SAP or another third-party vendor
2	FAD should take the lead and work with BIS to implement efficiencies by fully utilizing automated workflows to process and approve invoices to migrate to a paperless environment, eliminate printing, manual/handwritten approvals, manual duplicate scanning of invoices/documents and additional emailing of documents. FAD should consider the process changes (to current largely manual procedures) necessary to efficiently utilize an automated process
3	FAD should perform a comprehensive review of all existing VMD records (particularly older records and those created by the conversion to SAP) and ensure all vendor information is complete and up-to-date and includes a verified physical address.
4	FAD should perform a comprehensive review of the VMD to ensure only active vendors remain active and those with no activity in the previous 3-5 years are blocked appropriately. Additionally, vendors created through the conversion process to SAP and never used should be deleted
5	FAD should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system of mid-2007 and any enhancements to internal controls since then.

Accounts Payable Follow-Up Audit Final Audit Report & Recommendations



New Recommendation #1:

BIS should work with FAD and HR to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Options include:

- BIS work closely with IA and FAD to perform regular (at minimum annual) reviews and evaluations of roles and authorizations to search for conflicts of duties.*
- HR establish a formal notification method/checklist when changes occur as a result of employees changing job duties and responsibilities that may present a risk and potential conflict of duties.*
- BIS implement an automated program/system to scan SAP for conflicts of duties on a regular basis, either through SAP or third-party vendor.*

Recommendations:

Recommendation #2:

- FAD should take the lead and work with BIS to implement efficiencies by fully utilizing automated work-flows to process and approve invoices to migrate to a paperless environment.

Recommendation #3:

- FAD should perform a comprehensive review of all existing VMD records (particularly older records and those created by the conversion to SAP) and ensure all vendor information is complete and up-to-date and includes a verified physical address.

Recommendation #4:

- FAD should perform a comprehensive review of the VMD to ensure only active vendors remain active and those with no activity in the previous 3-5 years are blocked appropriately.

Recommendation #5:

- FAD should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system of mid-2007 and any enhancements to internal controls since then.

Questions & Discussion

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



Audit Committee

INFORMATION

ITEM

2E



Date: June 19, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

06/10/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Payroll Follow-Up Audit: Ethics Resolution and Confidentiality Agreement

Executive Summary:

The Internal Audit Department Charter requires Internal Audit (IA) follow-up on outstanding recommendations to determine if corrective actions have been taken. The follow-up reviews are scheduled through the Board-approved Annual Audit Plan and Executive Management supports the implementation efforts of the recommendations.

IA performed a follow-up review of one outstanding recommendation from the Payroll Audit completed in 2010. The original recommendation required that Human Resources (HR) take the lead to revise and update Agency Resolution No. 2005-2-9 (Ethics Policy) and clarify which employees are required to sign a Confidentiality Agreement. This follow-up review found that the Agency's Resolution No. 2005-2-9 has been rescinded with Board-approved Resolution No. 2018-2-7. Additionally, on January 17, 2018, the Board adopted the IEUA Administrative Handbook with guidelines applicable to the Board of Directors. Chapter 7, Conflict of Interest, regarding ethical behavior, applies to Board members and all Agency employees. According to HR, with the adoption of the Administrative Handbook, HR will require only new and/or promoted employees with access to confidential information to sign a one-time Confidentiality Agreement and not renew. The recommendation is considered closed. Future HR audits will be planned through the Board-approved Annual Audit Plan and amendments.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Full account coding (internal AP purposes only):

- - -
- - -

Project No.:

Prior Board Action:

On June 20, 2018, the Board approved the IA Annual Audit Plan. The Payroll Follow-Up Audit was scheduled in the Annual Audit Plan.

On September 19, 2012, the Board received and filed the Payroll Operations Follow-Up Audit Report.

On September 15, 2010, the Board received and filed the original Payroll Operations Audit Report.

Environmental Determination:

Not Applicable

Business Goal:


The Payroll Follow-Up Audit (Ethics Resolution & Confidentiality Agreement) is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing independent evaluations and audit services of Agency activities and making recommendations to foster a strong ethical and internal control environment, provide efficiencies, safeguard assets and assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Payroll Follow-Up Audit: Ethics Resolution and Confidentiality Agreement Report



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DATE: May 30, 2019
TO: Shivaji Deshmukh
General Manager
FROM: 
Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Payroll Follow-Up Audit: Ethics Resolution & Confidentiality Agreement

Audit Authority

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

Audit Objective and Scope

IA completed a follow-up review of the one remaining outstanding recommendation related to the Payroll Audit, dated August 24, 2010. The recommendation required that Human Resources (HR) take the lead to update Agency Resolution No. 2005-2-9, the Agency's Ethics Policy and clarify which employees are required to sign the Confidentiality Agreement. IA did not expand the scope of the review to evaluate additional areas or operations within the HR Department, further reviews will be scheduled through the Board-approved Annual Audit Plan.

Acknowledgements

IA would like to extend our appreciation to the HR Department for their cooperation and assistance during this follow-up review.

Discussions with Management

The results of this follow-up review were provided to Blanca Arambula, Acting Manager of HR and Christina Valencia, Executive of Finance and Administration/Assistant General Manager on May 16th and 23rd, 2019 for their comments, prior to finalizing this report.

The Payroll Follow-Up Audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing independent evaluations and audit services of Agency activities and making recommendations to foster a strong ethical and internal control environment, provide efficiencies, safeguard assets and assist management in achieving organizational goals and objectives.

Water Smart - Thinking in Terms of Tomorrow

Paul Hofer
President

Jasmin A. Hall
Vice President

Kati Parker
Secretary/Treasurer

Michael Camacho
Director

Steven J. Elie
Director

Shivaji Deshmukh
General Manager

2010 Original Recommendation #4: Ethics Resolution & Confidentiality Agreement
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.

Status: CLOSED

The original audit found that Agency Resolution No. 2005-2-9, the Agency's Ethics Policy, required it be updated to reflect an updated Ethics Policy and required specific employees and/or departments to sign a Confidentiality Agreement, specifically Human Resources (HR) and Information Services. The Resolution did not require Payroll staff or other critical positions to sign the Confidentiality Agreement. IA noted other positions/job roles with access to confidential information that should be considered and required to sign the Confidentiality Agreement but had not been previously considered. IA recommended that either **all** Agency employees or **no** Agency employees be required to sign the agreement.

On February 21, 2018, Agency Resolution 2005-2-9 was rescinded with Agency Resolution 2018-2-7. On January 17, 2018, the Board of Directors adopted the IEUA Administrative Handbook, which provides information about the Agency and guidelines/procedures, specifically, for the Board of Directors. Chapter 7 of the Administrative Handbook, titled *Conflict of Interest* applies to the Board of Directors and all Agency employees.

With the adoption of the Administrative Handbook, HR requires only new and/or promoted employees with access to confidential information to sign a one-time Confidentiality Agreement. For employees that already had a Confidentiality Agreement on file prior to the Administrative Handbook, HR will no longer require those employees to renew and re-sign their Confidentiality Agreement as was previously required. Employees are expected to be prudent in the use and handling of sensitive and confidential information.

Currently, the Administrative Handbook is posted on the Agency's website but is not easily located, nor posted to the intranet under policies and potentially has not been communicated to all Agency employees. HR should ensure the document is readily available, visible and communicated to all employees, to ensure employees are aware of the new policy requirements and can be held accountable to the policy.

Based on IA's review, the 2010 recommendation considered closed. IA will evaluate new processes and the effectiveness of new Agency policies during future audits.

INFORMATION
ITEM
2F



Date: June 19, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

06/10/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Report of Open Audit Recommendations

Executive Summary:

The Board-approved Internal Audit Department (IA) Charter requires IA to provide the Audit Committee and the Board with a report listing all outstanding recommendations including action plans and expected resolution dates annually. The Charter and professional standards also require IA staff to follow-up on the status of outstanding audit recommendations to determine if corrective action efforts have been made to address the original observation or finding. A recommendation is considered "outstanding" when management agreed with the original recommendation at the time of the audit but the area audited has not yet addressed the recommendation or requires IA's verification. Responses to the recommendations, including any action plans were discussed and incorporated in the original audit report when provided.

As of June 2019, a total of 116 recommendations remain outstanding, 31 of which resulted from the Regional Contract Review. Attached is a report showing the recommendations and the current status of each. In most cases, IA must perform a follow-up review to verify the implementation efforts and the corrective actions taken. Follow-up reviews are scheduled according to the proposed Annual Audit Plan or sooner if requested by management, the Audit Committee, the Board, or if risk and/or priority increases for the area reviewed.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

None, only when additional outside auditing or consulting services are required to provide assistance to IA or fulfill the responsibilities of the Audit Committee. A proposal with proposed fees would be submitted through the Audit Committee for appropriate action. Additionally, some audit projects are intended to identify opportunities for cost containment.

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

Prior Board Action:

On December 19, 2018, the Board of Directors reconfirmed the approved Audit Committee and Internal Audit Department Charters.

On June 20, 2018, the Report of Open Audit Recommendations (as of June 2018) was provided to the Board of Directors as an information item.

Environmental Determination:

Not Applicable

Business Goal:

The Report of Open Audit Recommendations is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices. IA's ongoing monitoring activities are to follow-up on the status of open audit recommendations to determine if the Agency has taken corrective action to address issues identified and to assist the Agency in achieving organizational goals.

Attachments:

Attachment 1 - Report of Open Audit Recommendations

**Outstanding Audit Recommendations
as of June 1, 2019**

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Payroll Audit August 24, 2010	4	HR and FMD should work together to revise and update the Agency's Resolution No. 2005-2-9 and clarify which employees are required to sign a Confidentiality Agreement, based on their job duties and responsibilities, specifically those whose roles involve handling sensitive and confidential information. Having employees sign a Confidentiality Agreement reinforces that confidential and sensitive information is being handled, the Confidentiality Agreement also provides the expectations and consequences for sharing or	IA to provide results during Audit Committee meeting scheduled for June 2019. Per review completed in May 2019, this recommendation is now closed. The original Ethics Resolution was rescinded and a new Administrative Handbook was approved in February 2018.
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 provide results during Audit Committee meeting scheduled for June 2019. Defer the results of this recommendation to the report dated June 2019.
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 provide results during Audit Committee meeting scheduled for June 2019. Defer the results of this recommendation to the report dated June 2019.
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 provide results during Audit Committee meeting scheduled for June 2019. Defer the results of this recommendation to the report dated June 2019.
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 provide results during Audit Committee meeting scheduled for June 2019. Defer the results of this recommendation to the report dated June 2019.
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 provide results during Audit Committee meeting scheduled for June 2019. Defer the results of this recommendation to the report dated June 2019.
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 provide results during Audit Committee meeting scheduled for June 2019. Defer the results of this recommendation to the report dated June 2019.
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 provide results during Audit Committee meeting scheduled for June 2019. Defer the results of this recommendation to the report dated June 2019.
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 provide results during Audit Committee meeting scheduled for June 2019. Defer the results of this recommendation to the report dated June 2019.
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 provide results during Audit Committee meeting scheduled for June 2019. Defer the results of this recommendation to the report dated June 2019.
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. IA to verify during the follow-up evaluation in FY 2019/20.
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. IA to verify during the follow-up evaluation in FY 2019/20.

**Outstanding Audit Recommendations
as of June 1, 2019**

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Regional Contract Review - Final Report December 16, 2015	Overall	Consider legal, political and financial impacts of governing by ordinance vs. contract	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	Overall	Review and revise EDU formula	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	Overall	Resolve identified differences of over/under collected amounts of Connection fees and identified differences of over/under collected amounts of unreported monthly sewerage fees	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	1	Connection Fees: Centralize the permitting process OR IEUA provides final sign-off and plumbing permit approval for all nonresidential entities.	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	2	Connection Fees: IEUA should establish monitoring program to inspect random facilities and those were there is a suspected discrepancy	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	3	Connection Fees: Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	4	Connection Fees: Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	5	Connection Fees: Two tier connection fees process that distinguishes between common features and unique features (i.e., a toilet always costs the same regardless of type of business)	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	6	Connection Fees: Update Exhibit J regularly to include new/evolving business types	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	7	Connection Fees: Update & clarify Fixture Unit descriptions of Exhibit J regularly	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	8	Connection Fees: Standardize calculation worksheet to ensure it is consistent with Exhibit J and consistent region-wide	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	9	Connection Fees: IEUA should require copies of calculation worksheets for all nonresidential customers along with the monthly Building Activity Reports.	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	10	Connection Fees: Regular workshops, meetings, plant tours, etc. with staff in Building, Plan Check and Utility Billing/Financial Departments	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	11	Connection Fees: IEUA develop fixture count expertise and provide regular/ongoing training for Contracting Agencies - Building Departments	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.
Regional Contract Review - Final Report December 16, 2015	12	Connection Fees: Contracting Agency internal review of Connection Fees as part of preparing the Building Activity Report	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.

**Outstanding Audit Recommendations
as of June 1, 2019**

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

Outstanding Audit Recommendations
as of June 1, 2019

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
IT Equipment August 21, 2012 (February 29, 2016 Follow-Up)	3	ISS implement appropriate tracking systems that include relevant information on IT purchases (i.e., serial numbers, etc.), are updated timely and are complete and accurate. ISS should establish procedures to enter, modify, and delete information in the tracking systems that address areas such as timeliness for updates, responsibilities for maintaining the systems, and the types of items included in the tracking system.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
IT Equipment November 14, 2012 (February 29, 2016 Follow-Up)	1	ISS should ensure that any services procured with P-cards are expressly authorized by the Manager of CAP, CFO, AGM, or GM prior to committing to services.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
Master Trade Contracts September 1, 2016	1	IA recommends that even in instances where a difference department has primary responsibility for the proposal evaluation process, CFS work with the end-user department to ensure the information is communicated to the Board of Directors accurately reflects the signed contract terms. Additionally, CFS should determine the need to request from the evaluating department the evaluation documentation, or a staff memo summarizing the selection process and have it available/filed.	Both CAP and CM stated they would begin steps to implement. IA to verify during a future follow-up evaluation.
Master Trade Contracts September 1, 2016	2	IA recommends that CFS work with BIS to research built-in tools within SAP to implement automated controls necessary to ensure that spending on contracts and groups of contracts do not exceed Board approved limits and determine the cost benefit of implementing those monitoring tools.	Both CFS and BIS stated they would work together to evaluate implementation. IA to verify during a future follow-up evaluation.
Master Trade Contracts September 1, 2016	3	IA supports and encourages the initiative to fully implement the Agency's Enterprise Content Management System (ECMS) - Laserfiche. CFS should continue to work closely with BIS to implement the Agency's ECMS - Laserfiche to assist with the organization and centralizing of contract documents, facilitate research and access to information, streamline recordkeeping and eliminate multiple copies of the same documents.	Both CFS and BIS stated they would work together to evaluate implementation. IA to verify during a future follow-up evaluation.
Master Trade Contracts September 1, 2016	4	IA recommends that CFS enhance communications about the Agency's ethical procurement responsibilities and expectations to all Agency employees as well as Agency vendors and contractors to actively foster an ethical procurement environment. CFS should consider creating an ethics outreach plan and developing an approach with Agency Executive Management and Human Resources about reinforcing the "tone at the top" to actively remind employees and contractors/vendors about the Agency's ethical expectations including once again providing annual notifications of ethical guidelines to vendors and staff. Agency management may also want to incorporate references to the Agency's Ethics Hotline and Ethics Point "FAQs" in that communication.	CFS stated they would research the best approach and begin steps for implementation. IA to verify during a future follow-up evaluation.
Master Trade Contracts September 1, 2016	5	IA recommends CFS staff attend annual training related to ethics in their respective procurement activities.	CFS reported that all staff attended ethics training related to procurement activities shortly after the audit and will plan to attend training annually. IA to verify during a future follow-up evaluation.
Master Trade Contracts September 1, 2016	6	In addition to the cross-training that is already occurring, IA suggests that CFS consider the potential benefits of job rotation within the CFS department as a training and internal control technique with multiple benefits.	CFS stated that they would evaluate and determine the need for rotation since currently there have been various retirements and changes. IA to verify during a future follow-up evaluation.
IT Equipment August 21, 2012 (December 5, 2016 Follow-Up)	15	FMD should implement adequate controls to ensure that the stated capitalization policy for IT equipment is consistently followed to ensure that all items meeting the capitalization threshold are capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
IT Equipment August 21, 2012 (December 5, 2016 Follow-Up)	17	FMD should implement adequate controls to ensure that asset records established in SAP are accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that only those items allowed by the capitalization policy are capitalized.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
IT Equipment August 21, 2012 (December 5, 2016 Follow-Up)	19	FMD should return incorrect or incomplete Project Closure Authorization Forms to the Project Manager for proper completion. FMD should also provide training to Project Managers on the importance of proper completion and instructions on completing the form.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.

**Outstanding Audit Recommendations
as of June 1, 2019**

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
IT Equipment August 21, 2012 (December 5, 2016 Follow-Up)	22	FMD should document Standard Operating Procedures to address the functions of setting up capital assets such as procedures for completing the SAP asset information, compliance with stated capitalization thresholds, and processing of Project Closure Authorization Forms.	Additional time is required for full implementation. IA will re-verify during follow-up evaluation.
Follow-Up Review - Information Technology Equipment Audit December 5, 2016	1	FAD should take the lead to ensure a physical inventory and inspection of the Agency's IT fixed assets is completed on a periodic basis to verify existence, location, and working condition of assets.	FAD agrees with IA and the External Auditors recommendation and would evaluate implementation. IA to verify during a future follow-up evaluation.
Follow-Up Review - Information Technology Equipment Audit December 5, 2016	2	FAD should evaluate the Agency's current capitalization thresholds for IT equipment and determine if these need to be increased to ensure current practice meets policy and are consistent with current trends.	IA to verify during a future follow-up evaluation.
Audit of Master Service Contracts December 5, 2016	1	Emergency projects are classified according to three levels. Level 3 emergencies are the least urgent and the work can be scheduled on a time-table set by the Agency. E&CM and CFS should consider establishing clear criteria that differentiate between a "Level 3" emergency procurement and routine minor construction and repairs procurements and/or determine and document whether the "Level 3" designation is necessary.	CM stated they would begin implementation. IA to verify during a future follow-up evaluation.
Audit of Master Service Contracts December 5, 2016	2	To ensure that the Agency communicates sufficient information about emergency procurement activity, E&CM and CFS should consider developing and providing a comprehensive monthly update of emergency procurements for the Board. The information to consider could include the current month emergency procurement activity and a year-to-date total. It may also be useful to compare current year-to-date emergency procurement activity in dollars and numbers of task orders to prior years and to the total budget. Trends can be analyzed and comparisons can be made to ensure that the Agency's infrastructure is well maintained and emergency procurements are kept to a minimum.	CM stated they would begin implementation. IA to verify during a future follow-up evaluation.
Audit of Master Service Contracts December 5, 2016	3	To ensure that contracts for Repairs and Minor Construction operate as intended, E&CM and CFS should consider developing specific criteria and/or additional guidance and definitions about what constitutes repairs or minor construction as compared to projects for prequalified contractors for contracts less than \$2 million. An additional control would be to consider establishing dollar maximums within the contract or the group of contractors to provide assurance that the contracts are being utilized as intended and spending is constrained.	CM stated they would begin implementation. IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review June 5, 2017	1	FAD should reinforce the guidelines of the petty cash fund, including custodian responsibilities and internal controls over petty cash accountability and record-keeping.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review June 5, 2017	2	FAD should consider updating the "Monthly Mileage Log and Reimbursement Request" to add a designated signature area for when the petty cash funds are utilized as a reimbursement for mileage.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review June 5, 2017	3	FAD should take the lead to communicate changes to the Petty Cash policy and forms immediately after implementation, to ensure employees understand the policy and utilize the updated forms.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review June 5, 2017	4	Petty cash custodians should only accept the appropriate forms and inform the requestor of the most appropriate procurement methods if the requestor's petty cash request does not conform to Agency policies.	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review June 5, 2017	5	FAD should take the lead to review and determine if the Petty Cash limit of \$50 is adequate or if it should be updated (increased or decreased), or determine if there is a threshold that will require Executive Manager/General Manager authorization (i.e., anything over \$50).	IA to verify during a future follow-up evaluation.
2017 Petty Cash Audit & Follow-up Review June 5, 2017	6	Human Resources and FAD should work together to formally document or communicate the policy on the purchase and gifting of Gift Cards to ensure compliance with Federal requirements. The policy should be communicated to all Agency employees and be reminded periodically.	IA to verify during a future follow-up evaluation.

Outstanding Audit Recommendations
as of June 1, 2019

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
2017 Petty Cash Audit & Follow-up Review June 5, 2017	7	Human Resources and FAD should continue to work with the appropriate personnel in making revisions and updates to the following Agency policies that relate to cash reimbursements and controls: A-75 Employee Recognition Rewards Program, A-68 Meal Reimbursement and Unscheduled Overtime, and A-34 Vehicle Maintenance.	IA to verify during a future follow-up evaluation.
Water Use Efficiency Programs Audit June 5, 2017	1	<p>Turf Removal Programs</p> <p>While many retail customers received rebates, the range of customers could have been broader. Outreach to customers about WUE measures is a primary responsibility of member agencies, but IEUA may want to consider establishing a forum to discuss the goals and results of WUE Programs. The purpose of the discussions would be to evaluate and develop approaches to help (or consider joint efforts to) publicize, target and follow-up with entities in IEUA's service area when WUE opportunities become available, and tailor outreach towards specific and/or different entities in the region that match those characteristics and/or potentially maintain a database of the region's entities by unique characteristics (schools, churches, large lots, etc.).</p>	IA to verify during a future follow-up evaluation.
Water Use Efficiency Programs Audit June 5, 2017	2	<p>Finance and Accounting (FAD) staff have already taken several practical measures to review and reduce the amounts included in Work in Process (WIP) to ensure only capital projects are capitalized. FAD may want to consider prioritizing additional efforts to ensure that prior period adjustments are eliminated, such as:</p> <ul style="list-style-type: none"> • Developing a cross-departmental team including representatives from Engineering, Operations and FAD to approve items in advance for capitalization in WIP. • Establishing an automated log, register or report to be reviewed regularly that tracks project codes, amounts and purpose for FAD review to ensure accurate accounting of projects. • Engaging an outside consultant, accounting firm or additional temporary resources to make a thorough examination of WIP to: <ul style="list-style-type: none"> o Ensure only capital projects are included o Recommend policies and procedures for establishing projects to ensure only capital projects are capitalized o Develop written examples and guidelines of what constitutes a capital project and what constitutes an O & M project. 	IA to verify during a future follow-up evaluation.
Water Use Efficiency Programs Audit June 5, 2017	3	The Agency may want to consider utilizing the Annual Water Use Efficiency Programs Report as an evaluative tool to compare actual results to those projected in the Regional WUE (five year) Business Plan. The Annual WUE Programs Report could discuss reasons for variances from that plan, document changes being made to the plan and describe progress on any other initiatives that expect to yield water savings in future years.	IA to verify during a future follow-up evaluation.
Water Use Efficiency Programs Audit June 5, 2017	4	information in the body of the Annual WUE Programs Report to describe the differing sources of information used to provide member agency information vs. regionwide information or alternatively (and/or in addition), presenting both the summary and member agency information on the same basis.	IA to verify during a future follow-up evaluation.
Water Use Efficiency Programs Audit June 5, 2017	5	IEUA may want to consider expanding the "Highlights" commentary and providing subheadings and organizing the section to match the order of the Summary Charts to align the descriptions to the charts that follow.	IA to verify during a future follow-up evaluation.
Water Use Efficiency Programs Audit June 5, 2017	6	WR staff may want to consider developing a desk procedure or other document to guide the preparation of the Annual WUE Programs Report for internal staff to follow.	IA to verify during a future follow-up evaluation.

**Outstanding Audit Recommendations
as of June 1, 2019**

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Contracts and Procurement Follow-Up August 30, 2017	1	CAP should review the SAP assigned roles and transaction codes and ensure that good internal controls are followed and no conflicts exist. IA recommends CAP consider eliminating or reducing the ability to Create PRs and Receive Goods, for CAP buyers in order to strengthen internal controls and further reduce risks.	IA to verify during a future follow-up evaluation.
Payroll Operations Audit August 30, 2017	1	IA recommends that HR consider evaluating alternatives to the manual files used to maintain employee information, for example: --Working with Business Information Systems (BIS) to develop or acquire a self-service portal for employees to make updates and changes to certain information that currently requires a hard-copy document, such as withholding information, beneficiary information, address changes, or for adding or deleting a family member from their policies, and contribution amounts to various accounts. --The Agency is in the process of implementing ECMS. HR may want to consider whether the new ECMS would provide an automated approach to maintaining and updating employee information or whether another automated approach would be possible.	IA to verify during a future follow-up evaluation.
Payroll Operations Audit August 30, 2017	2	As part of the Agency's disaster preparedness effort, IA recommends that HR consider maintaining manual/hard-copy files in fire proof/water proof cabinets.	IA to verify during a future follow-up evaluation.
Payroll Operations Audit August 30, 2017	3	FAD should update Standard Operating Procedure No. CR PR-08 to reflect the new payroll bank reconciliation process, communicate the procedure to all department employees and ensure the SOP is in the format outlined in accordance with Agency Policy A-51.	IA to verify during a future follow-up evaluation.
Payroll Operations Audit August 30, 2017	4	FAD should ensure bank reconciliations are prepared monthly and supervisory review occurs in a timely manner to ensure all outstanding and reconciling items are researched, investigated and resolved.	IA to verify during a future follow-up evaluation.
Payroll Operations Audit August 30, 2017	5	As part of moving into a paperless, automated environment, HR should take the lead to promote and encourage having all payments made more efficiently through direct deposits instead of manually writing paper checks.	IA to verify during a future follow-up evaluation.
Payroll Operations Audit August 30, 2017	6	Both HR and FAD should encourage employees with payroll related functions to attend ethics/fraud awareness training specific to their job responsibilities to stay informed about new developments, risks and safeguards (for example, safeguards for potential payroll fraud, safeguarding personnel files and employee confidential information, etc.)	IA to verify during a future follow-up evaluation.
Procurement Card Audit March 1, 2018	1	Agency Policy A-89, Procurement Card Program should be updated to reflect desired internal controls and provide clearer guidelines about the proper use of P-Cards. The policy should provide greater clarity about the purchases that are allowed or not allowed (i.e.: food, restaurant, meals, training registrations, membership payments, etc.). Additionally, the policy should provide instructions for users to follow when there are situations that are unusual and note the additional written justification that is necessary. Lastly, A-89, should direct users to seek CAP's guidance when there is a unique need, keeping the Agency's need in mind and ensuring adequate controls are maintained.	IA to verify during a future follow-up evaluation.
Procurement Card Audit March 1, 2018	2	The P-Card Administrator role should be clarified in Policy A-89 and expanded to include greater oversight responsibilities to ensure compliance. The role should include duties to fully utilize the various on-line tools available through US Bank for reports, alerts, training and other controls for reviewing and monitoring activity. Additionally, the P-Card Administrator should provide assistance and give advice on the best procurement method and periodically review statements and identify purchases and transactions that are not aligned with policy and request additional information.	IA to verify during a future follow-up evaluation.

**Outstanding Audit Recommendations
as of June 1, 2019**

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Procurement Card Audit March 1, 2018	3	CAP should update Department-specific SOP CAP-0012 to incorporate any changes in Agency Policy A-89 Procurement card Program, including any updates to the P-Card Administrator's role and responsibilities. Additionally, CAP should ensure the SOP CAP-0012 complies with the guidelines and format set forth in Agency Policy A-51.	IA to verify during a future follow-up evaluation.
Procurement Card Audit March 1, 2018	4	CAP and FAD should work together to utilize any in-house tools and/or online tools available through US Bank to make the review, approval, reconciliation and upload of P-Card purchases more efficient with adequate oversight.	IA to verify during a future follow-up evaluation.
Procurement Card Audit March 1, 2018	5	CAP should take the lead to evaluate the benefits of consolidating credit card programs to utilize P-Cards for all purchases (other than fuel) and to eliminate other vendor-specific credit card or credit programs. At a minimum, the Agency should ensure all Credit Card programs are governed by an approved Agency Policy.	IA to verify during a future follow-up evaluation.
Procurement Card Audit March 1, 2018	6	CAP should maximize the use of the US Bank online tools for downloading/reviewing reports, creating blocks and alert notices for unusual activity, streamlining the approval, reconciliation and upload/posting process and training end users and approvers.	IA to verify during a future follow-up evaluation.
Procurement Card Audit March 1, 2018	7	FAD should evaluate ways for the Agency to increase and/or maximize any rebates received.	IA to verify during a future follow-up evaluation.
Wire Transfers Audit March 1, 2018	1	As the Agency moves towards automated recordkeeping using Laserfiche and possibly other tools, the Agency should consider utilizing electronic signature technology and implementing digital approval documentation.	IA to verify during a future follow-up evaluation.
Wire Transfers Audit March 1, 2018	2	FAD should finalize the new SOPs in the format provided in Agency Policy A-51.	IA to verify during a future follow-up evaluation.
Wire Transfers Audit March 1, 2018	3	The Agency should evaluate the cost/benefit of obtaining additional coverage and consider a per occurrence limit greater than \$2 million to ensure the Agency has adequate insurance coverage to address the Agency's risk tolerance. In addition, to address potential uncovered losses, the Agency should consider reducing the threshold for a bank call-back to any amounts that exceed the Agency's chosen limit for Fraud Transfer Insurance.	IA to verify during a future follow-up evaluation.
Wire Transfers Audit March 1, 2018	4	FAD should develop standards for documentation of transactions in SAP and a process of reviewing transactions once posted to ensure that the information in the accounting records is consistent and complete.	IA to verify during a future follow-up evaluation.
Wire Transfers Audit March 1, 2018	5	FAD should document or revise a separate SOP that describes the steps in the wire transfer process for investment transactions to provide guidelines for the processing of investment transactions.	IA to verify during a future follow-up evaluation.
Garden in Every School® May 31, 2018	1	The goals and objectives for the GIES program should be reevaluated, updated and documented to ensure that the program aligns with the Agency's overall vision, mission, goals and objectives and/or the program's original purpose. Goals should be measurable and a formal evaluation of the program and whether the goals were achieved should be performed. The Agency should consider if the GIES program is the most effective means to meet those goals.	IA to verify during a future follow-up evaluation.
Garden in Every School® May 31, 2018	2	The Agency should evaluate and consider the various responsibilities for the GIES program. Currently two different Agency departments are responsible for different functions to manage the program, one (Planning) manages the contract with Chino Basin Water Conservation District and the related fund and budget for the program. The other (EA) manages the program implementation. Additionally, CBWCD acts as the outside contractor and completes the garden installations. The Agency should consider what efficiencies would be achieved through consolidation of responsibilities or at a minimum scheduling on-going meetings or workshops and ensure all team members share ideas and discuss the program goals, achievement of those goals, lessons learned, and how best to provide greater oversight and accountability to effectively manage all aspects of the GIES program.	IA to verify during a future follow-up evaluation.

**Outstanding Audit Recommendations
as of June 1, 2019**

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Garden in Every School® May 31, 2018	3	Staff should provide an annual written and oral report to the Board of Directors about the GIES program, that includes: <ul style="list-style-type: none"> • The program's goals and objectives and how those align with Agency goals • How the program addressed and met those goals • Funding, costs/expenses, and resources • Participating school information • Schools selection process • Number of students who potentially benefit and/or participate in the program • Updated pictures of garden conditions • Program participant survey results • Program assessment and recommendations 	IA to verify during a future follow-up evaluation.
Garden in Every School® May 31, 2018	4	Staff should continue to oversee and monitor gardens at schools, including: <ul style="list-style-type: none"> • conducting periodic follow-up site-visits and evaluations to ensure that both, the Agency's and the GIES program, goals and objectives are carried out, • providing school administrators with additional, well-defined guidelines, requirements and expectations, • ensuring gardens are used as intended and students participate in hands-on learning activities. 	IA to verify during a future follow-up evaluation.
Garden in Every School® May 31, 2018	5	Agency staff should employ a proactive method to remaining in close contact and communication with the schools that have installed gardens, including: <ul style="list-style-type: none"> • Ensuring adequate professional staffing for this function, • Obtaining up-to-date contact information each fall for each school that has participated in the GIES program, 	
Garden in Every School® May 31, 2018	6	IA also recommends that the Agency provide each school with permanent identifying information to post in the garden such as a sign or plaque that includes information about the garden's sponsors (IEUA, member agency and other) including the Agency's website and contact information so that future school administrators and garden visitors are aware of IEUA, including who and where to contact if the garden requires attention.	
Garden in Every School® May 31, 2018	7	Agency staff should develop a post-implementation evaluation of gardens after they have been in existence for an agreed upon amount of time. The purpose would be to gather feedback and information about the materials and equipment used for installing the garden and ensure these meet the school's needs or if anything needs to change. All parties involved in the installation, including Agency staff and most importantly	IA to verify during a future follow-up evaluation.
Warehouse Annual Physical Inventory August 22, 2018	1	Warehouse staff should continue their efforts to evaluate more recent inventory for obsolete items and communicate with appropriate FAD staff about their estimates of potentially obsolete items.	IA to verify during a future follow-up evaluation.
Warehouse Annual Physical Inventory August 22, 2018	2	Finance and Accounting staff should communicate with Warehouse staff about their professional estimate of potentially obsolete inventory and accrue adequate reserves against inventory to reflect this decrease in inventory value (and thereby decrease in total assets), this procedure will ensure that the financial statements reflect the value of usable inventory.	IA to verify during a future follow-up evaluation.
Warehouse Annual Physical Inventory August 22, 2018	3	Warehouse staff should provide clear documentation and evidence of what steps have been taken to verify that receipts are complete and intact when taken into inventory and ensure that their receiving instructions are followed in all instances.	IA to verify during a future follow-up evaluation.
Warehouse Annual Physical Inventory August 22, 2018	4	In addition to the separate established storage area for computer waste, Warehouse staff should ensure that any overflow electronic waste be stored somewhere that remains separate from Warehouse inventory rather than storing it together with inventory items as a best practice and internal control.	IA to verify during a future follow-up evaluation.
Inter-fund Transactions Audit August 30, 2018	1	FAD should provide additional, detailed information in the Notes to the Financial Statements to clarify what the inter-fund transfers represent, including the reasoning/methodology used to calculate and determine the amounts of the transfers. Although, complete information is provided through various financial and budget documents, the Financial Statements should stand alone to provide sufficient information that a reader can understand the details of the transfers.	IA to verify during a future follow-up evaluation.
Inter-fund Transactions Audit August 30, 2018	2	FAD should document a Standard Operating Procedure and/or Inter-Fund Transfer policy that provides clear guidance as to the methodology applied to calculate and process inter-fund transfers, including the purpose, authorization procedures and methodology applied.	IA to verify during a future follow-up evaluation.
Inter-fund Transactions Audit August 30, 2018	3	FAD should provide an annual informational written and/or oral presentation for the Board of Directors that describes the reasons for past and/or anticipated inter-fund transfers, the amounts, how those amounts were calculated and how inter-fund transfers compare to prior years.	IA to verify during a future follow-up evaluation.

**Outstanding Audit Recommendations
as of June 1, 2019**

Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures November 29, 2018	1	Facilities Management should continue to work with the appropriate departments to make necessary updates, and/or consolidate Agency policies and procedures for Agency vehicles and ensure the revised policy(ies) address refueling and washing procedures, security, safety items, insurance, license requirements, etc. The new and final policy should be approved by Executive Management and made available to all Agency employees for their reference.	IA to verify during a future follow-up evaluation.
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures November 29, 2018	2	Facilities Management should perform regular vehicle inspections on all Agency vehicles. Vehicle inspections should evaluate the overall operational condition of the vehicle and determine whether all safety-related items are current and operational, such as the first aid kit, fire extinguisher, glove compartment contents, flashlight, etc. Inspections should be documented. Additionally, employees should be reminded of their responsibilities for vehicle maintenance through training and/or policy updates.	IA to verify during a future follow-up evaluation.
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures November 29, 2018	3	Facilities Management should work with Finance and Accounting to ensure periodic reconciliations of vehicle records are performed between Agency recordkeeping systems, reports and/or databases, such as SAP (financial system), GIS, etc.	IA to verify during a future follow-up evaluation.
Water Connection Fees Audit February 25, 2019	1	Planning should take the lead to work with FAD and BIS to fully utilize SAP's capabilities to streamline entering fee activity into only one system through a secure process. Planning should enter water connection fee transaction data and print receipts directly from SAP. FAD should enter and process the cash receipts and perform reconciliations. In addition, the system should be able to produce the necessary information reports for analysis.	IA to verify during a future follow-up evaluation.
Water Connection Fees Audit February 25, 2019	2	Planning should take the lead to continue to work with the contracting agencies and water districts to ensure the water connection fees information in the Agency's systems is reconciled to the building permits and/or water meters that have been issued by the contracting agencies and water districts (ideally quarterly, but at least semi-annually).	IA to verify during a future follow-up evaluation.
Water Connection Fees Audit February 25, 2019	3	If the Agency chooses to maintain two separate systems or until a single system can be implemented, FAD should take the lead to work with Planning to establish a process to ensure reconciliations are completed on a regular and timely basis between the information in the Agency's Building Activity Tracking Database to information in the Agency's SAP financial system. The reconciliations should be performed preferably at least quarterly and the departments should work together to resolve any items immediately.	IA to verify during a future follow-up evaluation.
Water Connection Fees Audit February 25, 2019	4	Based on their experience in collecting fees Planning staff should provide Executive Management and the Board their suggestions and proposed updates for revised wording to the water connection fee Ordinance and Resolution for their consideration.	IA to verify during a future follow-up evaluation.
Water Connection Fees Audit February 25, 2019	5	Planning staff should work to update and finalize their draft SOP to document various tasks and procedures associated with the water connection fee process, including the processes to work with FAD and the contracting agencies/water districts.	IA to verify during a future follow-up evaluation.
Water Connection Fees Audit February 25, 2019	6	Planning should continue to work with the Agency's executive management to pursue all possible approaches, including establishing agreements or other methods to ensure water connection fees are collected as intended by the Board approved Ordinance.	IA to verify during a future follow-up evaluation.
Water Connection Fees Audit February 25, 2019	7	FAD should take the lead and work to pursue the collection of delinquent fees through various methods, including the lien process as provided under the Board approved Ordinance.	IA to verify during a future follow-up evaluation.

Audit Committee

INFORMATION
ITEM
2G



Date: June 19, 2019

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

06/10/19

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for June 2019

Executive Summary:

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

During this quarter, Internal Audit (IA) staff focused resources on completing the Annual Audit Plan, the Voyager Fuel Card Audit, and performed a follow-up review of the nine recommendations from the Accounts Payable Follow-Up Audit and one recommendation from the Payroll Follow-Up Audit. IA also worked on the review of the Board of Directors Travel and Conference Expenses as requested by the Board. Additionally, IA worked on various on-going and required administrative items such as the budget process tasks and completed training as required by the IA Department's Charter, among other duties and responsibilities.

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

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

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

Prior Board Action:

On June 20, 2018, the Board of Directors approved the Fiscal Year 2018/19 Annual Audit Plan. The plan was in accordance with auditing standards and the Charter requirements.

On December 19, 2018, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - Internal Audit Department Quarterly Status Report for June 2019

Internal Audit Department Status Report for June 2019

Future Audit Committee Meetings:

- Monday, September 9, 2019 – Regularly Scheduled Audit Committee Meeting
- Monday, December 9, 2019 – Regularly Scheduled Audit Committee Meeting
- Monday, March 9, 2020 – Regularly Scheduled Audit Committee Meeting

Projects Completed This Period

Project: **Accounts Payable Follow-up audit**

Scope:

IA completed a follow-up evaluation to determine the status of 7 of the 9 outstanding recommendations from the Accounts Payable Audit Report completed on August 29, 2013. The Finance and Accounting Department (FAD) is responsible for the implementation of these recommendations. The 2 recommendations that have been deferred pertain to Agency policies that are not the responsibility of FAD.

Status: **Complete**

IA performed follow-up procedures to verify whether the recommendations had been implemented and/or alternative controls had been established to address the original risks. Of the seven recommendations, three have been addressed and are considered implemented. Additionally, one recommendation is in process, and three have not been implemented.

Additional alternate controls have been established to reduce the risks of potential conflicts of duties and unauthorized Vendor Master Files changes. The mitigating control is a regular review for changes to Vendor Master Files and General Ledger Account Numbers in SAP by a supervisory staff member in FAD.

IA has one new recommendation and four revised and restated recommendations for a total of five outstanding recommendations:

- Business Information Systems (BIS) should work with the Finance and Accounting Department (FAD) and the Human Resources Department (HR) to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties (new).
- FAD should take the lead and work with BIS to implement efficiencies by fully utilizing SAP workflows to process and approve invoices to migrate to a paperless environment.
- FAD should complete a comprehensive review of all existing Vendor Master File records and ensure all vendor information is complete and up-to-date and includes a verified physical address.
- FAD should complete a comprehensive review of the Vendor Master File to ensure only active vendors remain active. Vendors created through the conversion process and never used should be deleted.
- FAD should update SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system

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

Project: **Fuel Card Program Audit (Voyager)**

Scope:

To evaluate the internal controls over the Voyager Fuel Card program to ensure safeguards are in place to protect the Agency from loss, theft, and misuse and to evaluate whether the program meets the requirements of the Agency's policies. In addition, to determine whether the program meets the Agency's business goals and identify opportunities to improve the effectiveness and efficiency of operations.

Status: **Completed**

IA worked with various representatives during this audit, including: Operations & Maintenance Department (North), Facilities management, and US Bank. IA reviewed the controls and processes in place over the Fuel Card program and identified areas that could be strengthened to improve overall effectiveness of the program.

Internal Audit Department Status Report for June 2019

Using the data obtained from the US Bank Fleet Commander® Online system, IA reviewed the fuel card activity from January 2017 to March 2019 (27 months) and approximately 4,000 transactions were processed totaling over \$270,000 during the two-year period to procure fuel to operate the Agency's Vehicle Fleet. IA provided four recommendations, 1 soft recommendation, and referenced a recommendation provided in another IA audit report from November 2018. The bullet points below provide a summary of the audit:

- Develop of goals and objectives for the Agency's Fleet Operations, including fuel, vehicle, and maintenance costs.
- Perform data analysis on the Agency's fuel expenses and utilize the reporting tools that are available through the card issuer (US Bank).
- Enhance the role of the Fuel Card Administrator.
- Periodic review of the number of fuel cards being used, and cards with minimal or no activity be closed or deactivated if they are no longer needed.
- Ensure Cardholder Agreements for fuel card users are on file with the Human Resources Department
- Multiple documents exist related to the refueling procedures and use of the Voyager Fuel Card, a recommendation has already been provided in a prior audit report (November 2018).

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

Project: Payroll Follow-Up Review: Ethics Resolution & Confidentiality Agreement

Scope:

IA completed a follow-up evaluation of the one outstanding recommendation provided in the Payroll Audit, dated August 26, 2010.

Status: Complete

From the 2010 Payroll audit, the one open recommendation has been closed. The original recommendation addressed two items: Agency Resolution 2005-2-9 (Agency's Ethics Policy) and Confidentiality Agreement. In January 2018, IEUA adopted the Administrative Handbook, and Chapter 7 of this document is applicable to the Board of Directors and all Agency employees. This chapter addresses Conflicts of Interest and Ethics, and replaced the Agency's Resolution 2005-2-9, which was rescinded.

After the Administrative Handbook became effective, HR now requires only new and/or promoted employees with access to confidential information to sign a one-time Confidentiality Agreement. Employees with a Confidentiality Agreement previously on file, are no longer required to renew their agreement. The scope of the review was not expanded, and future audits are scheduled through the Board-approved Annual Audit Plan. No new findings or recommendations were noted. The report is provided under separate cover.

Project: FY 2019/20 Annual Audit Plan

Status: Completed

Scope: According to the Board-approved Internal Audit Department Charter, IA must submit a documented plan of proposed audit projects annually. The Annual Audit Plan is prepared in accordance with recommendations and best practices provided by the Institute of Internal Auditors. The Plan allows the Manager of IA to carry out the responsibilities of the Internal Audit function by prioritizing projects and allocating necessary resources. The projects proposed are scheduled based on a risk assessment to target the areas of highest risk in terms of impact and likelihood. The audits, and resulting recommendations are intended to assist Agency management and the Board in achieving organizational goals and objectives.

For the FY 2019/20 Annual Audit Plan, IA proposes the following audit projects: Human Resources Operations Audit, Recycled Water Program Revenues, Personal Computer Loan Program/Policy compliance, Travel Expenses & policy compliance along with follow-up evaluations to determine the status of outstanding recommendations. These projects are proposed, in addition to on-going and required projects. The Annual Audit Plan is considered a flexible plan and projects can change or other projects with higher risks can take greater priority. Any changes or amendments to the Plan are communicated to the Audit Committee through the status report or other amendment document. The annual audit plan is provided under separate cover.

Internal Audit Department Status Report for June 2019

Project: Report on Outstanding Recommendations as of June 2019*

Scope:

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

Status: **Complete** - Status of outstanding recommendations as of March 2019.

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

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA*	Planned Follow-Up
Payroll Audit	August 24, 2010	1	Annually
Accounts Payable Follow-Up	August 29, 2013	9	FY 2019
Vehicle Security Procedures	March 3, 2014	2	FY 2020
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2020
Master Trade Contracts	September 1, 2016	6	FY 2020
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2020
Audit of Master Services Contracts	December 5, 2016	3	FY 2020
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2021
Water Use Efficiency Programs Audit	June 5, 2017	6	FY 2021
Contracts and Procurement Follow-Up Audit	August 30, 2017	1	FY 2021
Payroll Operations Audit	August 30, 2017	6	FY 2021
Procurement Card Audit	March 1, 2018	7	FY 2022
Wire Transfers Audit	March 1, 2018	5	FY 2022
Garden in Every School	May 31, 2018	7	FY 2022
Warehouse Annual Physical Inventory – IA Inventory Observation Report	August 22, 2018	4	FY 2022
Inter-fund Transactions Audit	August 30, 2018	3	FY 2022
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	November 29, 2018	3	FY 2022
Water Connection Fees Audit	February 25, 2019	7	FY 2023
Total Outstanding Audit Recommendations		85	
Recommendations related to the Regional Contract Review (these recommendations are planned for full implementation with the renegotiation of the Regional Contract IA will not follow up on these items until the renegotiation has been finalized)			
Regional Contract Review – Final Audit Report	December 16, 2015	31	Pending – Renegotiation of the Regional Contract

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

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Projects in Process

Project: Recycled Water Program Revenue Audit

Status: Initial Research in Progress

Scope: Recycled water revenue in FY 2017/18 was almost \$16.9 million. IA is beginning to evaluate whether the internal controls over revenue recognition comply with Agency policies and legal and regulatory requirements, revenues are recorded accurately in the Agency's accounting records and financial statements and identify any potential additional revenue due the Agency. The Planning and Finance and Accounting departments are the primary contact departments. This was a request by the Audit Committee to move this audit up in priority. With the conclusion of the Voyager fuel card Audit and the Accounts Payable follow-up Audit, IA will focus on this review. Anticipated for completion by September 2019.

Planned/Future/Additional Projects

Project: Human Resources Operational Audit

Scope: To evaluate all processes and operations of the Human Resources Department. IA will evaluate whether department standard operating procedures, policies and guidelines are implemented and followed. and evaluate the department's published mission statement, department purpose, business goals, key performance indicators and workload indicators to determine that those are met effectively and efficiently. IA will evaluate key functions and compare with other similar agencies and follow up on any outstanding recommendations previously provided through other audit reports. The Human Resources Department and the Finance and Accounting Department will be the primary contact departments.

Project: Management Requests

Scope: Assist Agency Management with requests for analysis, evaluations and verification of information, assist with the interpretation of policies and procedures, and/or provide review and feedback on new policies or procedures. These services are provided according to the IA Charter, the Annual Audit Plan, and best practices. The management request projects are short-term projects, typically lasting no more than 60–75 hours each where IA determines it has the necessary staff, skills and resources to provide the requested assistance without having to delay/defer scheduled audits and priority projects. The scope of each review is agreed upon between the department manager requesting the evaluation, review, analysis or assistance, the Manager of IA and when deemed appropriate by Executive Management.

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

- Continued to assist with policy language interpretation and review of Agency policies.
- Participated in Safety Committee and IT Security Committee
- Two staff members participated in the Career Management Program, one as a group leader and one as a participant

Project: Special Projects

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

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

Internal Audit Department Status Report for June 2019

Special Project: **Board Travel and Conference Expenses**

Scope:

IA performed this review in response to a March 2019 Board of Directors' request for a review of Director's Travel and Conference Expenses and related guidelines and policies as well as to gather comparable information about "best practices" at other public agencies.

Status: **Complete**

The review included reviewing and summarizing Board spending for all Board travel and conferences for the five-year period from 2014 through 2018. IA also conducted a survey of other comparable Agencies and received 11 responses. IA developed suggestions for the Board to consider.

Internal Audit Department Staffing

The Internal Audit Department is staffed as follows:

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

Internal Audit Staff Professional Development Activities:

As required by the *International Standards for the Professional Practice of Internal Auditing*, and the IA Charter, auditors should continue to enhance their knowledge, skills, and other competencies through continuing professional development. During the past quarter, IA staff has continued to stay abreast of industry developments through attending seminars, review of industry periodicals and participation in free IIA sponsored, on-line webinars. One staff member attended the annual accounting and auditing update presented by Lance, Soll, Lunghard LLP, the Agency's external auditors. Additionally, the Manager of IA attended the 2019 Government Finance Officers Association (GFOA) Annual Conference, a multi-day training seminar that had several recognized key note speakers and training sessions that covered a wide range of topics, including: Accounting & Auditing, Strategic Planning and Budgeting, P-Cards, Cybersecurity, etc.

The Internal Audit Manager is a member of the governing board of the Inland Empire Chapter of the Institute of Internal Auditors (IIA). The governing board sets direction for the chapter. One Senior Internal Auditor will be serving as an officer of the same Chapter beginning in July.

Two IA members are preparing for the 3-part Certified Internal Auditor (CIA) examination and certification. The CIA is the only globally-recognized certification for internal audit professionals and is the highest certification that can be attained by an internal auditor.

In December 2018, One Senior Internal Auditor passed the third part of the Certified Internal Auditor (CIA) examination and has been awarded the CIA certification.

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