



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

**MONDAY, DECEMBER 7, 2020
9:00 A.M.**

**INLAND EMPIRE UTILITIES AGENCY*
VIEW THE MEETING LIVE ONLINE AT IEUA.ORG
TELEPHONE ACCESS: (415) 856-9169 / Conf Code: 635 736 275#**

PURSUANT TO THE PROVISIONS OF EXECUTIVE ORDER N-25-20 ISSUED BY GOVERNOR GAVIN NEWSOM ON MARCH 12, 2020, AND EXECUTIVE ORDER N-29-20 ISSUED BY GOVERNOR GAVIN NEWSOM ON MARCH 17, 2020 AND IN AN EFFORT TO PROTECT PUBLIC HEALTH AND PREVENT THE SPREAD OF COVID-19, THERE WILL NO PUBLIC LOCATION FOR ATTENDING IN PERSON.

The public may participate and provide public comment during the meeting by dialing into the number provided above. Alternatively, you may email your public comments to the Recording Secretary Laura Mantilla at lmantilla@ieua.org no later than 24 hours prior to the scheduled meeting time. Your comments will then be read into the record during the meeting.

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 email the Recording Secretary no later than 24 hours prior to the scheduled meeting time or address the Board during the public comments section of the meeting. Comments will be limited to three minutes per speaker. Thank you.

ADDITIONS TO THE AGENDA

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

1. ACTION ITEMS

A. MINUTES

Approve the minutes of the August 31, 2020 Special Audit Committee meeting.

B. IEUA FISCAL YEAR (FY) 2019/20 SINGLE AUDIT AND AUDITED COMPREHENSIVE ANNUAL FINANCIAL REPORT

Staff recommends that the Committee/Board:

1. Approve the Single Audit Report for fiscal year ended June 30, 2020, in draft form;
2. Approve the Comprehensive Annual Financial Report for fiscal year ended June 30, 2020; and
3. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties.

C. INTERNAL AUDIT DEPARTMENT CHARTER AND AUDIT COMMITTEE CHARTER

Staff recommends that the Committee/Board:

1. Approve the Audit Committee Charter and the Internal Audit Department Charter; and
2. Direct staff to implement the charters.

2. INFORMATION ITEMS

A. WATER CONNECTION FEE AUDIT – FOLLOW-UP REVIEW (WRITTEN/POWERPOINT)

B. INTERIM REPORT: REVIEW OF AGENCY COVID-19 EXPENSES (WRITTEN/POWERPOINT)

C. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR DECEMBER 2020 (WRITTEN)

3. AUDIT COMMITTEE ADVISOR COMMENTS

4. COMMITTEE MEMBER COMMENTS

5. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

6. ADJOURN

*A Municipal Water District

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

DECLARATION OF POSTING

I, Laura Mantilla, Executive Assistant of the Inland Empire Utilities Agency, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. on the Agency's website at www.ieua.org and outside the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, December 3, 2020.



Laura Mantilla

ACTION
ITEM

1A



**MINUTES
SPECIAL AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS, CHINO, CA
MONDAY, AUGUST 31, 2020
9:00 A.M.**

COMMITTEE MEMBERS PRESENT

Kati Parker, Chair
Steven J. Elie

COMMITTEE MEMBERS ABSENT

None

STAFF PRESENT

Sally Lee, Executive Assistant
Daniel Solorzano, Technology Specialist I
Wilson To, Technology Specialist II

STAFF PRESENT via TELECONFERENCE

Shivaji Deshmukh, General Manager
Kathy Besser, Executive Manager of External Affairs & Policy Development/AGM
Christiana Daisy, Executive Manager of Engineering/AGM
Randy Lee, Executive Manager of Operations/AGM
Christina Valencia, Executive Manager of Finance & Administration/AGM
Jerry Burke, Manager of Engineering
Andrea Carruthers, Manager of External Affairs
Javier Chagoyen-Lazaro, Manager of Finance & Accounting
Lisa Dye, Manager of Human Resources
Don Hamlett, Acting Deputy Manager of Integrated Systems Services
Sapna Nangia, Senior Internal Auditor
Scott Oakden, Manager of Operations & Maintenance
Kanes Pantayatiwong, Manager of Business Information Services
Teresa Velarde, Manager of Internal Audit

OTHERS PRESENT

Travis Hickey, Audit Committee Advisor

Committee Chair Kati Parker called the meeting to order at 9:00 a.m. She stated that the meeting is being conducted virtually by video and audio conferencing. She added that there will be no public location available to attend the meeting; however, the public may participate and provide comments during the meeting by calling into the number provided on the agenda. She further added that the public may also view the meeting live through the Agency's website. She then

gave the public the opportunity to comment and gave instructions for unmuting the conference line. There were no public comments received or additions to the agenda.

ACTION ITEMS

The Committee:

- ◆ Approved the Audit Committee meeting minutes of June 8, 2020.

INFORMATION ITEMS

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

- ◆ Human Resources Operational Audit: Administration of Employee Training and Development Programs
- ◆ Garden in Every School® Program – Follow-Up Review
- ◆ Master Service Contracts - Follow-Up Review
- ◆ Internal Audit Department Quarterly Status Report for August 2020

AUDIT COMMITTEE ADVISOR COMMENTS

Audit Committee Advisor Travis Hickey expressed his support of Manager of Internal Audit Teresa Velarde's approach in the follow up audit recommendation process with departments. Asking departments to come forward with their actions and being responsible for follow up regarding Internal Audit (IA)'s recommendation is a better approach and less time intensive for the IA department. He stated that he hoped to see the Audit Committee members in person at the next meeting.

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 9:36 a.m.

Respectfully submitted,

Sally H. Lee
Executive Assistant

*A Municipal Water District

APPROVED: DECEMBER 7, 2020

ACTION
ITEM

1B

Date: December 16, 2020

To: The Honorable Board of Directors

SD
From: Shivaji Deshmukh, General Manager

Committee: Audit

12/07/20

Finance & Administration

12/09/20

Executive Contact: Christina Valencia, Executive Manager of Finance & Administration/AGM

Subject: IEUA Fiscal Year (FY) 2019/20 Single Audit and Audited Comprehensive Annual Financial Report

Executive Summary:

The Single Audit Report for FY ended June 30, 2020, was prepared by the Agency's independent audit firm Lance, Soll & Lunghard, LLP (LSL), in compliance with the Single Audit Act and the Office of Management and Budget (OMB) Uniform Guidance. In the auditor's opinion, IEUA is in compliance with each major federal grant award program and continues to qualify as a "low-risk auditee."

The Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2020, was prepared in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and audited by LSL. Based on their audit and testwork results, LSL found the financial statements present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information as of June 30, 2020, and the respective changes in financial position, and cash flows thereof in accordance with accounting principles generally accepted in the United States (U.S. GAAP). LSL issued an unmodified (clean) opinion.

Staff's Recommendation:

1. Approve the Single Audit Report for fiscal year ended June 30, 2020, in draft form;
2. Approve the Comprehensive Annual Financial Report for fiscal year ended June 30, 2020; and
3. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties.

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

Account/Project Name:

Not Applicable

Fiscal Impact (explain if not budgeted):

There is no impact on the Agency's FY 2020/21 Budget as a result of this item, since related audit service fees are budgeted in the Administrative Services Fund under Professional Services.

Prior Board Action:

On December 18, 2019, the Board of Directors approved the Single Audit and the Comprehensive Annual Financial Reports for FY 2018/19 reviewed by the Audit Committee on December 09, 2019.

On March 16, 2016, the Board approved Contract No. 4600002079 with Lance, Soll & Lunghard, LLP for financial auditing and single audit services, for three fiscal years beginning in FY 2015/16, with the option to extend two additional fiscal years.

Environmental Determination:

Not Applicable

Business Goal:

The IEUA FY 2019/20 Single Audit and the Comprehensive Annual Financial Reports are consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the fiscal year activity and the net position of the different programs of the Agency.

Attachments:

Attachment 1 - Background

Exhibit A - Single Audit

Exhibit B - FY 2019/20 Audited Comprehensive Annual Financial Report

(in Substantive Completed Form) - Accessible at the link below:

<https://18x37n2ovtbb3434n48jhbs1-wpengine.netdna-ssl.com/wp-content/uploads/2020/10/FY-2019-20-Comprehensive-Annual-Financial-Report-Substantive-Version.pdf>

Attachment 2 - LSL Financial Audit Results Presentation

Attachment 3 - PowerPoint

Background

Subject: IEUA Fiscal Year (FY) 2019/20 Single Audit and Audited Comprehensive Annual Financial Report (CAFR)

FY 2019/20 Single Audit

The Single Audit Act and the Office of Management and Budget (OMB) Uniform Guidance require each non-federal entity that expends \$750,000 or more of federal grants to undergo an annual independent audit. The objectives of the Single Audit are to determine whether there are issues that could have a direct and material effect on internal control over compliance for each major federal grant award, and eligibility of federal grant award expenditures. In FY 2019/20, IEUA incurred \$19,506,378 in total federal costs, including \$1,382,272 from United States Bureau of Reclamation (USBR) programs and \$18,124,106 from Environmental Protection Agency (EPA) programs. The EPA costs incurred are comprised of \$4,349,989 from the Clean Water State Revolving Fund (CWSRF) loan program and \$13,774,117 from the Water Infrastructure Finance and Innovation Act (WIFIA) loan program.

The Agency's independent external audit firm, Lance, Soll & Lunghard, LLP (LSL), performed the annual single audit for the fiscal year ended June 30, 2020, to be processed by the Federal Clearing House by March 2021. The total federal cost figures are subject to change after processing by the Federal Clearing House, and if there are substantive changes, the final Single Audit report will be brought to the Board for final approval. The Single Audit Report for the FY 2019/20 expressed the following opinion over the Agency's expense of federal funds:

1. IEUA is in compliance with each major federal grant award program.
2. No significant deficiencies in internal control over major federal award programs.
3. No findings or questioned costs to major federal award programs.
4. IEUA qualifies as a "low-risk auditee."

Qualifying as a "low-risk auditee" benefits the Agency by improving IEUA's ability to obtain future grant and loan awards. Achieving this status through the Single Audit is indicative of diligent grant management and shows grantors that IEUA is a reliable partner for future funding opportunities.

FY 2019/20 Comprehensive Annual Financial Report

The Agency's Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2020 was prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Agency. To the best of staff's knowledge, the data presented is accurate in all material respects, and reported in a manner designed to fairly present the financial position and results of operations for the various Agency funds and account groups. Disclosures are included within the CAFR to enable the reader

to gain an understanding of the Agency's financial activities. Exhibit A is a copy of the Agency CAFR in substantially final form.

FY 2019/20 Financial Highlights

The Agency's statement of net position for fiscal year (FY) ended June 30, 2020, reflects \$772 million, an increase of \$63 million compared to the prior fiscal year.

Wastewater and Water Connection Fees

Connection fees to the regional water and wastewater systems were higher than the prior fiscal year. Wastewater connections fees were \$24.3 million, with 3,435 new units compared to 3,390 units and \$22.9 million in the prior fiscal year. The higher number of new connections is primarily due to improving building activities in FY 2019/20 as compared to prior year. Water connection fees were \$8.0 million in FY 2019/20 compared to \$5.9 million in FY 2018/19.

Imported Water Pass-Through Sales and Purchases

Imported water deliveries for FY 2019/20 were 64,835-acre feet (AF) compared to 64,168 AF reported in FY 2018/19, an increase of 667 AF. The increase is mainly due to changes in water quality restrictions, primarily on 1,2,3-Trichloropropane (TCP) that limits the use of Chino Basin groundwater by affected member agencies.

Funding of Employee Retirement Liabilities

Consistent with the Board policy, funding of the pension unfunded liabilities and other post-employment benefits (OPEB) continued in FY 2019/20 with \$4.5 million and \$1.0 million, respectively. Since the inception of the funding plan, cumulative additional contributions toward the unfunded liabilities of \$27.0 million for pension and \$16.0 million for OPEB have been made through fiscal year ended June 30, 2020. As of June 30, 2019, the most recent actuarial valuation date, the OPEB plan is 94 percent funded with an unfunded actuarial accrued liability of \$1.0 million. The net pension liability measured as of June 30, 2020 using measurement date of June 30, 2019 was 82.3 percent funded at \$39.1 million, in accordance with GASB 68.

Work in Progress (WIP)

The number of open projects under the category of Work in Progress (WIP) increased by 20 percent in FY 2019/20 compared to FY 2018/19. WIP total cost decreased to from \$92.3 million from \$96.6 million mainly due to the construction completion of the RP-1 Headworks Gate Replacement project and the Baseline Recycled Water Pipeline Extension project.

Interfund transfers

Inter-fund transfers are used to transfer funds between Agency Funds to support debt service, capital and operations and maintenance costs. One example is the transfer of water connections fees initially recorded in the Recycled Water fund and transferred to other fund to support eligible

capital and water use efficiency projects. The individual transactions offset one another and do not impact the overall net position of the Agency, with the receiver fund recording an increase and sender fund recording a decrease in net position.

In FY 2019/20, inter-fund transfers of \$9.8 million were made to support debt service requirements, the Agency's pro-rata share of groundwater recharge O&M costs, and the allocation of water and wastewater connection fees to support capital project costs based upon criteria defined in the 2015 rate and fee studies. The following tables summarize the Transfers In (Table 1) and Transfer Out (Table 2) by type and between Major and Non-Major funds.

Table 1. FY 2019/20 Transfers In

Transfer In								
	Major Funds				Non-Major Funds			Total
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin. Services	Groundwater Recharge	Non-Reclaimable Wastewater	
Debt Service	\$ 0.2		\$ 2.4			\$ 0.5		\$ 3.1
Total Capital Contributions		\$ 2.4	\$ 0.2	\$ 0.7	\$ 1.5		\$ 0.1	\$ 4.9
Operations Support					\$ 0.3	\$ 1.5		\$ 1.8
Total	\$ 0.2	\$ 2.4	\$ 2.6	\$ 0.7	\$ 1.8	\$ 2.0	\$ 0.1	\$ 9.8

Table 2. FY 2019/20 Transfers Out

Transfer Out								
Major Funds					Non-Major Funds			Total
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin. Services	Groundwater Recharge	Non-Reclaimable Wastewater	
Debt Service	\$ 3.1							\$ 3.1
Total Capital Contributions	\$ 4.0	\$ 0.2	\$ 0.7					\$ 4.9
Operations Support		\$ 0.3	\$ 1.5					\$ 1.8
Total	\$ 7.1	\$ 0.5	\$ 2.2	\$ -	\$ -	\$ -	\$ -	\$ 9.8

Debt Service Interfund Transfer \$3.1 million

The Agency issues debt as a single system, pledging consolidated sources of funds to obtain better financing terms. The projects included in the debt financing support different programs and funds. Debt service costs (repayment of principal and interest) are allocated to programs and funds proportionate to the debt proceeds allocated to support respective capital projects. Since the sources of funds may not always match the debt service requirements in an individual fund, debt financing needs are evaluated and an interfund transfer is used to support debt service are recorded in the corresponding funds.

For Fiscal Year 2019/20, Wastewater Capital fund supported bond debt service for the 2008B Variable Rate Bonds recorded in the Groundwater Recharge fund, as well as the 2010A and 2017A Bonds in the Recycled Water fund.

Capital Interfund Transfer \$4.9 million

Capital interfund transfers support capital project expenditures as determined by the nature of the project and funding sources during the fiscal year.

Projects are assigned to the fund that will benefit from the investment. In some cases, where a project will benefit multiple funds, the project is assigned to a single fund to effectively track and monitor project budget and costs throughout its lifecycle. For these projects, actual expenditures are allocated amongst the funds based on their benefit share at the end of the fiscal year. In Fiscal Year 2019/20, interfund transfers from the Wastewater Operations fund to the Wastewater Capital fund recorded its share of cost for projects such as the RP-1 Liquids and Solids Treatment Expansion, Carbon Canyon Water Recycling Facility Asset Management and Improvements, and the RP-5 Liquid Expansion.

Additionally, capital projects that support common Agency-wide activities are recorded in the Administrative Services fund. For Fiscal year 2019/20 interfund transfers to the Administrative Service fund from the Wastewater Capital, Recycled Water, and Non-Reclaimable Wastewater funds supported projects, including; improvements to the conference rooms audiovisual equipment, headquarters roof replacement, RP-1 training room, replacement of fleet vehicles, replacement of records management system and related projects, and enhancement to the Agency's computer infrastructure network and cybersecurity.

The 2015 engineering rate study included the allocation of water and wastewater connection fees amongst eligible projects recorded in various Agency funds. Interfund transfers are used to allocate connection fees amongst eligible projects based on actual expenditures and funding sources.

In Fiscal Year 2019/20 water connection fees initially recorded in the Recycled Water fund supported projects like the Water Bank and water planning initiatives recorded in the Water Resources fund, as well as a small portion of the Recharge Master Plan Update (RMPU) and Administrative Services fund project costs.

Inter fund transfers of wastewater connection fees to the Administrative Services and the Non-Reclaimable Wastewater fund supported eligible project costs.

Operation Support Interfund Transfer \$1.8 million

Operation support interfund transfers are limited to certain non-capital projects, such as the Agency's pro rata share of the groundwater recharge basin of operating and maintenance costs, per agreement with Chino Basin Watermaster.

In Fiscal Year 2019/20 Wastewater Operations, Recycled Water, and Non-Reclaimable funds supported Administrative services non-capital projects like Agency wide coatings.

External Auditors' Independent Audit

The Agency's independent audit firm, Lance, Soll & Lunghard, LLP (LSL) performed the annual financial audit. LSL issued an unmodified ("clean") opinion over the financial statements for the Fiscal Year ended June 30, 2020, indicating that the financial statements are presented fairly and in accordance with GAAP and free of material misstatements. LSL found no material deficiency in internal controls over financial reporting.

LSL also completed the Single Audit Report for all billing activity for FY 2019/20 to be processed by the Federal Clearing House by March 2021. No findings in the Single Audit were noted by LSL.

Fiscal Year 2019/20 is the fifth audit completed by LSL in accordance with the contract approved by the Board of Directors on March 16, 2016 for three fiscal years beginning in FY 2015/16, including the option to extend the contract two fiscal years. The agreement covers the audit of the Inland Empire Utilities Agency (Agency) financial statements, review of the annual appropriations limit calculation, and audit of the Agency's federal awards in accordance with Office of Management and Budget (Single Audit).

Internal Audit Department Review

Internal Audit staff performed an additional quality control check/review of the draft financial statements with emphasis on; overall mathematical accuracy, validation of the MD&A, notes, and statistical sections, including continued disclosure compliance as required by bond covenants, to the financial statements or to other supporting information.

Internal Audit staff's review did not include tests of transactions, or tests of the reliability of the totals and amounts included in the various categories, accounts, funds, statements, etc. Staff relies on the work of the external auditors to test the reliability of the financial information reported. Staff's review is only one of an additional quality control to ensure a professional presentation, consistent with prior years.

Government Financial Officers Association (GFOA) CAFR Award

For the past twenty-one years, the Agency has applied for and received the GFOA CAFR Award for excellence in financial reporting. The deadline to submit the FY 2019/20 CAFR is December 31, 2020.

The IEUA FY 2019/20 Comprehensive Annual Financial Report is consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the Fiscal Year activity and the net position of the different programs of the Agency.

INLAND EMPIRE UTILITIES AGENCY

SINGLE AUDIT REPORT

JUNE 30, 2020

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INLAND EMPIRE UTILITIES AGENCY

SINGLE AUDIT REPORT

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Inland Empire Utilities Agency
Chino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the Inland Empire Utilities Agency (the Agency), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated [REDACTED], 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Board of Directors
Inland Empire Utilities Agency
Chino, California

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lingham, LLP

Brea, California

 , 2020

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Inland Empire Utilities Agency
Chino, California

Report on Compliance for Each Major Federal Program

We have audited the Inland Empire Utilities Agency (the Agency)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2020. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.



To the Board of Directors
Inland Empire Utilities Agency
Chino, California

Report on Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Agency, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon dated [REDACTED], 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



To the Board of Directors
Inland Empire Utilities Agency
Chino, California

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
[redacted], 2020

DRAFT

INLAND EMPIRE UTILITIES AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>U.S. Department of the Interior</u>			
Direct programs:			
Title XVI Water Reclamation and Reuse *	15.504	N/A	\$ 979,057
WaterSMART *	15.507	N/A	236,581
Reclamation States Emergency Drought Relief	15.514	N/A	153,634
Water Conservation Field Services	15.530	N/A	13,000
Total U.S. Department of the Interior			1,382,272
<u>Environmental Protection Agency</u>			
Direct programs:			
Water Infrastructure Finance and Innovation *	66.958	N/A	13,774,117
Passed through the State of California Water Resources Control Board:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	80-832-1913	4,349,989
Total Environmental Protection Agency			18,124,106
Total Expenditures of Federal Awards			\$ 19,506,378

*Major Program

Note a: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note b: No funding was passed through to subrecipients during the fiscal year.

The accompanying notes are an integral part of this schedule.

INLAND EMPIRE UTILITIES AGENCY**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020****Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards****a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the Inland Empire Utilities Agency (the Agency), that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the Agency from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are incurred when the Agency becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program. The Agency has elected not to use the 10-percent *de minimis* indirect cost rate allowed under the Uniform Guidance.

Note 2: Reconciliation of State Water Resource Control Board and GAAP Expenditure Reporting

For the year ended June 30, 2020, the following adjustments were necessary to reconcile the federal awards provided to the Agency for the Capitalization Grants for Clean Water State Revolving Funds federal awards program per the State Water Resource Control Board's records to the federal expenditures reported by the Agency under accounting principles generally accepted in the United States of America (GAAP).

Federal awards per the State Water Resource Control Board:

C-06-8105-110	\$ 2,482,199
Subtotal	<u>2,482,199</u>

Adjustment for expenditures reported in the prior fiscal period:

C-06-8105-110	(619,862)
---------------	-----------

Adjustment for expenditures accrued in the current fiscal period:

C-06-8235-150	<u>2,487,652</u>
Subtotal	<u>1,867,790</u>

**Total Federal Expenditures of the Capitalization Grants
for Clean Water State Revolving Funds Program (GAAP)**

\$ 4,349,989

INLAND EMPIRE UTILITIES AGENCY**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION I - SUMMARY OF AUDITORS' RESULTSFinancial Statements

Type of auditors' report issued:

Unmodified Opinion

Internal control over financial reporting:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified? ☐ yes ☒ none reported

Noncompliance material to financial
statements noted?☐ yes ☒ noFederal Awards

Internal control over major programs:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs:

Unmodified Opinion

Any audit findings disclosed that are required to be
reported in accordance with Uniform Guidance?☐ yes ☒ no

Identification of major programs:

CFDA Number(s)Name of Federal Program or Cluster15.504
15.507
66.958Title XVI Water Reclamation and Reuse
WaterSMART
Water Infrastructure Finance and InnovationDollar threshold used to distinguish
between type A and type B program

\$750,000

Auditee qualified as low risk auditee?

☒ yes ☐ no

INLAND EMPIRE UTILITIES AGENCY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

DRAFT



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www.ieua.org

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

No matters were reported.

DRAFT

Water Smart - Thinking in Terms of Tomorrow

Kati Parker
President

Jasmin A. Hall
Vice President

Steven J. Elie
Secretary/Treasurer

Michael E. Camacho
Director

Paul Hofer
Director

Shivaji Deshmukh
General Manager



INLAND EMPIRE UTILITIES AGENCY
FISCAL YEAR ENDED JUNE 30, 2020
FINANCIAL AUDIT CONCLUSION



Focused
on YOU



FY 2020 Audit Plan and Approach

Interim Audit

- Evaluation of internal controls, policies, and procedures
- Provide feedback to management
- Plan final audit procedures based on identified risk

Year-End Audit

- Perform tests of account balances and changes
- Issue Auditors' Reports



Auditors' Responsibilities for the Audit

- Perform an audit under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and the Uniform Guidance.
- Consider internal control for the purpose of planning our audit procedures, not to render an opinion on the effectiveness of internal control.
- Consider internal controls which would have a direct and material effect on IEUA's compliance with the terms of its federal award programs.



Auditor's Responsibilities for the Audit (cont.)

- Perform tests of compliance with laws, regulations, contracts, and grant agreements.
- Examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- Perform limited procedures to those items included with the financial statements that are designated as "Required Supplementary Information."



Auditors' Responsibilities for the Audit (cont.)

- Evaluate the supplementary information in relation to the financial statements as a whole.
 - Schedule of Expenditures of Federal Awards
 - Combining and individual fund statements and schedules
- We are not engaged to report on the introductory or statistical sections of the CAFR.
- Communicate any significant findings, fraud, or internal control matters required to be communicated.



HIGHLIGHTS FROM FINAL FIELDWORK

- Due to COVID-19, fieldwork was completed 100% remotely. Interviews were held using MS Teams, and documentation was provided electronically.
- Unmodified Opinion
- No material weaknesses or significant deficiencies in internal controls over financial reporting identified.



AUDIT OPINION

- Audit work is performed for the purpose of rendering an “opinion” on the financial statements.
 - Management is responsible for information in the financial statements.
 - LSL’s opinion indicates that the information is fairly stated in all material respects in accordance with GAAP
- An unmodified opinion has been issued on the June 30, 2020 financial statements.



AUDIT COMMUNICATIONS

- SAS 114 Auditor Communication Letter
 - Describes audit process and findings including discussions on estimates used by management, disagreements with management, corrected and uncorrected audit differences, and other matters like upcoming GASB pronouncements.
 - There were no disagreements with management or audit differences to report.
- SAS 115 Report on Internal Control Letter
 - Describes any findings which are material weaknesses or significant deficiencies in internal control over financial reporting or material noncompliance with laws, regulations, grant agreements, bond covenants, etc.
 - No such findings reported.



Status on the Implementation of New GASBs

- All new GASB Pronouncements have been delayed one year due to COVID-19
- 2021
 - Fiduciary Activity changes (GASB 84)
- 2022
 - Lease reporting (GASB 87)



Thank you

- Contact information:
 - Deborah Harper, Engagement Partner: Deborah.Harper@slcpas.com
 - Ryan Domino, Audit Manager: Ryan.Domino@slcpas.com
 - 714-672-0022
- Any Questions?



Single Audit and Comprehensive Annual Financial Reports Fiscal Year Ended June 30, 2020



FY 2019/20 Single Audit

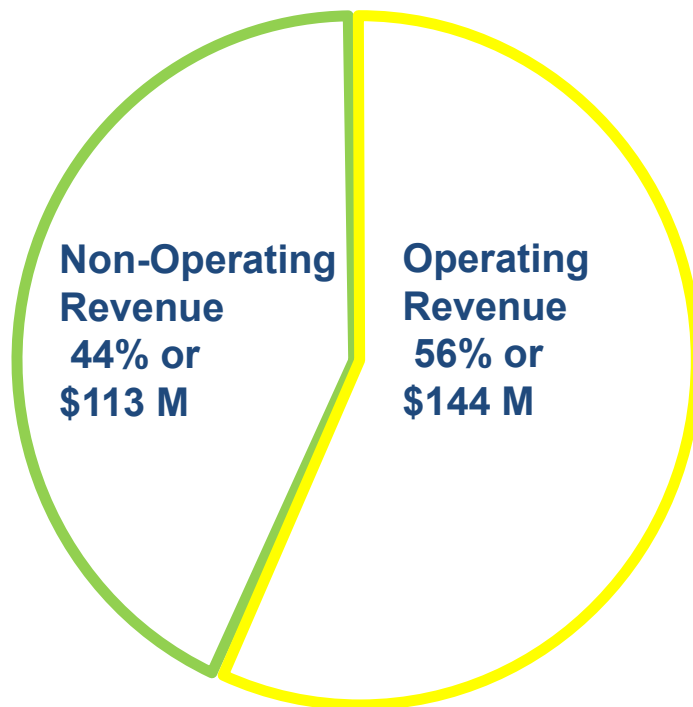
- Federal Cost \$19.5 million:
 - \$1.4 million US Bureau of Reclamation (USBR)
 - \$18.1 million Environmental Protection Agency (EPA)
 - \$4.3 million – Clean Water State Revolving Fund (CWSRF) Loan
 - \$13.8 million – Water Infrastructure Finance & Innovation Act (WIFIA) Loan
- In compliance with each major federal grant award program,
- No significant deficiencies in internal control over major federal award programs,
- No findings or questioned costs to major federal award programs, and
- IEUA qualifies as a “**low-risk auditee**”.

FY 2019/20 Financial Highlights

- **Increased total net position by \$63 million:**
 - Operating activities: (\$23) million
 - Non-operating activities: \$86 million
- **Total net position as of 6/30/20 \$772 million:**
 - \$476 million net investment in capital assets
 - \$142 million restricted assets
 - \$154 million designated / unrestricted assets
- **Interfund transfers \$9.8 million (Note 15 to Financial Statements):**
 - \$ 3.1 million Debt service support
 - \$ 4.9 million Capital support
 - \$ 1.8 million Operations and Maintenance support

FY 2019/20 Revenues

Total Revenue
\$257 Million



\$ Million

Operating revenue:

• Water Sales	\$41
• Service Charges	\$88
• Recycled Water Sales	\$15
Total Operating Revenue	<u>\$144</u>

Non-Operating revenue:

• Property Tax	\$56
• Connection Fees	\$32
• Capital Grants	\$ 5
• Other nonoperating revenues	<u>\$ 20</u>
Total Non-Operating Revenue	<u>\$113</u>

FY 2019/20 Expenses & Change in Net Position

\$ Million

Operating expense:

- Water Purchases \$41
- Wastewater Treatment \$42
- O&M and Support Services \$47
- Depreciation and Amortization \$38

Total Operating Expense **\$168**

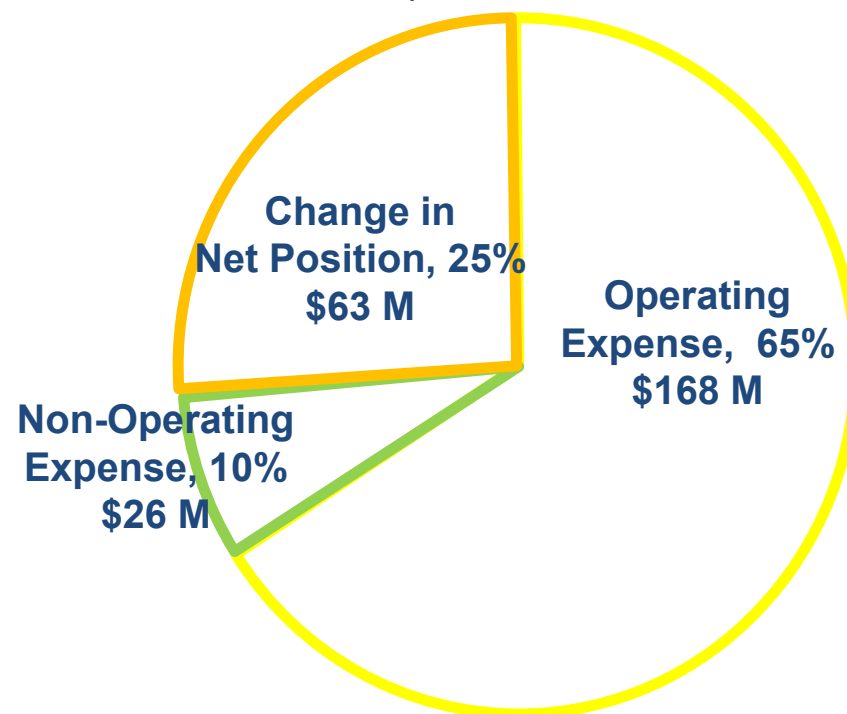
Non-Operating Expense:

- Interest on long term debt \$ 7
- Other nonoperating expenses \$19

Total Non-Operating Expense **\$ 26**

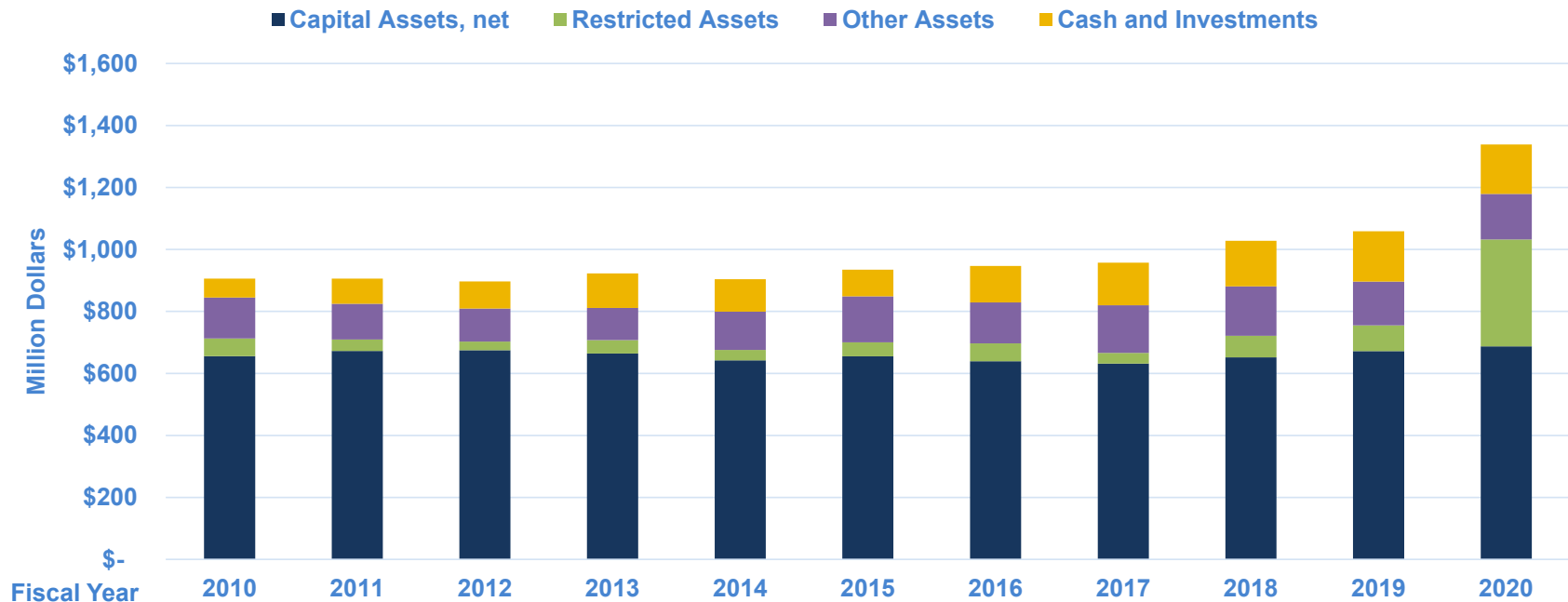
Change in Net Position: **\$63**

Total Expenses & Change in Net Position \$257 Million



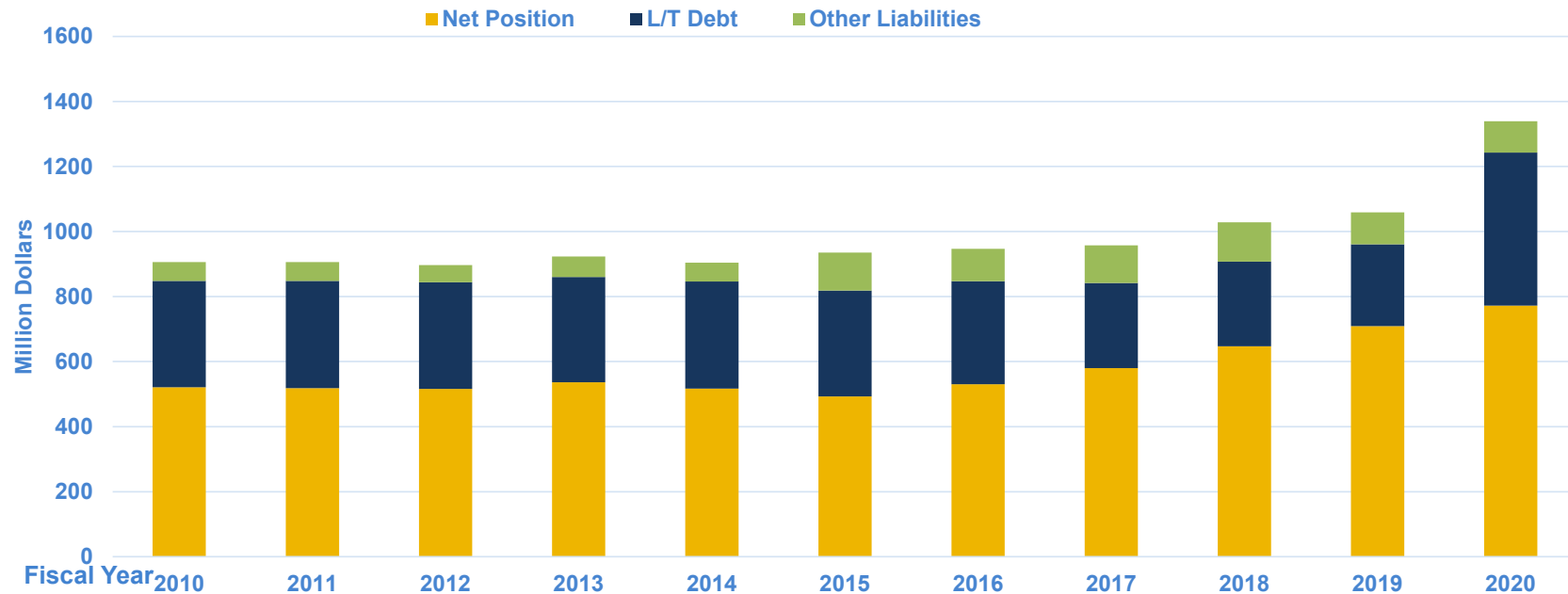
Total Assets

- \$238M increase in restricted assets (RP-5 expansion financing)

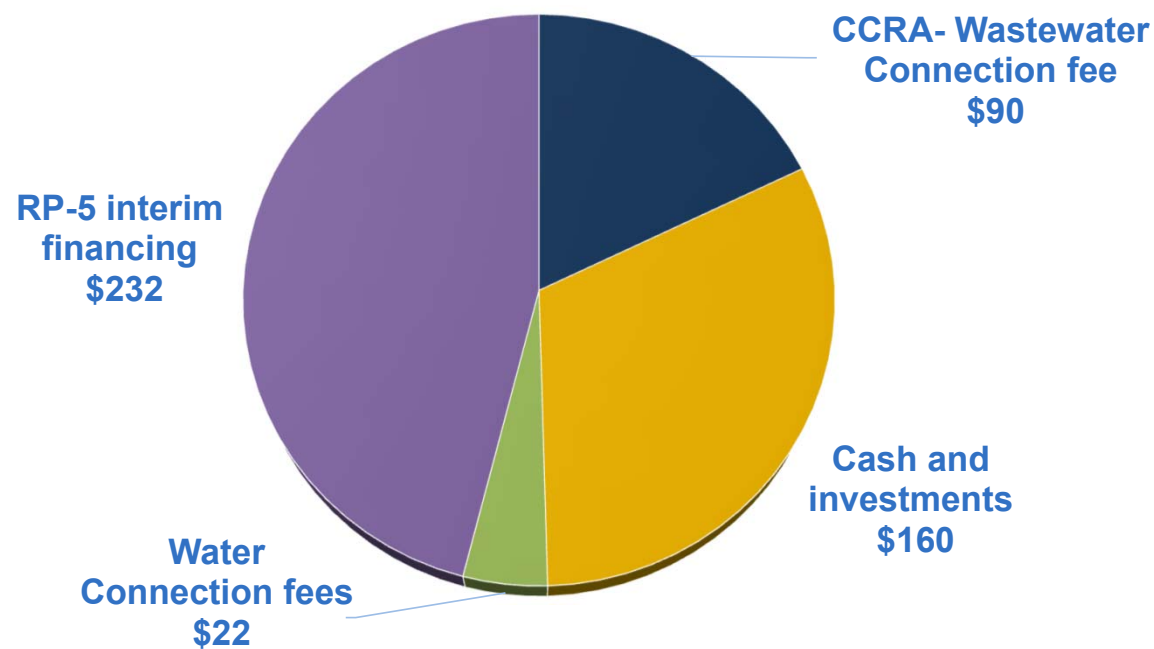


Total Liabilities and Net Position

- \$ 219M increase in Long Term Debt (RP-5 Expansion)
- \$ 63M increase in Net Position



FY 2019/20 Cash, Investments, and Restricted Deposits \$505 Million



Recommendation

1. Approve the Inland Empire Utilities Agency Single Audit Report for fiscal year ended June 30, 2020, in draft form;
2. Approve the Inland Empire Utilities Agency Comprehensive Annual Financial Report for fiscal year ended June 30, 2020; and
3. Direct staff to distribute the reports as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties.

Questions



The comprehensive annual financial report is consistent with the Agency's business goal of fiscal responsibility

ACTION
ITEM

1C

Date: December 16, 2020

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

12/07/20

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Charter and Audit Committee Charter

Executive Summary:

The Board approved charters require that the Internal Audit Department (IA) perform periodic reviews of both the Audit Committee Charter and the IA Charter, and make recommendations for any necessary updates and revisions. The attached Charters are presented in final form for review and discussion with no major proposed changes or edits. IA will incorporate any requested edits from the committee or the Board; and finalize these proposed documents.

The Audit Committee Charter documents the Audit Committee's purpose, composition, authority, and responsibilities. The IA Charter documents IA's mission, purpose, authority, and responsibilities. The purpose is to assist the Board and Audit Committee in fulfilling their oversight responsibilities for financial reporting, internal controls, and compliance with legal and regulatory requirements and to assist management by providing objective evaluations and recommendations to improve operations and achieve organizational goals.

Both charters follow best practices and the guidance set forth by the Institute of Internal Auditing (IIA) International Standards for the Professional Practice of Internal Auditing (Standards).

Staff's Recommendation:

1. Approve the Audit Committee Charter and the Internal Audit Department Charter; and
2. Direct staff to implement the charters.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On December 18, 2019, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

Approval of the Audit Committee and the IA Charters is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by documenting the Committee's and IAs purpose, authority and responsibilities. The purpose is to assist the Board in fulfilling their oversight responsibilities over financial reporting, internal controls and compliance with legal and regulatory requirements and to assist management in achieving organizational goals and objectives by providing independent evaluations and recommendations.

Attachments:

Attachment 1 - Audit Committee Charter
Attachment 2 - Internal Audit Department Charter
Attachment 3 - PowerPoint



INLAND EMPIRE UTILITIES AGENCY

Audit Committee Charter

Approved on December 16, 2020

PURPOSE

The Audit Committee (Committee) is established under the authority of the Inland Empire Utilities Agency (IEUA or Agency) Board of Directors (Board) and reports directly to the Board. The primary purpose of the Audit Committee is to assist the Board in fulfilling their oversight responsibilities for financial reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations.

While assisting the Board with these fiduciary duties, the Committee also provides an open avenue of communication between the Board, IEUA Management, the Internal Audit Department, and the external auditors. This advisory and oversight link provides the following benefits to the organization and stakeholders:

- Increased objectivity and credibility of financial reports.
- Increased management accountability.
- Support for measures to improve management performance and internal controls.
- Increased employee awareness of unethical, questionable, or illegal activities.
- Enhanced independence and effectiveness of the Internal Audit Department.
- Assurance that appropriate management action plans are implemented for audit findings and recommendations.
- Support the Internal Audit Department audit projects, evaluations and analysis.

COMPOSITION, COMPENSATION & TERM OF SERVICE

The Committee shall consist of two members from the Board of Directors, each with equal voting rights, with one selected as the Committee Chairperson. The members will be appointed by the Board President.

The Audit Committee shall have access to at least one financial expert, an outside party with no voting rights, who will provide advisory and consulting duties and shall be compensated as agreed upon, in writing with the Audit Committee, the Board, Agency management and/or its designees.

All members of the Audit Committee shall possess or obtain a basic understanding of governmental financial reporting, accounting and auditing and shall have a requisite interest in financial reporting issues of the Agency. The financial expert shall be an individual with sufficient financial experience and interest to provide guidance and assistance to the Audit Committee. The financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess: 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of Audit Committee functions. .

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 16, 2020

The members of the Board serving on the Audit Committee shall be compensated in accordance with the guidelines established for the IEUA Board of Directors in the most current Board-approved Ordinance, and as amended from time to time, entitled:

"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."

The service term for each Committee member will be two years. Prior to term expiration, the Board President or their designee will conduct a review of Board Committee members' eligibility and the Board of Directors will conduct a review of the external/outside Committee member's eligibility. The Board President will then reconfirm the Committee members or select and confirm new members as needed. All activities and actions pertaining to selection or reconfirmation of Committee members will be documented by the Board, or their designee, and recorded in the next regularly scheduled IEUA Board of Directors' meeting minutes.

AUTHORITY

The Audit Committee has unrestricted access to all information and records, including IEUA personnel and documents. The Committee will have adequate resources to fulfill its oversight responsibilities, including the right to seek independent professional advice and counsel. The Committee is empowered to:

- Meet, as deemed appropriate and necessary, with IEUA Management and employees, the Manager of Internal Audit and audit staff, external auditors and legal counsel.
- Recommend to the Board the approval of the Internal Audit Department's Annual Audit Plan and any changes to the Plan or the Manager of Internal Audit duties.
- Authorize special audits and investigations into any matters within its scope of responsibility.
- Authorize an internal audit or review of any department or function under the control of the Board of Directors, or within the scope of influence of the IEUA.
- Recommend to the Board the appointment, compensation and scope of work of any public accounting firm employed by the IEUA.
- Recommend to the Board the approval of any auditing and consulting services.
- Review and recommend to the Board the external auditor's audit scope and approach, ensuring that the scope:
 1. Is in compliance with Generally Accepted Auditing Standards (issued by the American Institute of Certified Public Accountants).
 2. Is in compliance with Government Auditing Standards (issued by the Government Accountability Office).

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 16, 2020

3. Will include a Single Audit that will be performed, if required, subject to the Office of Management and Budget (OMB) Circular A-133.
 4. Will include an opinion on each major fund presented in the Agency's financial statements.
- Review and recommend to the Board the approval of external auditors' reports, along with Management's written responses, when appropriate.
 - Resolve any disagreements between Management, the Internal Audit Department, and the external auditors regarding financial or operational controls and reporting.
 - Ensure corrective action is taken on internal accounting control weaknesses identified by the internal and external auditors.
 - Ensure corrective action is taken on audit findings, risks and recommendations identified by the Internal Audit Department and/or accept risks identified through audit findings in lieu of corrective action, as deemed appropriate and necessary.

RESPONSIBILITIES

The Audit Committee is chartered with performing oversight for the Board of Directors. In addition to reviewing this Charter annually and updating it as needed, the Committee has responsibilities in the areas of Financial Reporting, Internal Controls, the Internal Audit Department, the External Audit and external auditors, Compliance requirements, and Other Matters as provided in the following sections. The Committee has the overall responsibility to ensure the general requirements underlying these items are carried out. However, the Audit Committee has the flexibility and authority to determine and choose the best course of action and the best method for carrying out its responsibilities. The following items are best practice guidelines that may be employed:

Financial Reporting:

- Review annual financial statements and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Advise the Board and management of any situations that would cause the Committee to believe the audited financial statements may contain material misstatements or omissions.
- Inquire of the General Manager and Chief Financial Officer (CFO) regarding the fiscal health of the Agency as well as the financial status of the Agency in relation to its adopted budget.
- Inquire of management, the Manager of Internal Audit, and the external auditors about whether significant financial, managerial, and operational information is accurate, reliable, complete, and timely.
- Inquire of Agency management, the Manager of Internal Audit, and the external auditors about significant risks or exposures facing the Agency; assess the steps management has taken or proposes to take to minimize such risks to the Agency; and periodically review compliance with such steps.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 16, 2020

Internal Controls:

- Discuss with Agency management, the Manager of Internal Audit, and the external auditors the reliability and effectiveness of the Agency's internal control environment to mitigate risk, including information technology security and control.
- Discuss with Agency management, the effectiveness of the Agency's process for identifying and assessing significant risks and exposures, and the steps Agency management has taken to communicate, monitor and mitigate these risks.
- Understand the scope of the internal and external auditors' reviews of internal controls, and obtain and review reports of significant findings, recommendations, and Agency management's action plans to mitigate risks.
- Review all significant accounting policy changes submitted by Agency management with the Internal Audit Department, and/or the external auditors, and provide recommendations to the Board and Agency management.
- Periodically review Agency policies and procedures governing Board of Director and employee conduct, including conflict of interest, misconduct, fraud and other sensitive issues or non-compliance and recommend changes to the Board and Agency management as appropriate.
- Discuss with Agency management, the Manager of Internal Audit, and the external auditors whether adequate policies have been established and the Agency complies with policies, standards and applicable laws and regulations.
- Discuss with Agency management, the Manager of Internal Audit, and the external auditors whether significant legislative or regulatory issues impacting Agency operations are identified, recognized, communicated and appropriately addressed.
- Review with Agency management, the Manager of Internal Audit, and the external auditors the audit scope and plan of the Internal Audit Department and the external auditors. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- Review with Agency management and the Manager of Internal Audit:
 - Significant findings, recommendations, and management's responses thereto.
 - Any difficulties the Internal Audit Department encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.
 - Any changes required in the scope of their internal audits.
 - The Internal Audit Department budget and staffing.
 - The Internal Audit Department Charter.
 - The Internal Audit Department's compliance with applicable standards (for example, Governmental Auditing Standards, or the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing).
- Periodically review the Agency's Code of Conduct/Ethics Policy to ensure that it is adequate and up to date.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 16, 2020

- Review with the Manager of Internal Audit and the Agency's general counsel the results of their reviews of compliance monitoring with the Code of Conduct/Ethics Policy.
- Review the procedures for the receipt, retention, and treatment of complaints received by the Agency regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by any party internal or external to the organization. Review any complaints that might have been received, the current status, and resolution if one has been reached.
- Review procedures for the confidential, anonymous submission by Agency employees of concerns regarding questionable accounting or auditing matters, or suspected fraud. Review any submissions that have been received, the current status, and the resolution if one has been reached.
- Inquire of Agency management, the Manager of Internal Audit, and the external auditors about significant risks or exposures facing the Agency. Assess the steps management has taken or proposes to take to communicate, manage, and minimize such risks to the Agency; and periodically review compliance with such steps.
- Review with the Manager of Internal Audit, and the external auditors:
 - The adequacy of the Agency's internal controls including computerized information system controls and security.
 - Any significant findings and recommendations of the Manager of Internal Audit, and the external auditors together with management's responses thereto.

Internal Audit Department:

- Request that the Agency's Manager of Internal Audit prepare the Audit Committee's meeting agendas designed to ensure that all of the responsibilities of the Audit Committee as described herein are addressed at least once a year.
- Ensure there are no unjustified restrictions or limitations placed on the Internal Audit Department.
- Review with the Board, General Manager, and the Manager of Internal Audit the Internal Audit Department Charter, Annual Audit Plan, staffing, budget, and organizational reporting structure to ensure they meet the Committee's goals, objectives, and responsibilities to the Board and Agency management.
- Review and recommend to the Board the approval of the Internal Audit Department's Annual Audit Plan and any significant changes that may occur during the year.
- Review, as needed, all internal audit reports, findings, and recommendations.
- Review and recommend to the Board the appointment, replacement, dismissal, or change in duties of the Manager of Internal Audit.
- Review the effectiveness of the Internal Audit Department's function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Conduct the Manager of Internal Audit performance appraisals and recommend Manager of Internal Audit merit increases and incentive compensation to the Board.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 16, 2020

- Hold management accountable for the appropriate resolution of Internal Audit Department's recommendations and ensure that disposition has been determined for Audit Department recommendations from the prior year. If management has determined that Internal Audit Department recommendations need not be implemented because of adequate compensating controls, based upon a cost/benefit analysis or because the risks are at an acceptable level in accordance with the Agency's goals and objectives, evaluate the reasonableness of such determinations and advise the Board of Directors accordingly.

External Audit:

- Review the external accounting firm's proposals and fee structure, and provide recommendations and external audit plan approval to the Board.
- Review the external auditors' proposed audit scope and approach to ensure emphasis is placed on areas the Committee, Board, Management and external auditors believe special attention is warranted and that efforts are coordinated with the Internal Audit Department.
- Evaluate the external auditor's independence, and if needed, recommend the Board take the appropriate action to satisfy the Agency with the external auditor's independence.
- Review the effectiveness of the external auditor's work and provide the Board with the final approval to continue or discharge the current firm.
- Communicate to the external auditors areas of internal control with a heightened risk of fraud or error, any known or suspected employee fraud, management fraud, pressures or incentives for management to distort reported financial results, or any known or suspected accounting errors or misstatements.
- Communicate to the external auditors any areas of concern applicable to the external auditors' scope of responsibility (fraud, errors, or misstatements involving amounts significant to the financial statements taken as a whole).
- Review all significant written communications between the external auditors and management, such as any management letter comments or schedule of unadjusted differences (i.e. management letter, schedule of audit, or significant unusual or non-routine items, etc.)
- Hold management accountable for the appropriate resolution of external auditor recommendations, ensure that disposition has been determined for auditor recommendations from the prior year, and where management has determined that auditor recommendations need not be implemented because of adequate compensating controls or based upon a cost/benefit analysis, evaluate the reasonableness of such determinations and advise the Board of Directors accordingly.
- Review with the external auditor that performs the financial statement audit:
 - All critical accounting policies and practices used by the Agency.
 - All alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Agency's management, the ramifications of each alternative, and the treatment preferred by the Agency.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 16, 2020

- Review with management and the external auditors:
 - The Agency's annual financial statements, related notes, and management's discussion and analysis.
 - The external auditors' audit of the financial statements and their report thereon.
 - The external auditors' judgments about the quality, not just the acceptability, of the Agency's accounting principles as applied in its financial reporting.
 - The external auditors' single audit of the federal awards administered by the Agency and their reports thereon.
 - Any significant changes required in the external auditors' audit plan.
 - Any serious difficulties or disputes with management encountered during the audit.
 - Matters required by Statement on Auditing Standards (SAS) No. 114, The Auditor's Communication With Those Charged With Governance; U.S. Government Accountability Office's (GAO) Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits.
- Evaluate whether or not the performance of any extra work or special projects requested of the Agency's external audit firm violates the independence standards of the GAO.
- Recommend that the Board of Directors approve the Agency's annual financial report, if the Committee believes that they are fairly presented, to the extent such a determination can be made on the basis of reading the financial statements and discussions with Agency management and the external auditors.

Compliance:

- Review with management and the external auditors the Agency's internal controls for identifying laws and regulations affecting operations, risks for non-compliance including litigation and fines, and implementing controls to prevent recurrence.
- Review the reports, findings and recommendations of any audits or examinations performed by external agencies.
- Review with Agency counsel any legal, tax, or regulatory matters that may have a material impact on the Agency's operations and its financial statements.

Other Matters:

- The Audit Committee shall engage consultants, specialists, or other audit firms as necessary to assist the committee in the discharging of its responsibilities.
- The Audit Committee shall direct the Manager of Internal Audit to review the Agency's Audit Committee Charter annually in order to advise the Audit Committee as to needed or recommended changes.

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 16, 2020

- The Audit Committee shall report to the Board of Directors issues discussed in the Audit Committee meeting that, in the judgment of the committee, warrant communication to the Board to help the Board fulfill its oversight responsibility.

ETHICAL CONDUCT

Audit Committee members are prohibited from participating in any event or matter that would create, or appear to create, a conflict of interest. These activities may include having a significant financial interest or operational influence in vendors, contractors, customers or competitors of IEUA. Any activity creating an actual or apparent conflict should be immediately reported to the Audit Committee Chair and the Board of Directors for resolution.

MEETINGS

The Audit Committee shall meet no less than quarterly.

The Manager of Internal Audit will schedule and coordinate all quarterly Committee meetings, and will call additional meetings if requested to do so by any Committee member, the Board, the General Manager or the external auditors. The Manager of Internal Audit will provide all Committee members with written notification and an agenda at least 72 hours before the scheduled quarterly meetings or as soon as reasonably possible for any special meetings, all in accordance with the requirements of the Brown Act.

The General Manager and Manager of Internal Audit will be provided written notification and an agenda at least 72 hours before quarterly and special Committee meetings. These parties will be provided an opportunity to attend and speak at all Committee meetings but are not considered members of the Committee and have no voting rights.

The Board or the General Manager will provide administrative support to the Audit Committee and its meetings, including agenda preparation, participant notification, and documentation of meeting minutes.



INLAND EMPIRE UTILITIES AGENCY

Internal Audit Department Charter

Approved on December 16, 2020

PURPOSE

This Charter establishes the authority and responsibilities of the Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department.

The purpose of the Internal Audit Department (IA) is to assist the Board of Directors (Board) and the Audit Committee (Committee) in fulfilling their oversight responsibilities for financial 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 as a service to management and as a way of adding value to improve the operations of the Agency, consulting services, analyses, recommendations, and information concerning operations.

The Internal Audit Department reports to the Board through the Audit Committee and is an independent function from management. The purpose, responsibilities and authority of the Internal Audit Department are defined in this Charter.

MISSION

The Internal Audit Department seeks to improve the operations of the Agency by providing independent and objective assessments and recommendations 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 its goals and objectives, improve operations, and instill confidence among its employees and the citizens it serves by providing independent, objective assurance and consulting services and provide management and the Board of Directors with recommendations to:

- Promote and strengthen a sound control environment.
- Provide independent, objective assurance and consulting services.
- Improve Agency risk management, control and governance.
- Promote the Agency's vision and mission through a high degree of professionalism.
- Assist the Board of Directors and senior management achieve organizational goals and objectives.

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 16, 2020

VALUES

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

Independence

As documented in this Charter, the Internal Audit Department is an independent function of the Agency for the purpose of providing independent, objective, unbiased recommendations and 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 due professional care at all times.

Collaboration

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

ACCOUNTABILITY

The Internal Auditor is the Manager of the Internal Audit Department. The Internal Auditor is accountable and reports to the Board of Directors, through the Audit Committee appointed by the Board. The intent of this reporting relationship is to establish the Internal Audit Department's independence to function effectively and in accordance with best practices.

Annually, the Internal Auditor will submit an Audit Plan for the following fiscal year to the Committee for review and approval by the Board. Quarterly status reports of significant Internal Audit activities shall be presented at Committee meetings and shall include a status of major activities and any changes or deviations from the approved Annual Audit Plan. The Internal Auditor has the authority to deviate from the approved Annual Audit Plan, when necessary and if warranted by unforeseen issues that require immediate attention. Significant changes to the Annual Audit Plan shall be reported to the Audit Committee in a timely manner or immediately and to the Board at the next regularly scheduled Audit Committee Meeting through the Quarterly Status Report and/or an amendment to the Annual Audit Plan and/or other communication.

Annually, a listing of outstanding audit recommendations provided by the Internal Audit Department and the corresponding corrective actions taken by Agency management will be presented to the Committee for the purpose of providing a progress report on the status of open audit recommendations.

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 16, 2020

The Internal Auditor shall inform the Committee on the sufficiency of department staffing and resources.

Annually, the Internal Audit Department must also ensure the Committee fulfills their responsibilities as required under the Audit Committee Charter. Additionally, IA must ensure the Internal Audit Department Charter and the Audit Committee Charter are reviewed annually and updated as necessary.

INDEPENDENCE

Independence is essential to the effectiveness of internal auditing and is strongly emphasized by the Institute of Internal Auditors (IIA), the American Institute of Certified Public Accountants (AICPA), and the U. S. General Accountability Office (GAO). The Internal Audit Department should be free, both in fact and appearance, from impairments to independence.

The Internal Auditor and the Internal Audit Department shall have no direct responsibility or authority over the day-to-day operations of the Agency or any activities they would audit. The Internal Audit Department shall not engage in any activities that would compromise their independence or would appear to be a conflict of interest.

To ensure independence is maintained, the Internal Audit Department shall report administratively to the Agency's General Manager or his designee and functionally to the Board through the Audit Committee, as stated under "Accountability".

AUTHORITY

The Internal Audit Department's authority is derived from the direction of management and the Agency's Board through the Committee as set forth in this Charter. Specifically, the Internal Audit Department is authorized to:

- Audit all areas of the Agency's operations.
- Perform audits of the Regional Sewage Service Contract agreement between the Agency and the Regional Contracting Agencies (RCA), including performing necessary audit field work and review of required supporting information and documents of the RCA's.
- Have unrestricted access to all Agency functions, records, information, property, and personnel.
- Have full and free access to Agency management, the Board of Directors and the Audit Committee.
- Allocate resources, set frequencies, select subjects and set objectives, determine the scope of work, and apply the techniques required to accomplish audit objectives, without interference from Agency management.

INLAND EMPIRE UTILITIES AGENCY

Internal Audit Department Charter

Approved on December 16, 2020

- Authority to deviate from the approved Annual Audit Plan, when necessary, urgent, 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 in a timely manner or as soon as possible and to the Board at the next regularly scheduled Audit Committee meeting.
- Obtain the necessary assistance of Agency staff where Internal Audit performs audits, as well as other specialized services from within or outside the organization.
- Obtain regular updates from management and Agency legal counsel regarding compliance matters affecting operations.
- Establish procedures for the receipt, retention, and treatment of comments or complaints received regarding Agency accounting, operations, or internal controls, including those matters received through Ethics Point or other channels.
- Investigate and make recommendations to the Board, Audit Committee, Executive Management and/or Human Resources, as appropriate about reported instances of inappropriate activities, misappropriation of funds or fraud, including those matters received through Ethics Point or other channels.
- Obtain additional internal or external resources when the Internal Audit Department does not possess all the necessary skills or experience to complete an audit or review, subject to the approval of the Audit Committee and when necessary from the Board.
- Assist with the evaluation of the External Auditors and the Audit Committee Advisor and make appropriate recommendations to the Audit Committee and the Board.

The Internal Auditor and the Internal Audit Department staff are **not** authorized to:

- Have any responsibilities or authority for any of the activities they audit or perform any operational duties for the Agency or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any organization employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Auditor in audit activities.
- Participate in any activities that would compromise their objectivity and independence or any activities that would appear to be a conflict of interest.
- Draft or write any Agency Policies and Procedures, or Standard Operating Procedures outside the Internal Audit Department.

RESPONSIBILITIES

The responsibilities of the Internal Audit Department consist of the examination, review and evaluation of the reliability and effectiveness of the Agency's governance, risk management, internal controls, and the quality of operations and systems utilized in carrying out the Agency's

INLAND EMPIRE UTILITIES AGENCY
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Approved on December 16, 2020

goals and objectives. The Internal Audit Department has the responsibility to perform its work with due professional care.

The Internal Auditor and audit staff shall be responsible for, but not limited to, incorporating periodically, as deemed necessary and/or in agreement with the Annual Audit Plan, activities in the following key areas:

Internal Controls

- Assess the adequacy of internal controls in place and determine if they are operating effectively.
- Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Review compliance with Agency policies and procedures, and with applicable laws and regulations which could have a significant impact on the operations of the Agency.
- Evaluate the means implemented and the extent Agency assets are identified, tracked, and safeguarded against misuse, unauthorized use, theft and loss. Make recommendations to encourage the efficient use of and safeguard of Agency assets.
- Provide recommendations that encourage efficient use of Agency resources. Review operations, programs or projects to determine if results are consistent with established objectives and goals.
- Assess the efficient and effective use of Agency resources and the controls over those resources.
- Provide consulting services on current and proposed policies, procedures, and systems to ensure adequate internal controls are considered and maintained.
- Provide consulting services to evaluate contractual agreements and determine if compliance exists.
- Use documents and information obtained from Departments in the same prudent manner as by those employees who are normally accountable for them.
- Perform “Follow-up Procedures” on all management responses to audit findings and recommendations to determine if internal control improvements and/or corrective actions have been implemented.
- Perform “Follow-up Procedures” on known external auditor’s or regulatory agency’s reported findings and recommendations to determine if internal control improvements and/or corrective actions have been implemented.
- Hold staff accountable for the resolution of audit recommendations and expect resolution of audit recommendations that have been agreed to and discussed during audit meetings and Audit Committee meetings. Resolution of audit recommendations is achieved through the implementation, a corrective action plan or adopting alternate controls to mitigate the risk identified through the audit. Conduct special projects, studies, or audits as requested by management, the Audit Committee and the Board of Directors.

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- Ensure known or suspected acts of fraud or improprieties involving Agency funds, property and employees are investigated in coordination with the Agency's legal counsel, Human Resources, senior management, and/or others as required.
- Provide recommendations to mitigate risks related to fraud, waste and abuse.

Audit

- Conduct work in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and Code of Ethics as required by the Institute of Internal Auditors (IIA).
- Develop a comprehensive and flexible Annual Audit Plan using an appropriate risk-based methodology, including consideration of any risks or control concerns identified by management, the Audit Committee, the Board or the external auditor and submit that plan, as well as any periodic updates, to the Audit Committee and the Board for review and approval.
- Implement the Annual Audit Plan, as approved, including as appropriate, any special tasks or projects requested by management, the Audit Committee, or the Board.
- Provide Agency management with reasonable notice of intent to audit and with information about the audit process, except in those situations that warrant an unannounced audit.
- Consider the scope of work of the external auditors for the purpose of providing optimal audit coverage, at a reasonable cost, without redundancy or omission.
- Perform advisory services to assist the Agency in achieving its objectives; for example, reviewing controls, systems or process designs prior to implementation and providing recommendations to improve and enhance the effectiveness of controls and operations.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Maintain technical competence through continuing professional education supported by Department goals and budgets.
- Maintain a quality assurance program whereby the Internal Auditor assures the operations of the Internal Audit Department.
- Perform a periodic review of the Internal Audit Department Charter and the Audit Committee Charter. Additions, deletions, or other changes to the Charters are subject to the approval of the Board of Directors.

Reporting

- Issue quarterly reports to and meet with the Audit Committee and management to summarize results of audit activities and status of findings and recommendations.
- Provide written status reports of IA activity to the Audit Committee quarterly. The Quarterly Status Report will include a summary of significant internal and external audit activities for the reporting period. The Status Report will be submitted for approval by the Committee and the approved Quarterly Status Report will be presented at the next regularly scheduled IEUA Board of Directors meeting.

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
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- Provide a written report listing all outstanding recommendations with expected resolution dates annually. The report of all outstanding recommendations will be submitted for approval by the Audit Committee and provided at the next regularly scheduled IEUA Board of Directors meeting.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing, as well as new audit requirements, when applicable.
- Immediately report any reservations concerning control risks, accounting or disclosure practices to the Audit Committee.
- If during the scope and progress of its reviews and audits, the Internal Audit Department identifies opportunities for improving the Agency's control environment, processes and procedures to ensure an environment where assets are safeguarded, internal controls are in place and risk is mitigated, these recommendations will be communicated to the appropriate level of management and the Audit Committee as timely as necessary and in the written report.
- When deemed appropriate and necessary, provide responsible unit management with a preliminary written report of the results and recommendations of each audit, analysis, review, or investigation performed and sufficient time to respond in writing with a plan of corrective actions. Sufficient time to reply would be 30 to 60 days from the date of the final report.

Provide final reports of results and recommendations for each review and audit performed, including the responsible management's responses to the Audit Committee, Executive management and responsible management. All final reports with any responses will be submitted to the Audit Committee for discussion and to the Board for approval. However, in cases where the auditee does not provide a response that is timely or deemed responsive, the final report will not be held up pending a response and will be submitted for discussion during the next scheduled Audit Committee meeting.

STANDARDS OF ETHICAL CONDUCT

The Internal Audit Department staff have a responsibility to govern themselves so that their independence is not open to question. To this end, adherence to the Institute of Internal Auditor's "Code of Ethics" will ensure integrity, objectivity, confidentiality and competency in Internal Audit work performed on behalf of the Agency's Board and Audit Committee. These principles include:

- Performing internal auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Exercising honesty, diligence, and responsibility in performing duties.
- Observing the law and making disclosures expected by the law and the profession.
- Not knowingly being a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the Agency.
- Respect and contribute to the legitimate and ethical objectives of the Agency.

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- Not participating in any activity or relationship that may impair, or be presumed to impair, unbiased assessments, including activities or relationships that may be in conflict with the interests of the Agency.
- Not accepting anything that may impair or be presumed to impair professional judgment.
- Disclosing all material facts known that, if not disclosed, may distort the reporting of activities under review.
- Being prudent in the use and protection of information acquired in the course of duties.
- Not using information for personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Agency.
- Engaging in only those services or audit activities for which Internal Audit staff have the necessary knowledge, skills, and experience.
- Continually improving staff proficiency, and the effectiveness and quality of services.

MANAGEMENT RESPONSIBILITIES

It is the responsibility of the Board of Directors and senior management to foster a control environment that supports the Internal Audit Department's objectives and independence within the Inland Empire Utilities Agency. The existence of the Internal Audit Department does not diminish Agency management's financial and operational responsibilities for prudent execution and control of activities, including their responsibilities for the periodic evaluation of risk, control, and governance systems.

Management's responsibilities include:

- Providing Internal Audit with its full support and cooperation at all operating levels, including full and complete access to all records, property, and staff relative to their assigned areas of responsibility, and active participation in the audit process.
- Immediately notifying the Manager of Internal Audit and the Audit Committee of any known or suspected cases of illegal, criminal or unethical activity involving Agency funds, property, employees, or any activity which appears to present a conflict of interest.
- Timely notification to Internal Audit of any new or proposed modifications to Agency systems, procedures, operations or services, ensuring controls are built into the new or modified processes.
- Providing the Internal Audit Department with written responses to all audit findings and recommendations, including action plans, responsible employees, and targeted resolution dates or the acceptance of the risks identified.
- Implementation and resolution of audit recommendations agreed to. Resolution of audit recommendations is achieved through the implementation, a corrective action plan or adopting alternate controls to mitigate the risk identified through the audit.
- Providing the Internal Audit Department with adequate budget, staffing, assistance from staff of audited Departments, and the tools needed for the Internal Audit Department to execute its duties as defined in this Charter.

Audit Committee Meeting

Audit Committee Charter

Internal Audit Department Charter



Audit Committee Charter

- Purpose
- Composition
- Authority
- Responsibilities
- Meetings

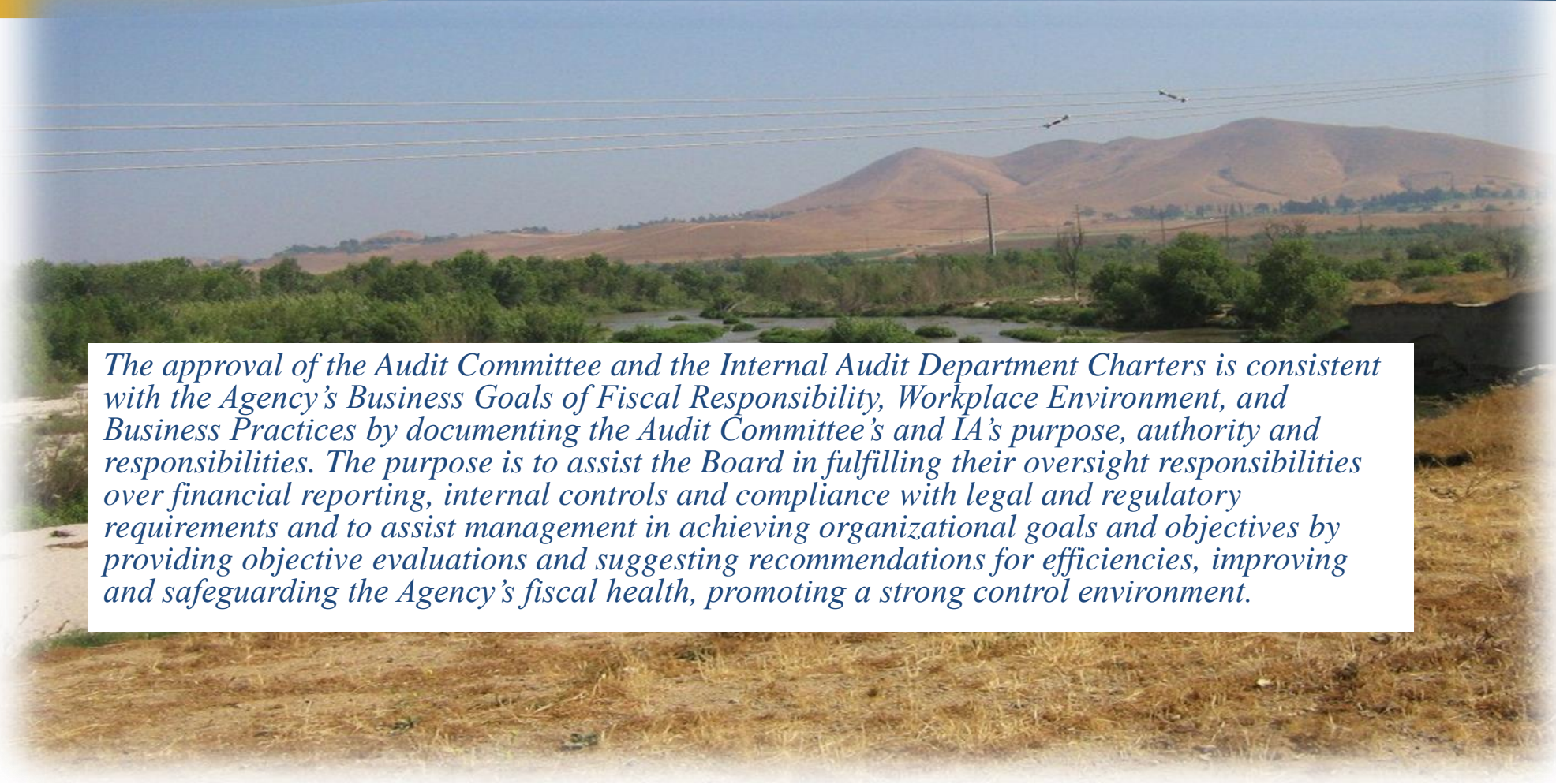
Internal Audit Department Charter

- Purpose
- Mission & Values
- Accountability
- Independence
- Authority
- Responsibilities
- Standards of Ethical Conduct
- Management's Responsibilities

Charters

1. Approve the Audit Committee Charter and the Internal Audit Department Charter; and
2. Direct staff to implement the charters.

Charters



The approval of the Audit Committee and the Internal Audit Department Charters is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by documenting the Audit Committee's and IA's purpose, authority and responsibilities. The purpose is to assist the Board in fulfilling their oversight responsibilities over financial reporting, internal controls and compliance with legal and regulatory requirements and to assist management in achieving organizational goals and objectives by providing objective evaluations and suggesting recommendations for efficiencies, improving and safeguarding the Agency's fiscal health, promoting a strong control environment.

INFORMATION
ITEM
2A

Date: December 16, 2020

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

12/07/20

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Water Connection Fee Audit - Follow Up Review

Executive Summary:

Internal Audit (IA) completed a review of the recommendations provided in the original Water Connection Fee Audit report, dated February 25, 2019. The objectives of the audit were to evaluate the process for collecting fees, determine compliance with Agency policies and procedures, evaluate internal controls are in place over the collection, recognition and reconciliation of fees, and identify opportunities for improvement. Since the implementation of the Water Collection Fee on January 1, 2016, the Agency has collected over \$29 million in water connection fees to support the Agency's cost of water infrastructure and supplies and other related expenses and financial requirements, additionally to promote conservation and reuse.

Since the original audit in 2019, the Planning and Environmental Resources Department staff have implemented all recommendations. The recommendations support improving controls and implement processes to collect past due fees. For example, encourage improving relationships with agencies to ensure the collection of fees, controls to perform reconciliations, and implement all ordinance clauses to ensure the collection of fees. Overall, the audit noted that the Agency has effective processes in place over the collection of fees. The attached report provides details of the observations and recommendations. IA is available to provide additional audit services.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On March 20, 2019, the Board of Directors received and filed the original Water Connection Fees Audit Report which provided 7 recommendations to improve internal controls.

On September 18, 2019, the Board of Directors received and filed the first Water Connection Fees Follow Up Audit which found that 2 of the original 7 recommendation were considered implemented and closed.

Environmental Determination:

Not Applicable

Business Goal:

The Water Connection Fee Audit and Follow Up Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations for efficiencies, improving and safeguarding the Agency's fiscal health, promoting a strong control environment and assisting the Board and Agency management in achieving organizational goals and objectives.

Attachments:


Attachment 1 - Water Connection Fee Audit - Follow Up Review
Attachment 2 - PowerPoint



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DATE: November 20, 2020

TO: Shivaji Deshmukh
General Manager

FROM: 
Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Water Connection Fee Audit – Follow-Up Review

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed a review of the outstanding audit recommendations provided in the original Water Connection Fees Audit report, dated February 25, 2019. This follow-up evaluation was performed under the authority given by the IEUA Board of Directors. The report that follows provides a status of each of the open recommendations.

Audit Objective and Scope

The purpose of this follow up review was to evaluate the implementation status of the five open audit recommendations from the original audit. A total of 7 recommendations were provided through the original audit report dated February 25, 2019. In August 2019, IA performed a follow-up evaluation for two of the recommendations and determined both recommendations were implemented.

The objectives of the original audit were to evaluate the process for collecting Water Connection fees. Additionally, to determine compliance with the Agency's Ordinance, Resolution, policies, and procedures; evaluate adequate internal controls were in place and collection and recognition of revenue; ensure procedures are in place to reconcile fees collected; and identify opportunities for improvement.

The Water Connection Fee Audit and Follow Up Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations for efficiencies, improving and safeguarding the Agency's fiscal health, promoting a strong control environment and assisting the Board and Agency management in achieving organizational goals and objectives.

Water Smart - Thinking in Terms of Tomorrow

Kati Parker
President

Jasmin A. Hall
Vice President

Steven J. Elie
Secretary/Treasurer

Michael E. Camacho
Director

Paul Hofer
Director

Shivaji Deshmukh
General Manager

Audit Results – Executive Summary

The original audit found that the Planning & Environmental Resources Department processes all water connection fee payment transactions effectively. During the original audit in February of 2019, IA provided seven recommendations to further strengthen and tighten collection processes and internal controls.

Subsequently, in August 2019, IA evaluated the implementation status of two recommendations and those were deemed implemented. The recommendations related to streamlining the Water Connection Fee process by using a single-entry system in SAP, the Agency's ERP system, and eliminate using two systems to process and record transactions. The Planning & Environmental Resources, Finance and Accounting (FAD) and Business Information Systems (BIS) departments worked together to implement the collection of fees, record the information directly in SAP and ensure all internal controls are in place. This new process continues to be successfully in place.

Based on the results of this review, all 5 recommendations are considered implemented and closed. The report that follows provides additional details.

Acknowledgements

IA would like to extend our appreciation to the Planning & Environmental Resources Department staff for their cooperation and assistance during this review.

Discussions with Management

Draft audit reports were provided to the Planning & Environmental Resources Department staff for their review and input on October 9, 2020 and November 10, 2020; prior to finalizing, where possible, their comments have been incorporated.

Background

The Agency began collecting Water Connection fees on January 1, 2016. The Board approved Ordinance #104 on June 15, 2016 and requires that anyone that wants to connect to a water service must pay a fee directly to IEUA based on the meter size of their water connection. IEUA staff must coordinate with contracting agencies and water districts to ensure the collection of the water connection fee.

The Agency's Board also adopted Resolution No. 2015-5-6 which established a five-year rate structure based on the meter size of the water connection as shown below:

Meter: Size of Connection	Fiscal Year & Effective Date					
	2015/16	2016/17		2017/18	2018/19	2019/20*
	1/1/2016	7/1/2016	1/1/2017	7/1/2017	7/1/2018	7/1/2019
5/8"	\$693	\$693	\$1,455	\$1,527	\$1,604	\$1,684
3/4"	\$693	\$693	\$1,455	\$1,527	\$1,604	\$1,684
1"	\$1,733	\$1,733	\$3,638	\$3,818	\$4,011	\$4,211
1.5"	\$3,465	\$3,465	\$7,275	\$7,635	\$8,020	\$8,420
2"	\$5,544	\$5,544	\$11,640	\$12,216	\$12,832	\$13,472
3"	\$12,128	\$12,128	\$25,463	\$26,723	\$28,071	\$29,471
4"	\$21,830	\$21,830	\$45,833	\$48,101	\$50,527	\$53,047
6"	\$48,510	\$48,510	\$101,850	\$106,890	\$112,280	\$117,880
8"	\$83,160	\$83,160	\$174,600	\$183,240	\$192,480	\$202,080
10"	\$103,950	\$103,950	\$218,250	\$229,050	\$240,600	\$252,600
12"	\$121,275	\$121,275	\$254,625	\$267,225	\$280,700	\$294,700

**In consideration of the ongoing global pandemic, COVID-19, the Board elected to keep the FY 2020/21 rates the same as FY 2019/20, proposing no increases for the time being.*

Revenues

The Water Connection Fee has resulted in the following revenues:

Water Connection Fees as Reported in SAP, the Agency's ERP system							
AGENCY	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21*	TOTAL
City of Chino	\$245,379	\$1,054,707	\$2,026,433	\$1,346,691	\$1,830,369	\$539,753	\$7,043,332
City of Chino Hills	\$82,473	\$1,280,212	\$992,302	\$332,076	\$70,507	\$17,683	\$2,775,253
Cucamonga Valley Water District	\$60,992	\$341,861	\$1,156,304	\$346,700	\$314,099	(\$15,152)	\$2,204,804
Fontana Water Company	\$107,075	\$740,884	\$624,903	\$948,553	\$1,906,210	\$29,473	\$4,357,098
Monte Vista Water District	\$34,654	\$138,605	\$85,512	\$191,424	\$266,945	-	\$717,140
City of Ontario	\$302,496	\$1,291,148	\$2,652,342	\$2,038,039	\$3,194,580	\$793,170	\$10,271,775
City of Upland	\$163,941	\$567,518	\$351,482	\$712,808	\$465,433	\$235,762	\$2,496,944
Total Amounts	\$997,010	\$5,414,935	\$7,889,278	\$5,916,291	\$8,048,143	\$1,600,689	\$29,866,346

** FY 2020/21 revenue is through October 31, 2020.*

**Follow-Up Review of Outstanding Recommendations
from the Audit Report dated February 25, 2019**

Original Recommendation #2:

Planning & Environmental Resources staff 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).

Status: IMPLEMENTED

The original audit noted there was a need for Planning & Environmental Resources staff to work closely with the contracting agencies and water districts to ensure that all owed water connection fees are paid and reported to IEUA. The audit identified a need to coordinate and reconcile information between IEUA's Planning & Environmental Resources Department's database and the contracting agencies/water districts' building and/or water meter permit information and reports. This process is necessary to ensure all connection fees are identified, reported and paid according to the requirements of the IEUA Ordinance.

At the time of the original audit, Planning & Environmental Resources staff stated that there was generally adequate support from the contracting agencies to collect the fee but noted some difficulty in obtaining information from a few of the local water districts and companies. During this follow up review, the department indicated that their business relationship with the water districts has improved which aids in gathering needed information.

At the time of the original audit, Planning & Environmental Resources staff had also stated the importance of ensuring periodic reconciliations to compare the Agency's water connection fees to the contracting agencies/water districts' information about water meters issued by them. Staff indicated that they have completed a reconciliation of Fiscal Year 2019-20. As a result of the reconciliations, Planning & Environmental Resources has identified meters issued which require the related fee be paid to IEUA and staff have developed a process to reach out to developers and homeowners to explain the process and the fees that must be collected for water meters installed with the corresponding water connection payment to IEUA.

As a result of the Planning & Environmental Resources Department's staff outreach, communication, and reconciliation efforts, additional/outstanding Water Connection fees have been collected. According to staff over \$1.8 million has been collected in past due payments through September 2020. Additional information on collections is discussed under Recommendation #6.

Planning & Environmental Resources continues to work with the contracting agencies and water districts to ensure the Water Connection fees information is communicated. Additionally, staff indicated that annually, they ensure the Agency's information is reconciled to the water meters that have been issued by the contracting agencies and water districts. As a result of these efforts, IA considers this recommendation implemented and closed.

Agency's Ordinance

Original Recommendation #4:

Based on their experience in collecting fees Planning & Environmental Resources 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.

Status: Closed - estimated timeline for full implementation is early 2021

The Agency has been collecting Water Connection Fees since January 1, 2016. With the experience in collecting fees and applying the guidelines set forth in the Agency' Board approved Ordinance #104 (dated June 15, 2016) and Resolution No. 2015-5-6 (dated May 20th, 2015), Planning & Environmental Resources staff have possible suggestions to update and improve guidelines. Planning & Environmental Resources staff would like to propose their updates and suggestions to Executive Management and the Board for consideration. Suggestions include:

- Ordinance: Flexibility with the timing of the fee payment from the customer to IEUA. The Ordinance currently states in Division II, Part II-Water Rates, Section 202 that customers *"shall pay 100% of the fee prior to issuance of the applicable permit to construct"*. Planning & Environmental Resources' observation is the scope of new construction can vary, development may occur in several phases or in individual units. These variations may result in changes to applicable permits, to planned sizes of water connections and/or changes to the timing of development and changes in fee amounts. Planning & Environmental Resources staff would like to suggest additional wording to provide flexibility and allow for developers to pay for individual/separate phases.
- Ordinance: Additional wording to address refunds/credits: The Ordinance mentions in Division II, Part II-Water Rates, Section 202 that a *"request to modify an existing connection will be reviewed by IEUA's General Manager or his/her designee"* but does not specifically mention refunds or under what circumstances refunds would be authorized. Currently, it is Planning & Environmental Resources' practice to issue full or partial refund to customers when they request a change or when a customer provides proof of existing, smaller water meter. The Ordinance

does not address administrative fees necessary to process the original payment, refunds or credits.

- Resolution: The current authorized rate structure expires June 30, 2020, as noted above, in consideration of the ongoing global pandemic, COVID-19, the Board elected to keep the FY 2020/21 rates the same as FY 2019/20, proposing no increases for the time being. In January 2019, Finance and Accounting staff developed an RFP and the Agency's Board of Director's approved a contract with an independent consultant to perform a rate study to use as a basis for establishing rates for future years to include in a revised Resolution. According to Planning & Environmental Resources staff, the water rates portion of the study concluded with a year over year increase of 3% to account for inflation. Planning & Environmental Resources staff embarked on an updated rate study that will address the wastewater/water/recycled water rates in 2021-2022 to ensure that technically based and defensible rates are established.

The intent of this recommendation was to provide support to staff to make any needed updates to the current Board approved Ordinance and Resolution, if required. Planning & Environmental Resources staff stated the proposed suggestions will be presented to Executive Management at the end of 2020, and plan to take the updated Ordinance for review and approval to the Board of Directors during the first half of calendar year 2021. Because the department staff has plans to work with the Executive Team and present to the Board in the next 6 months, IA will consider this item closed.

Standard Operating Procedures (SOP)

Recommendation #5:

Planning & Environmental Resources 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.

Status: IMPLEMENTED

The original audit identified that Planning & Environmental Resources staff had already documented SOPs that would provide guidance about the different activities involved in the water connection fees collection process. At the time of the original audit, the SOPs were in draft form. During this follow up review, IA reviewed the draft SOPs and provided comments/suggestions for consideration before finalizing.

In November 2020, staff finalized the processes in one, 35-page SOP to serve as procedures for staff to follow for: processing payments, processing non-payments, and processing liens. IAs review of the SOP determined that all process steps are

documented in detail, processes are illustrated with screen shots of each step, and steps clearly communicated.

Documented procedures are the foundation of good internal controls to ensure consistency and accuracy in applying the approved processes. SOPs serve as a training tool and manual for other staff, especially during staff absences, staffing changes, and for cross-training to ensure the continuity of the services. Department SOPs are part of the Agency's internal control framework and a recommended best practice.

IA commends the Planning & Environmental Resources staff for taking the time to document the needed SOP. IA considers this recommendation implemented and closed.

Fee Collections

Recommendation #6:

Planning & Environmental Resources staff 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.

Status: IMPLEMENTED

The original audit identified a need for Planning & Environmental Resources staff to work closer with the contracting agencies and local water districts to verify that all water connection fees were collected as required by the Board-approved Ordinance and to pursue all methods available to ensure collection of fees due.

As noted in the original 2019 audit, the water connection fee is an Agency revenue source that requires the Agency to directly interact with the public and retail customers. To ensure that the Agency receives the water connection fees as required by the Ordinance, the Agency uses the "honor system" with contracting agencies and local water districts to inform customers about the need to pay the fee to IEUA before the project is permitted or the water meter is issued. Planning & Environmental Resources staff has met several times with the contracting agencies and water districts and continues to hold regular "check-in meetings" to obtain the needed cooperation. Planning & Environmental Resources' staff efforts have resulted in cooperative business relationships and the staff continues to work closely with the contracting agencies and water districts. Staff noted that relationships and cooperation has improved significantly. Additionally, due to staffs' efforts to improve relationships, the Agency can rely on the current process in place to ensure payment of all water connection fees are paid, which is evident through the reconciliation. This demonstrates that the current process is working effectively.

Planning & Environmental Resources staff provided a recent fiscal year reconciliation to demonstrate the process used to determine if there are any uncollected water connection fees. Additionally, staff provided the information related to the additional collections that have resulted. IA encourages staff to continue the reconciliation process and consider documenting the process in their SOP. Per the review of the information, IA determines this recommendation is implemented and closed.

Recommendation #7:

Delinquent fees should be pursued using various methods, including liens.

Status: IMPLEMENTED

The original audit identified uncollected fees and there were obstacles that prevented the collection of the water connection fees for new development in areas serviced by the local water districts. This resulted in the Agency potentially not receiving all the fees owed.

Planning & Environmental Resources staff made attempts to collect the water connection fees after the fact, however, staff noted developers and/or property owners ignored the notifications/invoices, and balances remained outstanding. It was also noted that it was FAD's responsibility to ensure that all fees due to the Agency are pursued and every attempt is made at collection. Therefore, FAD had planned to develop a Request for Proposal (RFP) to find a collection agency to pursue these uncollected amounts or work directly with the County to place the necessary liens on properties.

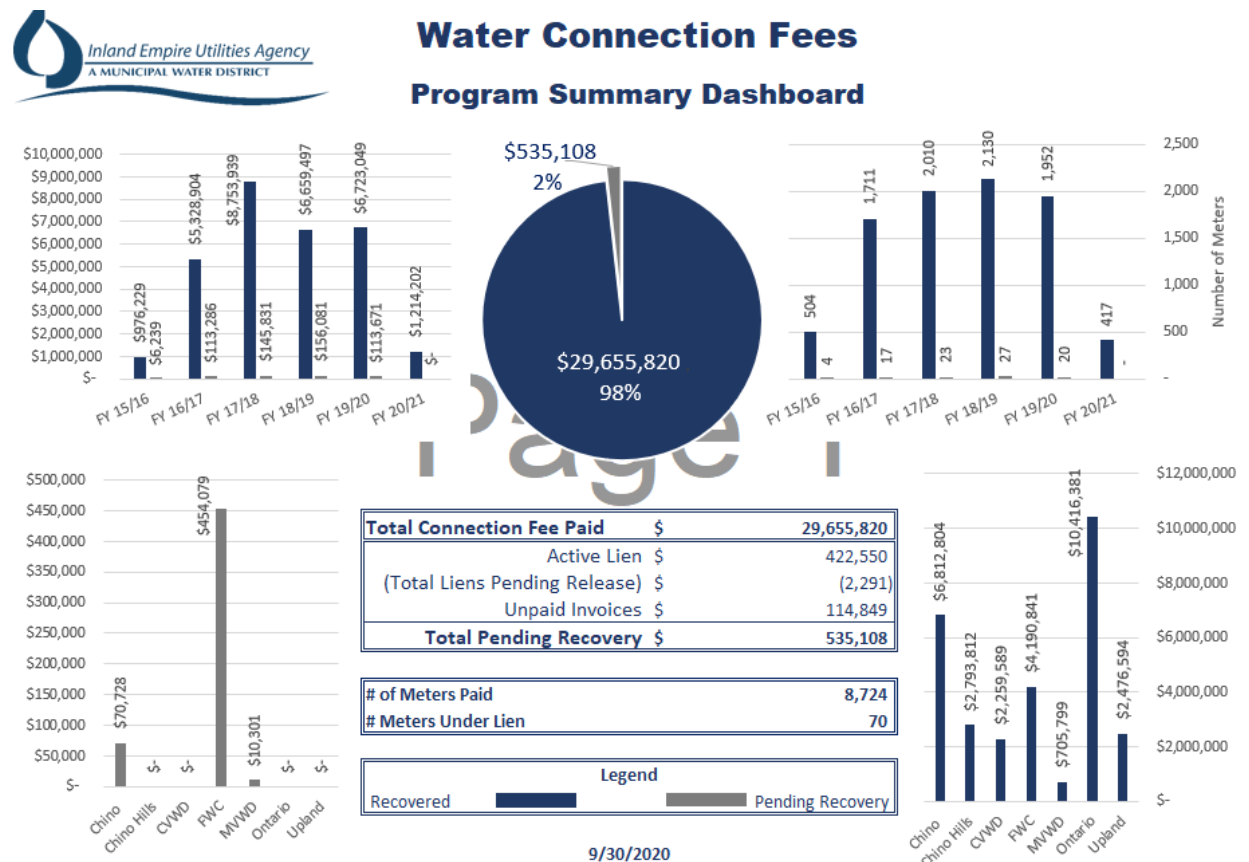
This follow-up review found that Planning & Environmental Resources took a proactive role to pursue uncollected fees by working directly with the County of San Bernardino to place liens on properties if necessary. Currently, Planning & Environmental Resources has developed and followed the SOPs processes for the collection of unpaid fees and placing and pursuing liens and collection on those liens. Process is as follows:

- 1) Letter notifications (1st, 2nd, and final), then
- 2) Lien placed on the property through County of San Bernardino

Results: As of September 2020, this process has resulted in the collection of over \$1.8 million of previously outstanding revenue. It should be noted that Planning & Environmental Resources staff indicated that over \$1.5 million was paid through the issuance of letters alone, first step sending out at most 3 notification letters (and the process never escalated to placing a lien). Over \$300,000 has been collected through liens paid. In total, over \$1.8 million has been collected through the process of sending request letters and placing liens. Staff indicated that a total of 116 past due meter payments have resulted in property liens filed with the County of San Bernardino, 46 of which have been released after payment. A total of 297 past due meter payments were made after notification letters without the Agency filing a lien. Planning & Environmental

Resources staff have worked diligently to ensure this process is in place and working as intended.

Additionally, Planning & Environmental Resources staff has developed a dashboard to track all water connections fees collected and uncollected; number of meters paid and unpaid; number and dollar amount of liens placed and released, etc. The dashboard is a “live” document as it is continuously updated when fees are collected, and liens are released. A snapshot of the dashboard was provided as of September 30, 2020:



Planning & Environmental Resources provided the most recent lien data, shown:

Lien Data: September 30, 2020		
Description	Number of meters	Total amount collected
Total count of liens filed	116	\$726,683
Count of liens paid and released	46	\$304,133
Count of unpaid liens/not released	70	\$422,550
Count of fees paid without the need to place a lien	297	\$1,575,848

Since delinquent fees are pursued using various methods, including liens this recommendation is considered implemented and closed.

Audit Committee Meeting

Water Connection Fee Audit: Follow-Up Review



Water Connection Fee Audit: Follow-Up Review

- Original audit – February 2019
- First follow-up review – August 2019
- Second follow-up review – November 2020

Purpose:

To evaluate the implementation status of the 5 open audit recommendations from the original audit.

The objectives were to evaluate:

- Process for collecting Water Connection Fees
- Determine compliance with the Agency's policies
- Evaluate internal controls
- Ensure reconciliation of fees collected;
- Identify opportunities for improvement.

Water Connection Fee Rates

The Agency's Board also adopted Resolution No. 2015-5-6 which established a five-year rate structure based on the meter size of the water connection as shown below*:

Meter: Size of Connection	Fiscal Year & Effective Date					
	2015/16	2016/17		2017/18	2018/19	2019/20*
	1/1/2016	7/1/2016	1/1/2017	7/1/2017	7/1/2018	7/1/2019
5/8"	\$693	\$693	\$1,455	\$1,527	\$1,604	\$1,684
3/4"	\$693	\$693	\$1,455	\$1,527	\$1,604	\$1,684
1"	\$1,733	\$1,733	\$3,638	\$3,818	\$4,011	\$4,211
1.5"	\$3,465	\$3,465	\$7,275	\$7,635	\$8,020	\$8,420
2"	\$5,544	\$5,544	\$11,640	\$12,216	\$12,832	\$13,472
3"	\$12,128	\$12,128	\$25,463	\$26,723	\$28,071	\$29,471
4"	\$21,830	\$21,830	\$45,833	\$48,101	\$50,527	\$53,047
6"	\$48,510	\$48,510	\$101,850	\$106,890	\$112,280	\$117,880
8"	\$83,160	\$83,160	\$174,600	\$183,240	\$192,480	\$202,080
10"	\$103,950	\$103,950	\$218,250	\$229,050	\$240,600	\$252,600
12"	\$121,275	\$121,275	\$254,625	\$267,225	\$280,700	\$294,700

**In consideration of the ongoing global pandemic, COVID-19, the Board elected to keep the FY 2020/21 rates the same as FY 2019/20, proposing no increases for the time being.*

Water Connection Fee Revenues

Water Connection Fees as Reported in SAP, the Agency's ERP system							
AGENCY	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21*	TOTAL
City of Chino	\$245,379	\$1,054,707	\$2,026,433	\$1,346,691	\$1,830,369	\$539,753	\$7,043,332
City of Chino Hills	\$82,473	\$1,280,212	\$992,302	\$332,076	\$70,507	\$17,683	\$2,775,253
Cucamonga Valley Water District	\$60,992	\$341,861	\$1,156,304	\$346,700	\$314,099	(\$15,152)	\$2,204,804
Fontana Water Company	\$107,075	\$740,884	\$624,903	\$948,553	\$1,906,210	\$29,473	\$4,357,098
Monte Vista Water District	\$34,654	\$138,605	\$85,512	\$191,424	\$266,945	-	\$717,140
City of Ontario	\$302,496	\$1,291,148	\$2,652,342	\$2,038,039	\$3,194,580	\$793,170	\$10,271,775
City of Upland	\$163,941	\$567,518	\$351,482	\$712,808	\$465,433	\$235,762	\$2,496,944
Total Amounts	\$997,010	\$5,414,935	\$7,889,278	\$5,916,291	\$8,048,143	\$1,600,689	\$29,866,346

* Revenue is through October 31, 2020

Water Connection Fee Audit: Follow-Up Review

Recommendation #2:

Planning & Environmental Resources Department 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).

Status: IMPLEMENTED

Water Connection Fee Audit: Follow-Up Review

Recommendation #4:

Based on their experience in collecting fees Planning & Environmental Resources Department 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.

Status: Closed

Recommendation #5:

Planning & Environmental Resources Department 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.

Status: IMPLEMENTED

Water Connection Fee Audit: Follow-Up Review

Recommendation #6:

Planning & Environmental Resources Department 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.

Status: IMPLEMENTED

Recommendation #7:

Delinquent fees should be pursued using various methods, including liens.

Status: IMPLEMENTED

As of September 2020, Planning & Environmental Resources staff have pursued collection of over \$1.8 million of previously outstanding revenue.

- \$1.5 million was paid through the issuance of letters alone (and the process never escalated to a lien).*
- Over \$300,000 has been collected through liens paid.*

Water Connection Fee Audit: Follow-Up Review

Most recent lien data:

Lien Data: September 30, 2020		
Description	Number of meters	Total amount collected
Total count of liens filed	116	\$726,683
Count of liens paid and released	46	\$304,133
Count of unpaid liens/not released	70	\$422,550
Count of fees paid without the need to place a lien	297	\$1,575,848

Water Connection Fee Audit: Follow-Up Review

The Water Connection Fee Audit and Follow Up Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations for efficiencies, improving and safeguarding the Agency's fiscal health, promoting a strong control environment and assisting the Board and Agency management in achieving organizational goals and objectives.

INFORMATION
ITEM
2B

Date: December 16, 2020

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

12/07/20

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Interim Report: Review of Agency COVID-19 Expenses

Executive Summary:

Internal Audit staff completed an evaluation of the expenditures incurred by the Agency in response to the ongoing global pandemic, COVID-19. Expenses include those costs incurred to comply with health and safety guidelines, to prevent the spread of COVID-19, protect Agency personnel and the public, costs related to transitioning employees to work from home, and ensuring proper on-site precautions. The objectives of the review were to evaluate if expenses are in compliance with adequate internal controls, contain sufficient supporting documentation, and are in compliance with Agency, State and federal guidelines. To-date, the Agency has incurred approximately \$600,000 in expenses; the Grants staff have submitted two applications for potential, partial reimbursement from the Federal Emergency Management Agency (FEMA). As FEMA continues to develop guidelines and criteria for reimbursement of allowable expenses, Agency staff continue to monitor and collect expense information.

Overall, the audit noted that, in light of the new challenges and changes to business processes, the Agency has maintained adequate internal controls and all Agency approved procurement methods and policies have been implemented. Additionally, the review also noted that the Grants staff monitor and compile related expenses and guidance information related. The attached report provides additional details of the costs incurred in response to COVID-19.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On June 17, 2020, the Board of Directors approved the Fiscal Year 2020/21 Annual Audit Plan. The plan was in accordance with auditing standards and the Charter. This audit was approved through the plan.

On December 18, 2019, the Board of Directors approved the Audit Committee and the Internal Audit Department Charters.

Environmental Determination:

Not Applicable

Business Goal:


The Interim Report: Review of Agency COVID-19 Expenses is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing an independent evaluation of the expenses incurred by the Agency and procurement activities in response to COVID-19, 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 - Interim Report: Review of Agency COVID-19 Expenses
Attachment 2 - PowerPoint

DATE: November 23, 2020

TO: Shivaji Deshmukh
General Manager

FROM: 
Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Interim Report: Review of Agency COVID-19 Expenses

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed an evaluation of the expenditures incurred by the Agency in response to the ongoing global pandemic, COVID-19. Expenses include those costs incurred to comply with health and safety guidelines to prevent the spread of COVID-19, protect Agency personnel, costs related to transitioning employees to work from home and ensuring proper on-site precautions. The audit was performed under the authority given by the IEUA Board of Directors and the Fiscal Year (FY) 2020/21 Annual Audit Plan. The attached report provides the results of IA's review.

Audit Objective and Scope

The review was limited to evaluating internal controls and supporting documentation over expenses related to the Agency's response to the risks associated with COVID-19 and in response to Governor Newsom's Executive Order N-33-20 and additional State public health directives. The objectives of the review were to evaluate if expenses were:

- In compliance with State/federal guidelines,
- In compliance with Agency policies and procedures,
- Followed adequate internal controls,
- Contain adequate supporting documentation, and
- Identify opportunities for improvement.

Audit Techniques:

Audit techniques included:

- Review of Federal guidelines
- Evaluation of procurement transactions and supporting documentation
- Discussions with Agency staff

Audit Results – Executive Summary

All Agency departments have a responsibility to comply with existing Agency policies and procedures to ensure all transactions follow the Agency's procurement guidelines and proper internal controls. The Grants Department is responsible for compiling COVID-19 expenses, in anticipation of a potential reimbursement from the Federal Emergency Management Agency (FEMA), because COVID-19 was declared a nationwide emergency. The Grants Department has effectively collected and monitored Agency expenses related to the ongoing global pandemic, COVID-19.

This report is considered an Interim Audit Report. This report provides a snapshot of the expenses incurred by the Agency, during the first seven months of the pandemic, March through October 2020. FEMA guidelines and expenditure criteria has not been finalized. The pandemic and related expenses will continue. Expenses have been compiled by Agency staff and the Grants Department has submitted one application and additional subproject(s) are added as required, totaling over \$550,000 for cost reimbursement. This audit report provides information and details about the expenses incurred through October 31, 2020. The objective of the audit was to evaluate transactions and compare to current guidance and criteria, in anticipation of FEMA reimbursement and ongoing oversight.

IA will continue to work with staff and provide a subsequent report in March of 2021. IA hopes FEMA has provided final or additional guidance and criteria about COVID-19 related expenses and reimbursement decisions by March 2021.

Acknowledgements

IA would like to extend our appreciation to the Grants Department staff for their cooperation and assistance during this review. IA would also like to extend our appreciation to all Agency staff who provided details and information related to the procurement transactions evaluated.

Discussions with Management

Draft audit reports were provided to the Grants Department for their review and input; prior to finalizing, where possible, their comments have been incorporated.

Background

The Grants Department (Grants) is responsible for identifying, seeking, securing and managing low-cost and/or interest funding opportunities that support the Agency's capital projects, programs and business objectives. Funding received from grant opportunities provides support to the Agency's various initiatives including: water storage, water recycling, wastewater treatment, groundwater recharge and surface management, safe drinking water, water conservation, and renewable energy. As of June 30, 2020, Grants has secured approximately \$677 million in awards from a combination of local, state and federal loan programs.

Department Staffing

The Grants Department operates under the External Affairs and Policy Development Division. As of September 22, 2020, the staffing and reporting structure for the Grants Department is as follows:



Position	Number
Manager of Grants	1
Grants Administrator	2
Grants Administrator (<i>Limited-Term</i>)	1
Senior Accountant	1
Accountant I/II	2
Total Number of Positions	7

Grant Management Process

For each type of funding opportunity pursued, the Grants Department oversees all activities within the lifecycle, Grants Management Cycle. The six-step funding cycle, developed by Grants has additional details and tasks within each step and can be found in the Grants Strategic Plan dated June 2018.



Department-specific Desk Procedures

In addition to the Grants Strategic Plan and the Grants Management Cycle, the department's activities and tasks are described in a document called *Grants Billing Process – Key Activities for Grant Reimbursement Process*, which appears to represent the Department's desk procedures or Standard Operating Procedures (SOPs). Agency Policy A-51 *Standard Operating Procedures* (effective: November 11, 2013) outlines the requirements and format for documenting department SOPs. Documented procedures are the foundation of good internal controls and establish expectations and guidelines, ensure consistency and accuracy in procedures, and serve as a training tool and resource to staff during absences, changes and cross-trainings. *IA suggests the Grants Department to consider whether these procedures should be documented as a SOP according to A-51.*

IA reviewed and relied on Agency procurement policies and related desk procedures to ensure procurement transactions followed the guidelines prescribed by each.

Results of the Review of Agency Expenditures related to COVID-19

Overview

On March 13, 2020, the President of the United States declared a nationwide emergency due to COVID-19. In response to Governor Newsom's Executive Order N-33-20, "stay-at-home" order and to comply with additional State public health directives, the Agency immediately responded to prevent the spread of COVID-19, to protect Agency personnel and contribute to the health and safety of the public. To maintain the continuity of the essential services the Agency provides, and to comply with the executive order, the Agency implemented the following:

- Work From Home: Employees whose duties do not require them to be onsite were transitioned to work from their place of residence and will do so until otherwise instructed. Employees were provided with adequate computer equipment such as laptops, supplies and VPN access to ensure the continuity of their functions.
- Onsite Operations: Employees who cannot perform their essential duties from a remote location, must continue to work at assigned Agency facilities with new implemented guidelines to maintain a safe environment.

The Grants Department continues to work closely with other Agency departments to track and compile the Agency's expenses as they relate to the Agency COVID-19 response. The purpose is to track the expenses and seek potential reimbursement from FEMA. Once FEMA finalizes criteria for the allowability of expenditures, the Agency will be prepared to seek the reimbursement funding.

FEMA Grant Opportunity & Guidance for Eligible Costs

To assist with the expenses incurred by the Agency, the Grants Department identified a funding opportunity through the Federal Emergency Management Agency's (FEMA) Public Assistance (PA) program (Category B: Emergency protective measures) to pursue reimbursements for the expenditures in response to COVID-19. Expenditures incurred are usually for a short period of time, 30, 60 or 90 days. The Agency is eligible to apply for public assistance to recover from major disasters or emergencies declared by the President.

FEMA has outlined the framework and details related to the types of protective measures that may be eligible for reimbursement under the Public Assistance Program and in accordance with the COVID-19 National Emergency Declaration. Guidance is laid out in a fact sheet, *Coronavirus (COVID-19) Pandemic: Eligible Emergency Protective Measures*, issued on March 19, 2020. **See Attachment 2.**

In September 2020, six months after the initial FEMA guidance was issued, FEMA updated their criteria, taking effect September 2020. FEMA policy FP 104-009-19 was released, *Coronavirus (COVID-19) Pandemic: Work Eligible for Public Assistance (Interim)* provides the criteria under which labor will be covered, effective September 15, 2020. **See Attachment 3.**

FEMA/Agency Cost Share

FEMA grants are subject to a cost share (non-Federal share/match) component, which is the portion of the costs and/or reimbursement not paid for by FEMA. The purpose of the cost share is to secure interest and involvement through financial commitment by the recipient entity. Currently, the federal share is **75%** of the eligible costs, and can increase up to 90% if federal obligations meet or exceed a qualifying threshold (excluding administrative costs). For emergency work, the federal share can increase beyond the 90% to even more if warranted by the needs of the circumstances/disaster and for a limited time period.

The federal share is unique and can vary from grant to grant. At the time of submission of the grant application, the Agency's reimbursement percentage is unknown. Once FEMA awards a contract, IEUA will know the percentage of reimbursement and the match portion (non-Federal share) required by the Agency.

IEUA's FEMA Reimbursement Request

At the initial stages of the Agency's response to COVID-19, the Grants Department relied on FEMA's March 19th guidelines to identify Agency costs that could potentially be eligible for reimbursement. In June 2020, Grants submitted an initial application for funding, listing approximately \$500,000 in related expenses. Details in the table:

CCOVID-19 Pandemic Expenses submitted for FEMA Reimbursement Period: March 19, 2020 to June 17, 2020		
Type of Expense	Description	Amount
Professional Services	3 months of additional disinfection services of shared/common areas within the buildings	\$ 52,530
Materials & Supplies	12 cases disinfection wipes, 1,080 Lysol disinfectant and Purell Instant hand sanitizer gel 107 Purell sanitizer gel, dispensers and stand 200 breathable face masks 1,000 3M dust masks (50 in each box, 20 boxes) 2,000 3 ply facemasks with elastic ear loops (50 in each box, 40 boxes) 2,000 facemasks with elastic ear loops (50 in each box, 40 boxes) 6,000 medical grade facemasks (50 in each box, 120 boxes)	20,081
Equipment	38 Laptops, 1 cell phone, 20 software licenses & technical support	88,574
Labor	Staff time for planning, coordinating, implementing, training; ordering, purchasing, and distributing protective equipment and supplies, emergency and safety planning, and FEMA invoicing and reporting.	326,097
Agency amount requested for reimbursement & submitted to FEMA on the application		\$ 487,282

As the emergency/disaster evolves, FEMA allows applicants to submit additional costs under the original application using as many sub-project numbers as needed.

IEUA's Second FEMA Reimbursement Request

After the initial application was submitted, on September 29, 2020, the Grants Department submitted a subproject for additional COVID-19 costs for consideration. The additional costs were for the months after the initial 90-day application period that were extended, but do not include labor costs and is consistent with the updated guidance. Details below:

SUB-PROJECT # 1 COVID-19 Response Efforts – Part 2 Period: June 18, 2020 to September 14, 2020		
Type of Expense	Description	Amount
Professional Services	2 and ½ months of emergency disinfection services of shared/common areas within the buildings	\$ 45,035
Materials & Supplies	20 Medical grade facemasks with elastic ear loops (50 in each box, 20 boxes), 30 Thermometers, and 13 Protective Shield Acrylic Screens	7,298
Equipment	4 Laptops, 2 SSD Hard drives, 40 DUO licenses, 2 Hard drive duplicator, 2 Hard drive duplicator for Solid State Drives, 20 Mice, 21 Laptop power adapters, 2 Docking stations, 2 Adaptors (USB-C to HDMI), 2 Windows 10 Pro Upgrade, 10 Microsoft Office 365, 10 HDMI cables, 10 USB printer cables, 10 Mice, 5 Microsoft Life Cam, 1 Headset, 4 USB headset, 10 USB headset, 1 Windows 10 Pro Upgrade, and 15 Adaptors (Display Port to HDMI)	14,650
Total amount requested for reimbursement from FEMA – Sub-project #1		\$ 66,983

Status of FEMA reimbursement

As of November 2020, the total amount submitted for reimbursement to FEMA/California Governor's Office of Emergency Services (Cal OES) is **\$554,265**. If the FEMA application is approved and using a cost share percentage of 75%, the Agency would be reimbursed approximately \$415K from this application. According to Grants staff, recent discussions with FEMA/Cal OES staff have indicated that IEUA's labor costs submitted are not likely to be reimbursed. Determination of the eligibility for labor costs is pending review by FEMA for the type of activities performed by Agency staff. The final award amount is to be determined, pending FEMA's review. In accordance with this feedback, a more realistic expectation of the potential reimbursement amount is **\$171,125**.

Other factors that could impact the Agency's amount for reimbursement from FEMA is materials and supplies. FEMA *will not fund stockpiling of supplies*, such as Personal Protective Equipment (PPE) for future use. When the grant closeout period occurs, the Agency will have to identify if the supplies were consumed through inventory and usage records. Additionally, if the amount of the remaining supplies is greater than \$5,000, then FEMA funding maybe reduced.

As of November 2020, FEMA has not declared a grant award for the Agency. Currently, FEMA is reviewing the application and any sub-projects. The Agency's initial application for *Request for Public Assistance* (RPA) is in the ***final eligibility review stage*** by FEMA. The sub-project is in the initial stage of review by FEMA/Cal OES staff.

Total COVID-19 Expenses: March 2020 – October 2020

In summary, as of October 31, 2020, in response to COVID-19, the Agency has incurred the following expenses between March and October of 2020, of which \$554,265 have been submitted for possible FEMA reimbursement, through separate requests, as illustrated above. Below is a summary of all Agency expenditures made, in response to COVID-19:

		Agency's Initial application March 2020 - June 2020	Sub- application July 2020- September 2020	Other related costs not submitted on Grants application	
Type of Expense	Description	Amount	Amount	Amount	TOTAL
Professional Services	Disinfection services of shared/common areas within the Agency's buildings	\$ 52,530	\$ 45,035	\$ 34,811	\$ 132,376
Materials & Supplies	Disinfection wipes, Lysol disinfectant and sanitizer gel sanitizer gel and dispensers and stand face masks	20,081	7,298	-	\$ 27,379
Equipment	Laptops, hard drives, software, licenses, and additional computer equipment	88,574	14,650	18,311	\$ 121,535
Labor	Staff time for planning, coordinating, implementing, training; related to COVID-19	326,097	None planned	None planned	326,097
TOTAL		\$ 487,282	\$ 66,983	\$ 53,122	\$607,387

*Additional details can be found in **Attachment 1**.

Conclusion

The Grants Department has effectively collected and monitored Agency expenses related to the Agency's response to the ongoing global pandemic, COVID-19. Grants will continue to collect expenditure information and report as appropriate for FEMA's consideration for funding. IA will continue to work with staff and plan to report in a final report total expense amounts and potentially grant decision information.

The Interim Report: Review of Agency COVID-19 Expenses is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing an independent evaluation of the expenses incurred by the Agency and procurement activities in response to COVID-19, suggesting recommendations for improvements, monitoring the internal control environment of the Agency, and assisting Agency management in achieving organizational goals and objectives.

Attachment 1:

Costs submitted on the FEMA Grant application and the forthcoming tables are based on “estimated costs” and/or amounts paid by the Agency. When the grant is awarded and funded, the Grants Department will submit reimbursement requests based on invoice and amount paid. Figures in the forthcoming tables are subject to change once all costs have been finalized and funding approved.

The tables outline the Agency costs related to the COVID-19 pandemic between March 19 to October 31, 2020:

<i>Purchased to support Agency staff to work from home</i>	
Computer Equipment, Software, and related items	
Description	Amount
42 laptops*	\$ 69,582.57
Software Licenses (DUO and 20 DocuSign)	24,325.80
Microsoft Office 365 licenses/Windows 10 Pro upgrades	3,878.67
6 Docking stations and 2 adaptors	1,366.68
Solid State Drives & Hard drives (Multiple kinds – Replacement, Replicator, and Duplicator)	1,131.15
Cables and Adaptors (Multiple Kinds – laptop power adaptors, USB-C to HDMI adaptors, HDMI, USB printer, Display port to HDMI, etc.)	990.03
5 Web cameras	764.16
15 Headsets	549.67
30 Mice	477.68
Cell phone	50.70
Total of Computer equipment and related items	\$ 103,116.11
Additional COVID-19 purchases to support staff upon return to work and hybrid work schedule*:	
20 Monitors and 20 Docking stations	\$ 9,034.85
5 Laptops (to replace older retired laptops that were returned to service for work from home)	7,437.35
15 Laptop bags, 20 Keyboard, 20 Mice and 20 Headsets	1,835.75
5 Laptop bags	\$110.83
Total for additional COVID-19 related purchases	\$ 18,418.78
Overall Total for Computer Equipment, Software, and related items	\$ 121,534.89

*Includes a purchase for 10 laptops, but 2 laptops received were defective and dead on arrival. Currently, those 2 laptops are in the process of being exchanged. If applicable, any amount paid or additional costs will be adjusted accordingly.

**Additional purchases are to support that staff that will return to the office but will partially work from home.

In total, 28 retired laptops were brought back into service to support work from home for COVID-19.

Five new laptops are needed to replace 5 retired laptops that were brought back into service to support work home

Professional Services for Emergency Disinfection Services for COVID-19	
Calendar Year 2020	Amount
March	\$ 5,574
April	17,510
May	18,010
June	18,010
July	18,060
August	18,404
September	18,404
October*	18,404
Total paid for COVID-19 Disinfection Costs.	\$132,376

*Amount based on PR/PO information, invoice has not yet been paid by the Agency

Services performed:

Detailed cleaning and disinfection will be conducted on the following surfaces:

- Door handles/knobs interior and exterior
- Kitchen/break room tables and counter tops, microwaves, water dispensers, vending machines, refrigerator handles, trash receptacles
- Faucets
- Restroom facilities - counters, sinks, toilets
- Light switches, elevator call buttons, etc.
- Copier machine and other office machines
- Conference rooms and Assembly rooms tables

Disinfectant Cleaning products:

Chemicals used are on the Environmental Protection Agency's (EPA) List N: Disinfectants for Use Against SARS-CoV-2.

- Spic and Span® Disinfecting All-Purpose Spray & Glass Cleaner (EPA Registration #3573-96)
- Comet® Disinfecting - Sanitizing Bathroom Cleaner (EPA Registration #3573-54).

Locations serviced:

- Headquarters Buildings A and B, Water Quality Lab
- Regional Plant (RP) #1: Administration building, T-Plant, Warehouse, Office trailer, Maintenance Building/PMT building office, Training room, Belt press building, Centrifuge building, DCS trailer, and Plant No. 2 restroom
- RP-2: Operations building, Maintenance building, and Dewatering building
- CCWRF: Operations building and Electric shop
- RP-4: Operations building, Maintenance building, and DCS trailer
- RP-5: Construction Management Trailer
- Inland Empire Regional Composting Facility: Admin building, Operations building, Maintenance building, and Trailer

Materials and Supplies purchased to prevent the spread of COVID-19	
Description	Amount
Purell Sanitizer Gel, Dispensers and Stand	\$ 4,176.72
Medical grade facemasks with elastic ear loops, 50 in each of 48 boxes	3,159.51
Medical grade facemasks with elastic ear loops, 50 in each of 60 boxes	3,039.99
Non-Contact Infrared Forehead Thermometers	2,747.63
Lysol Disinfectant and Purell Instant Hand Sanitizer Gel to prevent the spread of COVID-19 virus	2,673.92
Protective Shield Acrylic Screen for Accounts Payable workstations	1,785.60
Facemasks with elastic ear loops, 50 in each of 40 boxes	1,616.25
Protective Shield Acrylic Screen for Receptionist	1,425.23
Medical Grade - Surgical Face Masks - 50 pieces per box (IERCF)	1,339.79
Protective Equipment -Cotton, breathable, facemasks	1,242.00
Lysol Disinfectant Spray (12/19 oz/case, 10 cases)	\$ 904.02
Purell Instant Hand Sanitizer Gel (24/4oz flip cap/case, 39 cases)	1,722.50
HandyClean Steridol Disinfecting Wipes (160/can, 6 can/case)	969.62
Purell Sanitizer Gel, Dispensers and Stand	887.69
Medical grade facemasks with elastic ear loops, 50 in each of 12 boxes	819.87
Karat 3-Ply Face Mask with Elastic Ear Loop – 50 pieces per box	659.48
3 ply facemasks with elastic ear loops, 50 in each of 20 boxes	659.48
3M Dust Masks, 50 in each of 20 boxes	176.71
Total paid for COVID-19 Materials and Supplies	\$ 27,379.49

According to the Grants Department, costs submitted under FEMA's Emergency Protective Measures (Category B) are usually for a *short window of time*, such **30, 60 or 90 days**, not long-term. The Agency's initially application covered a 90-day period, and the sub-project was for the next 90 days after that. The most recent guidelines extended the original 90-day window for an additional 90 more days.

In the September 2020 guidelines (Requirements, C. Work Eligibility, 4.g. i and ii), FEMA stated there will be ***no funding for stockpiling PPE supplies*** that are beyond a projected 60-day supply. Additionally, as part of the grant closeout process, the Agency will have to identify if all supplies were consumed through inventory and usage records. For any unused and/or remaining supplies, the Agency will need to calculate the current fair market value. If the current fair market value is greater than \$5,000, then FEMA reduces any eligible funding by this amount.

After September 15th, 2020, any materials and supplies purchases, as identified in the table above, ***will no longer be eligible for reimbursement***. Materials and supplies considered to be PPE will only be eligible for reimbursement for healthcare workers, first responders or those dealing directly with COVID-19 patients.

Prior to COVID-19, the Agency always purchased supplies, such as Lysol disinfectant wipes, hand sanitizer, disposable face masks, etc., as part of their normal inventory supplies. The Agency continues to purchase and re-stock these items as required and to assist in the prevention of the spread of COVID-19. Going-forward, any supplies purchases, regardless of whether it is related to COVID-19 or not, will no longer be eligible for FEMA reimbursement.

Attachment 2:

FACT SHEET

Coronavirus (COVID-19) Pandemic: Eligible Emergency Protective Measures

Consistent with the President's national emergency declaration for the coronavirus (COVID-19) pandemic on March 13, 2020, FEMA urges officials to, without delay, take appropriate actions that are necessary to protect public health and safety pursuant to public health guidance and conditions and capabilities in their jurisdictions. FEMA provides the following guidance on the types of emergency protective measures that may be eligible under FEMA's Public Assistance Program in accordance with the COVID-19 Emergency Declaration in order to ensure that resource constraints do not inhibit efforts to respond to this unprecedented disaster.

FEMA Public Assistance Program

In accordance with section 502 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5121-5207 (the "Stafford Act"), eligible emergency protective measures taken to respond to the COVID-19 emergency at the direction or guidance of public health officials may be reimbursed under Category B of FEMA's Public Assistance program. *FEMA will not duplicate assistance provided by the [U.S. Department of Health and Human Services](#) (HHS), to include the [Centers for Disease Control and Prevention](#) (CDC), or other federal agencies.*

State, territorial, tribal, and local government entities and certain private non-profit organizations are eligible to apply for [Public Assistance](#). FEMA assistance will be provided at a 75 percent federal cost share. This assistance will require execution of a FEMA-State/Tribal/Territory Agreement, as appropriate, and execution of an applicable emergency plan. Local governments and other eligible PA applicants will apply through their respective state, tribal or territorial jurisdictions.

Eligible Assistance

Under the COVID-19 Emergency Declaration described above, FEMA may provide assistance for emergency protective measures including, but not limited to, the following, if not funded by the HHS/CDC or other federal agency. *While some activities listed may be eligible for funding through HHS/CDC, final reimbursement determinations will be coordinated by HHS and FEMA. FEMA will not duplicate any assistance provided by HHS/CDC:*

- Management, control and reduction of immediate threats to public health and safety:
 - Emergency Operation Center costs



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- Training specific to the declared event
- Disinfection of eligible public facilities
- Technical assistance to state, tribal, territorial or local governments on emergency management and control of immediate threats to public health and safety
- Emergency medical care:
 - Non-deferrable medical treatment of infected persons in a shelter or temporary medical facility
 - Related medical facility services and supplies
 - Temporary medical facilities and/or enhanced medical/hospital capacity (for treatment when existing facilities are reasonably forecasted to become overloaded in the near term and cannot accommodate the patient load or to quarantine potentially infected persons)
 - Use of specialized medical equipment
 - Medical waste disposal
 - Emergency medical transport
- Medical sheltering (e.g. when existing facilities are reasonably forecasted to become overloaded in the near future and cannot accommodate needs)
 - All sheltering must be conducted in accordance with standards and/or guidance approved by HHS/CDC and must be implemented in a manner that incorporates social distancing measures
 - Non-congregate medical sheltering is subject to prior approval by FEMA and is limited to that which is reasonable and necessary to address the public health needs of the event, is pursuant to the direction of appropriate public health officials and does not extend beyond the duration of the Public Health Emergency
- Household pet sheltering and containment actions related to household pets in accordance with CDC guidelines
- Purchase and distribution of food, water, ice, medicine, and other consumable supplies, to include personal protective equipment and hazardous material suits
- Movement of supplies and persons
- Security and law enforcement
- Communications of general health and safety information to the public
- Search and rescue to locate and recover members of the population requiring assistance
- Reimbursement for state, tribe, territory and/or local government force account overtime costs

More Information

Further information about eligible emergency protective measures can be found in the [Public Assistance Program and Policy Guide](#), FP 104-009-2 (April 2018).

For more information, visit the following federal government websites:

- [Coronavirus \(COVID-19\) \(CDC\)](#)
- [Centers for Medicare & Medicaid Services](#)

Attachment 3:



FEMA

Coronavirus (COVID-19) Pandemic: Work Eligible for Public Assistance (Interim)

FEMA Policy FP 104-009-19

BACKGROUND

Under the President Donald J. Trump's March 13, 2020, Coronavirus (COVID-19) emergency declaration¹ and subsequent major disaster declarations for COVID-19, state, local, tribal, and territorial (SLTT) government entities and certain private nonprofit (PNP) organizations are eligible to apply for assistance under the FEMA Public Assistance (PA) Program.²

PURPOSE

This interim policy defines the framework, policy details, and requirements for determining the eligibility of work and costs under the PA Program to ensure consistent and appropriate implementation across all COVID-19 emergency and major disaster declarations. Except where specifically stated otherwise in this policy and other disaster specific COVID-19 policies, assistance is subject to PA Program requirements as defined in Version 3.1 of the *Public Assistance Program and Policy Guide* (PAPPG).³

This interim policy supersedes the FEMA Fact Sheet dated March 19, 2020: *Coronavirus (COVID-19) Pandemic: Eligible Emergency Protective Measures*, for work performed on or after September 15, 2020. This interim policy will be updated or revised as required by changes in the status of the COVID-19 pandemic.

PRINCIPLES

- A. FEMA remains committed to providing support to meet emergency needs during the COVID-19 pandemic, specifically those critical actions that are necessary to save lives and protect public health and safety.
- B. FEMA will implement this policy and any assistance provided in a consistent manner through informed decision making and review of an applicant's supporting documentation.
- C. FEMA will engage with interagency partners, including the U.S. Department of Health and Human Services (HHS) Office of the Assistant Secretary for Preparedness and Response (ASPR), the Centers for Disease Control and Prevention (CDC), the Centers for Medicare and Medicaid Services (CMS), and the Health Resources and Services Administration (HRSA); the U.S. Department of Agriculture (USDA), and the U.S. Department of Housing

¹ <http://www.fema.gov/news-release/2020/03/13/covid-19-emergency-declaration>.

² See <https://www.fema.gov/assistance/public/program-overview> for more information.

³ Version 3.1 of the PAPPG is applicable to all COVID-19 declarations and is available on the FEMA website at www.fema.gov/sites/default/files/2020-03/public-assistance-program-and-policy-guide_v3.1_4-26-2018.pdf.



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and Urban Development (HUD) among others, to ensure any assistance is provided in a coordinated manner without duplicating assistance.

REQUIREMENTS

A. APPLICABILITY

Outcome: To define the declarations, eligible applicants, and work to which this interim policy applies.

1. This policy applies to:
 - a. All Presidential emergency and major disaster declarations under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. § 5121 *et seq.* (the Stafford Act), as amended, issued for the COVID-19 pandemic.
 - b. This policy does not apply to any other emergency or major disaster declaration
 - c. Eligible PA applicants under the COVID-19 emergency declaration or any subsequent COVID-19 major disaster declaration.⁴
 - d. Work performed on or after September 15, 2020. Prior to this date, policies in place when the work was completed apply.

B. GENERAL ELIGIBILITY CONSIDERATIONS FOR COVID-19

Outcome: To define the overarching framework for all eligible work related to COVID-19 declarations.

1. Legal Responsibility:
 - a. To be eligible for PA, an item of work must be the legal responsibility of an eligible applicant.⁵ Measures to protect life, public health, and safety are generally the responsibility of SLTT governments.
 - b. Legally responsible SLTT governments may enter into formal agreements or contracts with private organizations, including PNP organizations, when necessary to carry out eligible emergency protective measures in response to the COVID-19 pandemic. In these cases, PA funding is provided to the legally responsible government entity, which would then pay the private entity for the provision of services under the formal agreement or contract.
 - c. In limited circumstances, essential components of a facility are urgently needed to save lives or protect health and safety, such as an emergency department of a PNP hospital. In these cases, PNPs that own or operate an eligible facility and perform eligible work, such as providing emergency, medical or custodial care services, may be eligible for reimbursement of costs as a PA applicant. For these PNP facilities and for COVID-19 declarations only, FEMA is waiving the primary use and primary ownership policies normally applicable to PNP

⁴ See *Coronavirus (COVID-19) Pandemic: Private Nonprofit Organizations* (April 2, 2020), www.fema.gov/fact-sheet/coronavirus-covid-19-pandemic-private-nonprofit-organizations, for more information on PNP applicant eligibility.

⁵ 44 C.F.R. § 206.223(a)(3).



entities that own or operate mixed-use facilities.⁶

2. To be eligible, claimed costs must be necessary in order to respond to the COVID-19 pandemic and be reasonable pursuant to federal regulations and federal cost principles. A cost is considered reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.⁷ All costs are subject to standard PA program eligibility and other federal requirements.⁸

C. WORK ELIGIBILITY

Outcome: To establish parameters for eligible work for COVID-19 declarations.

1. In accordance with sections 403 and 502 of the Stafford Act, emergency protective measures necessary to save lives and protect public health and safety, may be reimbursed under the PA program.
2. All work must be required as a direct result of the emergency or major disaster in accordance with 44 C.F.R. § 206.223(a)(1).
3. Only work associated with the performance of emergency protective measures specifically listed in this policy is eligible for PA in COVID-19-declared events.
4. FEMA may provide assistance only for the following emergency protective measures in response to COVID-19 declared events⁹:
 - a. Medical care, in accordance with COVID-19 specific policy or subsequent updates.¹⁰
 - b. Purchase and distribution of food, in accordance with COVID-19 specific policy or subsequent updates.¹¹
 - c. Non-congregate medical sheltering, in accordance with COVID-19 specific policy or subsequent updates.¹²
 - d. Operation of Emergency Operations Centers to direct and coordinate resources and response activities for COVID-19 declarations.¹³

⁶ See PAPPG V3.1 (2018), at page 16.

⁷ 2 CFR § 200.404.

⁸ See PAPPG V3.1 (2018), 2 CFR Part 200, and <https://www.fema.gov/grants/procurement> for additional guidance.

⁹ See www.fema.gov/media-collection/public-assistance-disaster-specific-guidance-covid-19-declarations for all COVID-19 related PA policies and other guidance.

¹⁰ Stafford Act, Section 403(a)(3)(B). For COVID-19 specific policy, see *Coronavirus (COVID-19) Pandemic: Medical Care Costs Eligible for Public Assistance (Interim)*, FEMA Policy FP 104-010-04 (May 9, 2020) and *Coronavirus (COVID-19) Pandemic: Alternate Care Site (ACS) "Warm Sites" Fact Sheet* (May 12, 2020).

¹¹ Stafford Act, Section 403(a)(3)(b). For COVID-19 specific policy, see *Coronavirus (COVID-19) Pandemic: Purchase and Distribution of Food Eligible for Public Assistance*, FEMA Policy FP 104-010-03 (April 11, 2020).

¹² See *Public Assistance: Non-Congregate Sheltering Delegation of Authority Fact Sheet* (March 19, 2020), and *Coronavirus (COVID-19) Pandemic: Non-Congregate Sheltering Frequently Asked Questions* (March 31, 2020).

¹³ PAPPG, V3.1 (2018), at page 62.



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- e. Communications to disseminate public information regarding health and safety measures and provide warnings about risks and hazards.¹⁴
 - f. Mass casualty management, including storage of human remains and mass mortuary services, as necessary to manage fatalities caused by COVID-19.¹⁵
 - g. Purchase and distribution of Personal Protective Equipment (PPE)¹⁶ that is directly related to the performance of otherwise eligible emergency work,¹⁷ or is provided to healthcare workers, patients with confirmed or suspected COVID-19 infection, and first responders.¹⁸
 - i. Funding for stockpiling a supply of eligible PPE is limited to a supply that is projected for up to 60 days from date of purchase.
 - ii. Funding for storing eligible PPE is limited to what is necessary to store a projected 60-day PPE supply.
5. FEMA may provide assistance for the following activities in response to COVID-19-declared events only when necessary to perform otherwise eligible emergency work listed in C.4:
- a. Purchase and distribution of face masks,¹⁹ including cloth facial coverings, provided to persons conducting eligible emergency work and/or in facilities where eligible emergency work is performed.
 - b. Temperature scanning, including purchase and distribution of hand-held temperature measuring devices and associated supplies, in facilities where eligible emergency work is performed.
 - c. Disinfection, in accordance with CDC guidance,²⁰ in facilities where eligible emergency work is performed, including purchase and provision of necessary supplies and equipment, and in excess of current operating costs.
 - d. Acquisition and installation of temporary physical barriers, such as plexiglass barriers, in facilities where eligible emergency work is conducted.

¹⁴ Stafford Act, Section 403(a)(3)(F) and (G), and PAPPG V3.1 (2018), at page 58.

¹⁵ See PAPPG V3.1 (2018), at page 58. For information on COVID-19-related fatality management see <https://asprtracie.hhs.gov/technical-resources/129/covid-19-fatality-management-resources/99>.

¹⁶ For this policy, PPE is defined to include items such as N95 and other filtering respirators, surgical masks, gloves, protective eyewear, face shields, and protective clothing (e.g., gowns).

¹⁷ PAPPG V3.1 (2018), at pages 21 and 63.

¹⁸ See www.fema.gov/fact-sheet/addressing-ppe-needs-non-healthcare-setting, <https://www.cdc.gov/coronavirus/2019-ncov/hcp/using-ppe.html>, <https://www.cdc.gov/coronavirus/2019-ncov/community/organizations/firefighter-FMS.html>, and <https://www.cdc.gov/coronavirus/2019-ncov/community/guidance-law-enforcement.html>. For this policy, the definition of first responder includes: emergency public safety, fire, law enforcement, emergency response, emergency medical, and related personnel that may interact with individuals infected with, or suspected to be infected with, COVID-19.

¹⁹ For this policy, face masks, such as cloth face coverings, that are not regulated by the U.S. Food and Drug Administration (FDA) are not considered PPE. Per FDA guidance, these face masks are not PPE, but may be used to prevent or slow the spread of COVID-19. See <https://www.fda.gov/medical-devices/personal-protective-equipment-infection-control/n95-respirators-surgical-masks-and-face-masks> and <https://www.fda.gov/medical-devices/emergency-situations-medical-devices/fags-emergency-use-authorization-face-masks-non-surgical>.

²⁰ Work should be consistent with current PAPPG and public health guidance as it relates to disinfection recommendations. CDC provides disinfection guidance online at <https://www.cdc.gov/coronavirus/2019-ncov/community/clean-disinfect/index.html>.



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- e. Law enforcement and security.
- f. Training and technical assistance specific to the declared event.
- g. Reimbursement for force account overtime costs, costs related to hiring temporary employees, and contract labor costs associated with performance of eligible emergency protective measures.²¹
- h. Movement of equipment and supplies, including transportation and storage.
- i. Other work and costs delineated within COVID-19 policies referenced in C.4.

D. COORDINATION OF FUNDING

Outcome: To provide information on coordinating PA and other sources of federal funding.

1. Congress to date has authorized over \$3 trillion to multiple federal agencies to address the effects of the COVID-19 pandemic.
 - a. FEMA is closely coordinating with other federal agencies about the eligible uses of various COVID-19 funding resources and will continue to provide guidance to eligible applicants about where they can seek funding²².
 - b. A list of federal funding for COVID-19 is available at: <https://www.usa.gov/coronavirus>. General information about available federal funding needs may be found at www.grants.gov.
2. FEMA may provide PA funding to applicants for eligible work under the COVID-19 declarations that may also be eligible for funding under another federal agency's authorities.
 - a. Potential PA applicants may have the flexibility to determine which source of funding to use for their costs, subject to the purpose and eligibility requirements of each of the federal programs and funding sources.
 - b. If an eligible applicant applies for PA funding and then determines it will instead seek funding from another federal agency, the applicant should notify FEMA as soon as possible.
 - i. If FEMA has not awarded PA funding, the applicant should withdraw or amend their PA project application.
 - ii. If FEMA has already awarded PA funding, the applicant should request an updated version to their project worksheet to amend their PA project.
 - c. PA funding should not be considered funding of last resort. It is advisable that PA funding is considered concurrently with other federal agency programs and sources.
3. For certain types of work that may be eligible for funding under another agency's authorities, FEMA, in coordination with other federal agencies and after close examination of available CARES Act funding, has determined that it will not provide reimbursement through the PA program.

²¹ See PAPPG V3.1 (2018) at pages 23-26 for more on FEMA's labor policies.

²² FEMA has posted a [COVID-19 Resource Summary Report](#) that is a list of resources provided by the federal government since the start of the response to COVID-19. This list is provided as a point of reference and partners should directly consult with each agency to verify the applicability of a specific program.



- a. For example, COVID-19 contact tracing may be an emergency protective measure otherwise eligible for PA funding. However, in coordination with other federal agencies, FEMA has determined that PA is not the appropriate source of funding for COVID-19 contact tracing and there are other more appropriate sources of funding.²³
4. Section 312 of the Stafford Act prohibits all federal agencies from duplicating benefits for disaster relief.
 - a. Multiple agencies having authority to expend funds for the same purpose is not, by itself, a duplication of benefits under Section 312.²⁴ However, all federal agencies are prohibited by Section 312 from paying applicants for the same work twice.
 - b. Recipients and subrecipients are ultimately responsible for ensuring that they do not receive payment for the same item of work twice. FEMA applicants must certify in the PA application process that assistance is not being duplicated.

E. TIME LIMITATIONS

Outcome: To provide time limitations for the completion of eligible work.

1. For all COVID-19 declarations, FEMA has extended the deadline in accordance with regulatory timeframes for emergency work at 44 C.F.R. § 206.204(d) beyond six months of the date of the declaration and will make notification 30 days prior to establishment of the deadline.

A handwritten signature in blue ink, appearing to read "Keith Turi".

Keith Turi
Assistant Administrator, Recovery Directorate

September 1, 2020
Date

²³ See the CDC Epidemiology and Laboratory Capacity for Prevention and Control of Emerging Infectious Disease (ELC) at <https://www.cdc.gov/nceid/dpeil/epidemiology-laboratory-capacity.html>.

²⁴ See FEMA Fact Sheet Coronavirus Disease 2019 (COVID-19) Public Health Emergency: Coordinating Public Assistance and Other Sources of Federal Funding (July 1, 2020) at <https://www.fema.gov/media-collection/public-assistance-disaster-specific-guidance-covid-19-declarations> for more information.



ADDITIONAL INFORMATION

REVIEW CYCLE

FEMA Policy #104-009-19, *Coronavirus (COVID-19) Pandemic: Work Eligible for Public Assistance* (Interim), will be reviewed and evaluated regularly throughout the duration of the COVID-19 pandemic. The Assistant Administrator for the Recovery Directorate is responsible for authorizing any changes or updates. This policy will sunset with the closure of the national emergency declaration for COVID-19 and any subsequent major disaster declarations for COVID-19.

AUTHORITIES and REFERENCES

Authorities

- Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. § 5121-5207, as amended
- Title 44 of the Code of Federal Regulations, Part 206, Subpart H
- Title 2 of the Code of Federal Regulations, Part 200

References

- *Public Assistance Program and Policy Guide*, Version 3.1

DEFINITIONS

To establish consistent terminology for purposes of implementing this policy, the following definitions are provided below. These definitions are specific to this policy and **may differ from definitions prescribed for the same or similar terms in other policies.**

1. **Personal Protective Equipment (PPE):** PPE refers to items such as N95 and other filtering respirators, surgical masks, gloves, protective eyewear, face shields, and protective clothing (e.g., gowns).
2. **First Responder:** First responder refers to emergency public safety, fire, law enforcement, emergency response, emergency medical, and related personnel that may interact with individuals infected with, or suspected to be infected with, COVID-19.

MONITORING AND EVALUATION

FEMA will closely monitor the implementation of this policy through close coordination with regional and field staff, as appropriate, as well as interagency partners and SLTT stakeholders.

QUESTIONS

Applicants should direct questions to their respective FEMA regional office.

Audit Committee Meeting

Review of Agency COVID-19 Expenses



Review of Agency COVID-19 Expenses

Background:

- COVID-19 was declared a National Emergency
- Executive Order N-33-20 “Safer at Home, Stay at Home”
- Potential reimbursement from the Federal Emergency Management Agency (FEMA)
- Agency’s response to global pandemic
- Audit was proposed in the Annual Audit Plan submitted in June 2020

Review of Agency COVID-19 Expenses

Audit Objectives:

Review expenses incurred by the Agency in response to COVID-19 to ensure:

- Compliance with State/federal guidelines,
- Compliance with Agency policies and procedures,
- Follow adequate internal controls,
- Contain adequate supporting documentation, and
- Identify opportunities for improvement.

Review of Agency COVID-19 Expenses

The Grants Department is responsible for:

- identifying, seeking, securing low-cost and/or interest funding opportunities that support the Agency's capital projects, programs and business objectives.
- overseeing all grant related activities.
- compiling COVID-19 expenses, in anticipation of a potential reimbursement from the Federal Emergency Management Agency (FEMA).
- pursuing reimbursements for the expenditures in response to COVID-19.

Review of Agency COVID-19 Expenses

		Agency's Initial application March 2020 - June 2020	Sub- application July 2020- September 2020	Other related costs not submitted on Grants application	
Type of Expense	Description	Amount	Amount	Amount	TOTAL
Professional Services	Disinfection services of shared/common areas within the Agency's buildings	\$ 52,530	\$ 45,035	\$ 34,811	\$ 132,376
Materials & Supplies	Disinfection wipes, Lysol disinfectant and sanitizer gel sanitizer gel and dispensers and stand face masks	20,081	7,298	-	\$ 27,379
Equipment	Laptops, hard drives, software, licenses, and additional computer equipment	88,574	14,650	18,311	\$ 121,535
Labor	Staff time for planning, coordinating, implementing, training; related to COVID-19	326,097	None planned	None planned	326,097
TOTAL		\$ 487,282	\$ 66,983	\$ 53,122	\$607,387

Review of Agency COVID-19 Expenses

Comparable Information

Member Agencies:

- City of Ontario – has applied to FEMA
- City of Chino Hills – is submitting FEMA claims
- City of Chino – will not apply
- City of Fontana – will not apply
- City of Upland – will not apply
- Others –no response

Other Water/Wastewater Agencies:

- Eastern Municipal Water District – will not apply
- Others – no response

Review of Agency COVID-19 Expenses

Agency savings directly due to COVID-19 March 2020- September 2020

Office & Administration Savings

\$324,000 and \$359,000

Conservative estimate

Delayed Projects

Project timing does not represent savings

Review of Agency COVID-19 Expenses

Overall, Grants Department has effectively collected and monitored Agency expenses related to the Agency's response to the ongoing global pandemic, COVID-19.

- Interim Audit Report – December 2020
- Additional Report - March 2021 or June 2021
- No observations or recommendations noted at this time

Review of Agency COVID-19 Expenses

The Interim Report: Review of Agency COVID-19 Expenses is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing an independent evaluation of the expenses incurred by the Agency and procurement activities in response to COVID-19, suggesting recommendations for improvements, monitoring the internal control environment of the Agency, and assisting Agency management in achieving organizational goals and objectives.

INFORMATION
ITEM
2C

Date: December 16, 2020

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

12/07/20

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for December 2020

Executive Summary:

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

During this quarter, Internal Audit (IA) staff completed several projects, including; the Interim Audit Report: Review of Agency COVID-19 Expenses, the Water Connection Fee Follow Up Audit, the Quality Control Review of the Comprehensive Annual Financial Report and Single Audit Report, the review of the Internal Audit Department and Audit Committee Charters in addition to and various on-going and required administrative projects as well as participating in various ad-hoc committees. IA continues to assist with any requests for audit work, review of Agency policies and procedures, and provide recommendations to improve internal controls. The attached Quarterly Status Report provides details and information of the audit projects.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On June 17, 2020, the Board of Directors approved the Fiscal Year 2020/21 Annual Audit Plan. The plan was in accordance with auditing standards and the Charter.

On December 18, 2019, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

The IA 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 internal control environment, safeguarding Agency's 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 December 2020
Attachment 2 - Results of Internal Audit's Quality Control Review: Fiscal Year 2020
Comprehensive Annual Financial Report

Internal Audit Department Quarterly Status Report for December 2020

Projects Completed This Period

Project: **Interim Report: Review of Agency COVID-19 Expenses**

Scope:

The purpose of this evaluation was to review the expenses incurred by the Agency in response to the ongoing global pandemic (COVID-19). Expenses include costs incurred to comply with health guidelines, to prevent the spread of COVID-19, protect Agency personnel and the public, cost related to transitioning employees to work from home and ensuring proper on-site precautions. The objectives of the review were to evaluate if expenses are in compliance with internal controls, contain the required supporting documentation, and are in compliance with all guidelines.

Status: **Complete**

Internal Audit (IA) worked closely with the Grants Department to evaluate the expenditures that have been compiled and hope to be reimbursed by the Federal Emergency Management Agency (FEMA). As of October 31, 2020, the Agency has incurred approximately \$600,000 in expenses for the following items: laptops, computer-related equipment and accessories, personal protective equipment (PPE), disinfection/cleaning services, etc. The Grants Department have submitted over \$550,000 in costs for potential reimbursement, while they continue to work with other departments to compile additional costs.

An interim audit report is presented under a separate cover. A final report will be presented in March 2021.

Project: **Water Connection Revenue Follow-Up Review**

Scope:

The purpose of this follow up review was to evaluate the implementation status of the five open audit recommendations from the original audit dated February 25, 2019. The objectives of the review were to evaluate the process for collecting Water Connection fees. Additionally, to determine compliance with the required policies and evaluate adequate internal controls were in place.

Status: **Complete**

Since the Agency began collecting water connection fees on January 1, 2016, the Agency has collected over \$29M in revenue related to Water Connection Fees. The original audit provided 7 recommendations. The recommendations required the Planning & Environmental Resources Department to work with the contracting agencies and water districts on a periodic basis, to ensure the water connection fees information in the Agency's system is reconciled to the building permits and/or water meters that have been issued by the contracting agencies and water districts. Planning & Environmental Resources Department has worked closely with all agencies and this has resulted in positive relationships. Additionally, the audit recommended Planning & Environmental Resources Department propose any updates or revised wording to the ordinance and resolution based on the experience. IA encouraged Planning & Environmental Resources Department staff to finalize their draft Standard Operating Procedures that documents the various tasks and procedures with the fee collection process. Planning & Environmental Resources Department has also worked diligently to pursue the collection of any uncollected water connection fees. Planning & Environmental Resources Department has done so through the improved relationships, issuing notice letters and as a last resort, placing liens on properties. Due to this effort, Planning & Environmental Resources Department has collected an additional \$1.8 million through the lien process.

The final report with details of the observations and recommendations is presented under a separate cover.

Project: **Fiscal Year (FY) 2019/20 Financial and Single Audit**

Scope:

The Finance and Accounting Department complete the Comprehensive Financial Audit Report (CAFR) and all related financial statements and information. The Grants Department compile and monitor all information

Internal Audit Department Quarterly Status Report for December 2020

related to expenditures used to claim State/Federal funding. The Agency's external auditors, Lance, Soll & Lunghard, LLP (LSL), are contracted to perform the Agency's Financial and Single Audit, as required by the Agency's Fiscal Ordinance and State requirements, to audit the financial statements, complete the Single Audit and express an opinion on the fair presentation of the financial statements.

Status: Complete

LSL performed interim work during the summer and completed final audit field work in October. The firm has reviewed the financial statements and CAFR documents prepared by the Finance and Accounting Department as well as financial information compiled by the Grants Department. LSL will issue a final opinion on the financial statements by December 31, 2020 and issue an unmodified opinion with no reportable findings. IA coordinates with Finance and Accounting, the Grants Departments, and the External Auditors to perform a quality control review of both the CAFR and Single Audit report. IA also performs the regulatory filing of the audits to the required regulatory agencies.

Project: Quality Control Review of the FY 2019/20 Comprehensive Annual Financial Report

Scope:

IA performs a Quality Control Review of the CAFR. The role of IA is one of an added quality control review for quality and professional presentation to ensure that financial information transfers accurately between the financial schedules and to ensure a professional presentation. IA also reviews the requirements of the GFOA for the annual award and the disclosures required by the Agency's outstanding bonds, if necessary.

IA's review includes the following procedures:

- Verified that the FY 2020 amounts and totals on the financial statements were transferred accurately from the FY 2020 Trial Balance.
- Verified that the FY 2019 amounts/totals for all financial statements were transferred accurately from the FY 2019 published CAFR to the FY 2020 CAFR.
- Recalculated the FY 2020 totals on all financial statements for mathematical accuracy.
- Checked titles and years to ensure updates were made for the years they correspond to.
- Reviewed narratives for completeness, spelling and grammatical accuracy.
- Reviewed all sections of the CAFR to ensure consistency and a professional presentation.

IA provided comments and recommendations to the Finance and Accounting department when items were identified for their review. The compilation of the CAFR is an Agency-wide team effort. IAs report to Finance and Accounting's management is included as an attachment.

Project: Audit Committee and Internal Audit Department Charter Updates

Scope:

To review and make necessary updates to the Internal Audit Department (IAD) Charter and the Audit Committee (AC) Charter as required to ensure they meet best practices and the Agency's goals.

Status: Complete

The purpose of the AC and IAD Charters is to document the purpose, authority and responsibilities of each. A role of the IAD is to further ensure that the responsibilities of the AC are fulfilled. According to best practices, the authority of the IAD should be documented in a Charter to align the role of the department in a way to provide independent assurance and assistance to the Board and Executive Management in ensuring organizational goals are achieved. Best practices and both Charters require that IA completes a review of the Charters annually and makes necessary edits/changes. IA does not propose any changes at this time. IA is bringing the charters in final form under separate cover. If the committee agrees, the Charters will be finalized.

Internal Audit Department Quarterly Status Report for December 2020

Project: **FY 2018/19 Single Audit Revised Filing**

Scope:

The FY 2018/19 Single Audit was revised and had to be re-filed with the corresponding regulatory agencies, which was completed in September 2020. The change was due to the State/Federal funding reclassification and the filing was routine.

Status: **Complete**

Project: **Sewer System Management Plan Audit**

Scope:

IA was invited to participate in the ad-hoc committee to perform the biannual review of the Agency's Sewer System Management Plan (SSMP) as required by the State Water Regional Control Board (SWRCB) adopted Order No. 2006-0003. Statewide General Wastewater Discharge Requirements (WDR) for Sanitary Sewer Systems. This Order requires that owners of wastewater collection systems with more than a mile of pipeline have in place a SSMP to comply with the terms of this Order, which is to reduce the number and severity of Sanitary Sewer Overflows (SSOs), to audit the program every two years, and revise the SSMP every five years.

Status: **Complete & On-going**

This project required approximately 40 hours of staff time. The project is owned by the Operations Department, IA participated in the capacity of a review team member providing assistance with tasks and providing recommendations to update, per the review of documents and information. This project did not compromise the independence of the auditor or the Internal Audit Department.

Project: **Asset Management Steering Committee & Safety Committee**

Scope:

IA participates in meetings related to the Agency's Asset Management program and the Safety programs. To gain an understanding of the Agency's priorities, updates and information regarding the topics.

Status: **Complete & On-going**

IA staff participated in monthly meetings for each. Participation includes reviewing information. Listening to potential risks that could be incorporated into audits and providing suggestions or input about the items discussed. These meetings require approximately 1 hour of audit staff time each and do not compromise the independence of the auditor or the Internal Audit Department.

Project: **Request for Proposal – Human Resources**

Scope:

IA staff participated in the ad-hoc review team to review professional services proposals in response to the Agency's Request for Proposals (RFP) for consulting services to conduct a comprehensive review of Agency documents, policies, MOUs and make recommendations for a policy management framework and documents.

Status: **Complete**

IA staff participated in the review of the RFP and related documents, which required attendance to meetings and interviews to make recommendations and assist with the selection evaluation. This project required approximately 20 hours of staff time. The project is owned by the Human Resources Department. This project did not compromise the independence of the auditor or the Internal Audit Department.

Internal Audit Department Quarterly Status Report for December 2020

Projects in Progress

Project: **Request for Proposal for External Financial and Single Auditing Services for IEUA
Request for Proposal for Financial Auditing Services for the Chino Basin Regional
Financing Authority (CBRFA)**

Scope:

To secure the professional services of an independent accounting firm to perform the annual financial audit and single audit of IEUA to ensure compliance with all regulatory requirements and the Agency's Fiscal Ordinance. The accounting firm selected will also be required to perform the financial audit of the CBRFA. The Audit Committee is responsible for oversight of the audit services.

Status: **IN PROGRESS**

The current contract with LSL for External Financial Audit Services will expire on December 31, 2020. LSL has been the Agency's external financial auditors since 2016. State law requires that the Agency must rotate the External Financial Auditor every 5 years.

In accordance with preferred practices and good internal controls, it is in the best interests of the Agency to request proposals from capable certified public accounting firms for the external financial audit services contract. IA takes the lead on evaluating potential audit firms.

IAD will work closely with the Contracts and Procurement Department to ensure the RFP is issued to qualified firms and will coordinate the RFP process, including ensuring there is a knowledgeable evaluation panel. The new audit firm should be established by Spring 2021 to ensure that preliminary audit work begins on a timely basis, shortly thereafter. IA will continue to keep the Audit Committee informed of the process at each committee meeting.

Project: **Report on Open Recommendations as of December 2020***

Scope:

The IAD Charter requires IA to follow-up on the status of outstanding recommendations to determine if corrective actions have been implemented. 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 & On-going-** Status of outstanding recommendations as of December 2020.

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 each June. This summary provides an updated count of the outstanding recommendations. This summary includes new recommendations provided during this fiscal year as well as considers any recommendations cleared during the year (up to the prior quarter). A follow up review is typically scheduled between 12–24 months from the date of the original audit, to allow time for full implementation. If a recommendation is deemed not 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.

As shown on the following table, of the 79 recommendations:

- 15 recommendations are planned to be reviewed in the current fiscal year (approximately 19%)
- 19 recommendations are expected to be reviewed in the following fiscal year (approximately 24%)
- 45 recommendations that are highlighted in gray do not require follow-up as the issuance date is within the last 18 months (approximately 57%).

Internal Audit Department Quarterly Status Report for December 2020

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA*	Planned Follow-Up
Accounts Payable Follow-Up (Deferred Recommendations related to Agency Policies)	August 29, 2013	2	FY 2021
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2021
Master Trade Contracts	September 1, 2016	5	FY 2021
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2021
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2022
Water Use Efficiency Programs Audit	June 5, 2017	6	FY 2022
Contracts and Procurement Follow-Up Audit	August 30, 2017	1	FY 2022
Payroll Operations Audit	August 30, 2017	5	FY 2022
Procurement Card Audit	March 1, 2018	7	FY 2022
Wire Transfers Audit	March 1, 2018	4	FY 2022
Inter-fund Transactions Audit	August 30, 2018	1	FY 2023
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	November 29, 2018	3	FY 2023
Water Connection Fees Audit	February 25, 2019	5	FY 2023
Accounts Payable Follow-Up Audit	May 30, 2019	4	FY 2024
Voyager Fuel Card Audit	May 30, 2019	4	FY 2024
Human Resources Audit: Hiring and Promotions Operations Review	December 2, 2019	7	FY 2024
Recycled Water Revenues Audit	May 28, 2020	3	FY 2024
Human Resources: Workload Indicators Review	May 29, 2020	2	FY 2024
Human Resources Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5	FY 2025
Total Outstanding Audit Recommendations		79	

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

*The Outstanding Recommendations Table does not update the status of recommendations resolved by follow-up audits during the current quarter or add any new recommendations resulting from the projects completed during this quarter (as noted in this Status Report). The table is revised for those changes once all items have been received by the Audit Committee and the Board of Directors which is when items are determined to be final.

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 IAD Charter, the Annual Audit Plan, and best practices. The management request projects are short-term projects, typically lasting no more than 60–75 hours 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. Projects and committee participation has been described above.

Internal Audit Department Quarterly Status Report for December 2020

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 Staffing

Internal Audit Staff Professional Development Activities:

As required by the *International Standards for the Professional Practice of Internal Auditing*, and the IA Charter, auditors must regularly enhance their knowledge, skills, and other competencies through continuing professional development. During the past quarter, IA staff has continued to stay abreast of industry developments through review of industry literature and participation in on-line webinars.

In October, IA staff attended a 2-hour virtual training on Emotional Resilience. In November, staff attended a 2-hour training on required Ethics for Internal Auditing as required by the profession and current certifications. Additionally, in November, staff attended a 1-hour Panel Discussion on “The Challenges of the Covid-19 Era to the Internal Audit Profession”. All training hours met the requirements of Continuing Professional Education (CPE) and earned CPE credits.

The Internal Audit Manager is a member of the governing board of the Inland Empire Chapter of the IIA. The governing board sets direction for the chapter. One Senior Auditor serves in the same Chapter and holds an officer position, Chapter Secretary.

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.

The Manager of IA has a Master’s degree in Public Administration (MPA). 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.

The Internal Audit Department is staffed as follows:

- 1 Full-time Manager of Internal Audit
 - 1 Full-time Senior Internal Auditor
-

Future Audit Committee Meetings:

- *Monday, March 8, 2021 – Regularly Scheduled Audit Committee Meeting*
 - *Monday, June 7, 2021 – Regularly Scheduled Audit Committee Meeting*
 - *September 2021 - Special Audit Committee Meeting (Date to be finalized)
(this year, the regularly scheduled date falls on a Holiday)*
 - *Monday, December 6, 2021 – Regularly Scheduled Audit Committee Meeting*
-

Date: November 20, 2020

To: Christina Valencia, Executive Manager of Finance & Administration/AGM
Javier Chagoyen-Lazaro, Manager of Finance and Accounting
Suresh Malkani, Principal Accountant

From: Teresa V. Velarde, Manager of Internal Audit
Sapna Nangia, Senior Internal Auditor

DRAFT

Subject: Results of Internal Audit's Quality Control Review:
Fiscal Year 2020 Comprehensive Annual Financial Report (CAFR)

The Internal Audit Department (IA) performs an annual quality control review of the Agency's Comprehensive Annual Financial Report (CAFR) prepared by the Finance and Accounting Department (FAD). IA's review is performed on "working draft" sections of the CAFR as FAD continues to finalize the information presented in the financial statements and the various sections of the CAFR.

As of November 20, 2020, IA recently received a copy of a draft CAFR for review with the additional areas that had not been previously provided. IA continues to review the required sections and will provide any comments to FAD for consideration. IA and does anticipate a full review of the CAFR by December 16, 2020 (the date of the Board of Director's Meeting). This report will be updated and finalized for the December 16, 2020 Board packet with the results of the final review.

For the Fiscal Year (FY) 2020 CAFR, IA completed the initial review prior to the December 7, 2020 Audit Committee Meeting and provided comments, edits and recommendations to FAD for consideration prior to finalizing the CAFR. This memo documents IA's quality control review and provides a general summary of the results.

IA's review includes a review of the trial balances for each fund, the individual fund statements, Management's Discussion and Analysis (MD&A), the Introductory Section, the Financial Statements and Notes, the Required Supplementary Information and the Statistical sections of the CAFR. IA applied the following procedures to conduct the quality control review of the CAFR:

- Reviewed for math accuracy and consistency in the referencing of dollar amounts and totals among the narratives, notes and statements, and for overall professional presentation.
- Verified that the FY 2020 amounts and totals on the financial statements were transferred accurately from the FY 2020 Trial Balance.

- Verified the consistency of the amounts between the overall Basic Combining Financial Statements and Combining Non-Major Financial Statements as compared to the Individual Fund financial statements.
- Verified that the FY 2019 amounts/totals for all financial statements were transferred accurately from the FY 2019 published CAFR to the FY 2020 CAFR.
- Recalculated for mathematical accuracy the FY 2020 totals on all financial statements.
- Checked titles and years to ensure updates were made for the years they correspond to.
- Reviewed narratives for consistency, completeness, spelling and grammatical accuracy.

IA was recently provided with additional sections of the CAFR and is working on a review of:

- Management's Discussion and Analysis
- Statistical Section.

Items that have yet to be provided by Finance and Accounting for IA review is:

- The Continuing Disclosure Compliance Report for the outstanding bonds owed by IEUA and compared them to the prior year's disclosures.

Additionally, IA reviewed the comments made by the Government Finance Officers Association (GFOA) on the prior year (FY 2019) CAFR to determine whether those comments had been addressed in the current year (FY 2020) CAFR.

Criteria and Observations

IA did not perform tests of financial transactions, nor audit the accounts or any financial information and did not assess the reliability or accuracy of the information reported in the financial statements. The Agency relies on the professional work of the External Auditors, Lance, Soll and Lunghard, LLP (LSL), who are the Agency's Certified Public Accountants, contracted to provide reasonable assurance that the financial statements are free of material misstatement. The External Auditors and IA rely on Agency's management for the completeness and reliability of the information presented in the CAFR. Consistent with the requirements of the IA Charter and the Audit Committee Charter requirements, IA's review is intended to provide an additional level of quality control.

During IA's quality control review, observations that IA noted were promptly communicated to FAD staff for appropriate corrective action. IA did not verify that all comments/recommendations were addressed or incorporated because FAD continues to finalize the CAFR. The observations IA considered most significant and requiring attention prior to finalizing and publishing the CAFR (details have been provided to FAD under separate correspondence, additional copies can be requested from IA) are:

- Noted rounding differences and inconsistencies between the 2019 CAFR and the 2020 CAFR within the financials and the narratives.

- Noted rounding differences and inconsistencies between and among the schedules and in the narratives.
- Noted some presentation differences in the financial statements compared to the prior year.
- Provided edits, made various comments and recommendations to all sections.
- Noted instances where there were differences in amounts between different sections of the CAFR, for example among the schedules.
- Noted some mathematical errors, including percentage calculations.

Bond Disclosure Compliance Review

IA has not been provided with all the information necessary to complete this review, but does anticipate full review by December 16, 2020 (the date of the Board of Director's Meeting)

Government Finance Officers Association (GFOA) comments

IA is in the process of finalizing this review and does anticipate a full review by December 16, 2020 (the date of the Board of Director's Meeting).

Chino Basin Regional Financing Authority

IA has not been provided information to complete this review and does anticipate a full review by December 16, 2020 (the date of the Board of Director's Meeting).

Conclusion

IA appreciates the opportunity to provide the quality control review of the draft FY 2020 CAFR and looks forward to the final version of the FY 2020 CAFR that will be presented for Board of Directors' approval on December 16, 2020. IA appreciates staff's cooperation during this review.

IA looks forward to receiving the final CAFR documents for IA's regulatory filing purposes.

Please contact any member of the Internal Audit Department if you have questions.