



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

**MONDAY, MARCH 8, 2021  
9:00 A.M.**

**INLAND EMPIRE UTILITIES AGENCY\*  
VIEW THE MEETING LIVE ONLINE AT IEUA.ORG  
TELEPHONE ACCESS: (415) 856-9169 / Conf Code: 908 826 088#**

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 BE 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, public comments may be emailed to the Recording Secretary Laura Mantilla at [lmantilla@ieua.org](mailto:lmantilla@ieua.org) no later than 24 hours prior to the scheduled meeting time. 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.

\*A Municipal Water District

**1. ACTION ITEMS**

**A. MINUTES**

Approve Minutes of the December 7, 2020 Audit Committee meeting.

**B. EXTERNAL FINANCIAL AUDIT SERVICES AND SINGLE AUDIT SERVICES CONTRACT AWARD (WRITTEN/POWERPOINT)**

Staff recommends that the Committee/Board:

1. Award a contract for the annual financial audit and single audit services for Inland Empire Utilities Agency to CliftonLarsonAllen, LLP, for a 3-year term and two single year options to complete audit services beginning in Fiscal Year 2021/22, for a not-to-exceed amount of \$115,115; and
2. Authorize the General Manager or his designee to execute the contract.

**2. INFORMATION ITEMS**

**A. THE AUDIT FUNCTION REPORT (WRITTEN/POWERPOINT)**

**B. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR MARCH 2021 (WRITTEN)**

**3. AUDIT COMMITTEE ADVISOR COMMENTS**

**4. COMMITTEE MEMBER COMMENTS**

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

**ADJOURN**

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](http://www.ieua.org) and outside the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, March 4, 2021.



Laura Mantilla

ACTION  
ITEM

1A



**MINUTES  
AUDIT COMMITTEE MEETING  
INLAND EMPIRE UTILITIES AGENCY\*  
AGENCY HEADQUARTERS, CHINO, CA  
MONDAY, DECEMBER 7, 2020  
9:00 A.M.**

**COMMITTEE MEMBERS PRESENT via TELECONFERENCE**

Steven J. Elie, Chair  
Paul Hofer

**STAFF PRESENT**

Shivaji Deshmukh, General Manager  
Laura Mantilla, Executive Assistant  
Wilson To, Technology Specialist II

**STAFF PRESENT via TELECONFERENCE**

Kathy Besser, Executive Manager of External & Government Affairs/AGM  
Christiana Daisy, Deputy General Manager  
Randy Lee, Executive Manager of Operations/AGM  
Christina Valencia, Executive Manager of Finance & Administration/AGM  
Javier Chagoyen-Lazaro, Manager of Finance & Accounting  
Denise Garzaro, Board Secretary/Office Manager  
Don Hamlett, Acting Deputy Manager of Integrated Systems Services  
Jennifer Hy-Luk, Administrative Assistant II  
Suresh Malkani, Principal Accountant  
Sapna Nangia, Senior Internal Auditor  
Jesse Pompa, Manager of Grants  
Craig Proctor, Deputy Manager of Planning & Environmental Resources  
Daniel Solorzano, Technology Specialist I  
Teresa Velarde, Manager of Internal Audit

**OTHERS PRESENT**

Ryan Domino, LSL  
Deborah Harper, LSL  
Travis Hickey, Audit Committee Advisor  
Geoffrey Horita, LSL

Committee Chair Steven J. Elie called the meeting to order at 9:02 a.m. He stated that the meeting is being conducted virtually by video and audio conferencing. He 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. He further added that the public may also view the meeting live through the Agency's website. He 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.

### **1A – 1C. ACTION ITEMS**

The Committee:

- ◆ Approved the minutes of the August 31, 2020 Special Audit Committee meeting.
- ◆ Recommended that the 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 various federal, state and local agencies, financial institutions, bond rating agencies, and other interested parties;

as a Consent Calendar Item on the December 16, 2020 Board meeting agenda.

- ◆ Recommended that the Board:
  1. Approve the Audit Committee Charter and the Internal Audit Department Charter; and
  2. Direct staff to implement the charters;

as a Consent Calendar Item on the December 16, 2020 Board meeting agenda.

### **2A – 2C. INFORMATION ITEMS**

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

- ◆ Water Connection Fee Audit – Follow-Up Review
  - Director Hofer asked for details regarding the oldest, outstanding/uncollected water connection fee owed to IEUA. Manager of Internal Audit Teresa Velarde stated she will follow-up and provide the information to the Committee.
- ◆ Interim Report: Review of Agency COVID-19 Expenses
- ◆ Internal Audit Department Quarterly Status Report for December 2020

### **3. AUDIT COMMITTEE ADVISOR COMMENTS**

Audit Committee Advisor Travis Hickey had no comments.

### **4. COMMITTEE MEMBER COMMENTS**

There were no Committee Member comments.

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

There were no Committee Member requested future agenda items.

### **6. ADJOURNMENT**

With no further business, Committee Chair Elie adjourned the meeting at 10:13 a.m.

Respectfully submitted,

Laura Mantilla  
Executive Assistant

\*A Municipal Water District

**APPROVED: MARCH 8, 2021**

DRAFT

ACTION  
ITEM

1B



**Date:** March 17, 2021

**To:** The Honorable Board of Directors

**Committee:** Audit

*Teresa Velarde*

**From:** Teresa Velarde, Manager of Internal Audit

03/08/21

**Manager Contact:** Teresa Velarde, Manager of Internal Audit

**Subject:** External Financial Audit Services and Single Audit Services Contract Award

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**Executive Summary:**

The California Government Code, and industry best practices require financial auditor rotation every six years. The Agency complies with this best practice recommendation. On January 11, 2021, the Agency released a Request for Proposals (RFP) for financial audit and single audit services for Inland Empire Utilities Agency (IEUA), Chino Basin Regional Financing Authority (CBRFA), and Inland Empire Regional Composting Authority (IERFA). Seven proposals were received. The proposals were reviewed by an evaluation committee, comprised of staff from: Internal Audit, Grants, and Finance and Accounting. Additionally, the Audit Committee Financial Advisor was included in the committee. Five firms were invited to participate in a virtual interview. The evaluation team unanimously recommends CliftonLarsonAllen, LLP (CLA) for financial and single audit services for IEUA, CBRFA and IERCA.

CLAs assigned audit team comes from the Irvine, Ca office. CLA has been in business for over 60 years and has over 7,400 staff in over 120 offices and serve over 3,450 governmental entities nationwide. CLA has audited similar agencies such as IEUA and claims to have performed the largest number of single audits in the United States. CLA is considered the best qualified audit firm for audit services for IEUA, CBRFA and IERCA.

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**Staff's Recommendation:**

1. Award a contract for the annual financial audit and single audit services for Inland Empire Utilities Agency to CliftonLarsonAllen, LLP, for a 3-year term and two single year options to complete audit services beginning in Fiscal Year 2021/22, for a not-to-exceed amount of \$115,115; and
2. Authorize the General Manager or his designee to execute the contract.

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

*Account/Project Name:*

*Fiscal Impact (explain if not budgeted):*

None. Financial audit services have been budgeted.



**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. The request for proposal and evaluation of new audit firms was included in the plan of audit projects.

On December 16, 2020, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters. In those documents, the selection of the external financial audit services are specified as a function of the Internal Audit Department.

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**Environmental Determination:**

Not Applicable

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**Business Goal:**

The Contract award for Financial Audit Services is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by following recommended practices for the procurement of external financial audit services to ensure the completion of the required annual audits by an independent certified public accountant and comply with state requirements, Agency's Fiscal Ordinance and best practices.

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**Attachments:**

Attachment 1 - IEUA Financial and Single Audit Services Contract Number 4600003005 - Click for full contract

Attachment 2 - PowerPoint



**MASTER SERVICES CONTRACT NUMBER: 4600003005  
FOR PROVISION OF**

**FINANCIAL AND SINGLE AUDIT SERVICES**

THIS CONTRACT (the "Contract"), is made and entered into this \_\_\_\_ day of \_\_\_\_\_, 2021, by and between the Inland Empire Utilities Agency, a Municipal Water District, organized and existing in the County of San Bernardino under and by virtue of the laws of the State of California (hereinafter referred to as "Agency" or "IEUA"), and CliftonLarsonAllen, LLP (CLA), out of Irvine, CA (hereinafter referred to as "Contractor"), for the Inland Empire Utilities Agency Financial and Single Audit Services.

NOW, THEREFORE, in consideration of the mutual promises and obligations set forth herein, the parties agree as follows:

1. AGENCY PROJECT MANAGER ASSIGNMENT: All technical direction related to this Contract shall come from the designated Project Manager. Details of the Agency's assignment are listed below.

Project Manager: Teresa Velarde  
Address: 6075 Kimball Avenue  
Chino, CA 91708  
Telephone: 909-993-1521  
Email: [tvelarde@ieua.org](mailto:tvelarde@ieua.org)

2. CONTRACTOR ASSIGNMENT: Special inquiries related to this Contract and the effects of this Contract shall be referred to the following:

Contractor: Nitin Patel, CPA, Principal  
Address: 2875 Michelle Drive, Suite 300  
Irvine, CA 92606  
Telephone: 714-978-1300  
Email: [nitin.patel@CLAconnect.com](mailto:nitin.patel@CLAconnect.com)

3. ORDER OF PRECEDENCE: The documents referenced below represent the Contract Documents. Where any conflicts exist between the General Terms and Conditions the governing order of precedence shall be as follows:
  1. Amendments to Contract Number 4600003005.
  2. Contract Number 4600003005 General Terms and Conditions.
  3. Agency Request for Proposal Number RFP-GD-21-002.
  4. Contractor's Proposal dated February 1, 2021.
  
4. SCOPE OF WORK AND SERVICES: Contractor services and responsibilities shall include and be in accordance with the following:
  - A. Financial and Single Audit Services shall be in accordance with the Agency's Request for Proposal that includes the scope of work and services which is attached hereto as Exhibit B and Contractor's proposal attached as Exhibit A.
  - B. Contractor shall provide Agency with a Schedule of Work and Services, documenting the anticipated completion of the work within the timeframe set forth in Subsection 4.A., above. The Schedule of Work and Services will be prepared and submitted, to the Project Manager, for review and approval.
  - C. The Agency may, at any time, make changes to this Contract's Scope of Work; including additions, reductions, and other alterations to any or all of the Work. However, such changes shall only be made via written amendment to this Contract. The Contract compensation and Schedule of Work and Services shall be equitably adjusted, if required, to account for such changes and shall be set forth within the mutually approved Contract Amendment.
  
5. TERM: The term of this Contract shall extend from the date of the contract execution and terminate on December 31, 2023, unless agreed upon by both parties, reduced to writing, and amended to this Contract. Agency hereby reserves the right to exercise two (2) one-year optional extensions to the contract term. In the event the Agency desires to exercise the Contract extension option provided for in this Section, the Agency shall provide written notice to the Consultant, prior to the expiration of the original Contract term. If such option is exercised, the rates established within the fee schedule shall cease to be effective as of the first day of the "option" term.
  
6. PAYMENT, INVOICING, AND COMPENSATION:
  - A. The Contractor may submit an invoice not more than once per month during the term of this Contract to the Agency's Accounts Payable Department. Agency shall pay Contractor's properly executed invoice, approved by the Project Manager, within thirty (30) days following receipt of the invoice.
  - B. As compensation for the Work performed under this Contract, Agency shall pay Contractor's monthly invoice, for a total contract price NOT-TO-EXCEED

**\$115,115** for all services satisfactorily provided during the term of this Contract according to the schedule below:

<b>Fiscal Year Ending</b>	<b>External Audit</b>	<b>Single Audit</b>	<b>Total</b>
FY 2021	\$31,750	\$5,865	\$37,615
FY 2022	\$32,400	\$6,000	\$38,400
FY 2023	\$33,000	\$6,100	\$39,100
<b>Total 3 Years</b>			<b>\$115,115</b>
Option Year 1 - FY 2024	\$33,700	\$6,200	\$39,900
Option Year 2 - FY 2025	\$34,400	\$6,300	\$40,700

- C. Concurrent with the submittal of the original invoice to the Agency's Accounts Payable Department, the Contractor shall forward (mail, fax, or email) a copy of the invoice to the designated Project Manager, identified in Section 1, on Page 1 of this Contract.
  - D. No Additional Compensation: Nothing set forth in this Contract shall be interpreted to require payment by Agency to Contractor of any compensation specifically for the assignments and assurances required by the Contract, other than the payment of expenses as may be actually incurred by Contractor in complying with this Contract, as approved by the Project Manager.
  - E. Contractor shall invoice IEUA electronically for Financial and Single Audit Services fees to IEUA's Accounts Payable Office at [APGroup@ieua.org](mailto:APGroup@ieua.org). Each invoice shall cite the Contractor's name, address, and remit to address, description of the work performed, the time period covered by the invoice, any related contract and/or purchase order numbers, and the amount of payment requested.
7. **CONTROL OF THE WORK**: The Contractor shall perform the Work in compliance with the Schedule of Work and Services. If performance of the Work falls behind schedule, the Contractor shall accelerate the performance of the Work to comply with the Schedule of Work and Services as directed by the Project Manager. If the nature of the Work is such that Contractor is unable to accelerate the Work, Contractor shall promptly notify the Project Manager of the delay, the causes of the delay, and submit a proposed revised Schedule of Work and Services.
8. **INSURANCE**: During the term of this Contract, the Contractor shall maintain, at Contractor's sole expense, the following insurance.
- A. **Minimum Scope of Insurance**: Coverage shall be at least as broad as:

1. Commercial General Liability (“CGL”): Insurance Services Office (“ISO”) Form CG 00 01 covering CGL on an “occurrence” basis, including products and completed operations, property damage, bodily injury and personal & advertising injury with limits no less than \$1,000,000 per occurrence. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location (ISO CG 25 03 or 25 04) or the general aggregate limit shall be twice the required occurrence limit.
  2. Automobile Liability: ISO Form Number CA 00 01 covering any auto (Code 1), or if Contractor has no owned autos, covering hired, (Code 8) and non-owned autos (Code 9), with limit no less than \$1,000,000 per accident for bodily injury and property damage.
  3. Workers' Compensation and Employers Liability: Workers' compensation limits as required by the State of California, with Statutory Limits, and Employer's Liability Insurance with limit of no less than \$1,000,000 per accident for bodily injury or disease.
- B. Deductibles and Self-Insured Retention: Any deductibles or self-insured retention must be declared to and approved by the Agency. At the option of the Agency, either: the insurer shall reduce or eliminate such deductibles or self-insured retention as respects the Agency, its officers, officials, employees and volunteers; or the Contractor shall procure a bond guaranteeing payment of losses and related investigations, claim administration and defense expenses.
- C. Other Insurance Provisions: The insurance policies are to contain, or be endorsed to contain, the following provisions:
1. Commercial General Liability and Automobile Liability Coverage
    - a. Additional Insured Status: The Agency, its officers, officials, employees, and volunteers are to be covered as additional insureds on the CGL policy with respect to liability arising out of work or operations performed by or on behalf of the Contractor including materials, parts or equipment supplied in connection with such work or operations. General liability coverage can be provided in the form of an endorsement to the Contractor's insurance (at least as broad as ISO Form CG 20 10 11 85; or **by either** CG 20 10, CG 20 26, CG 20 33, or CG 20 38 **and** CG 20 37 forms if later revisions are used).
    - b. Primary Coverage: The Contractor's insurance coverage shall be primary insurance coverage at least as broad as ISO CG 20 01 04 13 as respects the Agency, its officer, officials, employees and volunteers. Any insurance or self-insurance maintained by

the Agency, its officers, officials, employees, volunteers, property owners or engineers under contract with the Agency shall be excess of the Contractor's insurance and shall not contribute with it.

- c. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the Agency, its officers, officials, employees or volunteers.
- d. The Contractor's insurance shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability.
- e. The Contractor may satisfy the limit requirements in a single policy or multiple policies. Any additional policies written as excess insurance shall not provide any less coverage than that provided by the first or primary policy.

2. Workers' Compensation and Employers Liability Coverage

Contractor hereby grants to Agency a waiver of any right to subrogation which any insurer of the Contractor may acquire against the Agency by virtue of the payment of any loss under such insurance. Contractor agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation, but this provision applies regardless of whether or not the Agency has received a waiver of subrogation endorsement from the insurer.

3. All Coverages

Each insurance policy required by this Contract shall be endorsed to state that coverage shall not be suspended, voided, canceled by either party, or reduced in coverage or in limits except after thirty (30) days prior written notice by certified mail, return receipt requested, has been given to the Agency pursuant to Section 14, page 12 of this Contract.

- D. Acceptability of Insurers: Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A minus:VII, and who are admitted insurers in the State of California.
- E. Verification of Coverage: Contractor shall provide the Agency with original certificates and amendatory endorsements or copies of the applicable policy language effecting coverage required by this clause. All certificates and endorsements are to be received and approved by the Agency before work commences. However, failure to obtain the required documents prior to the work beginning shall not waive the Contractor's obligation to provide them. The Agency reserves the right to require complete, certified copies of all

required insurance policies, including endorsements required by these specifications, at any time.

- F. Submittal of Certificates: Contractor shall submit all required certificates and endorsements to the following:

Inland Empire Utilities Agency  
Attn: Angela Witte  
P.O. Box 9020  
Chino Hills, CA 91709

9. FITNESS FOR DUTY:

- A. Fitness: Contractor and its Subcontractor personnel on the Jobsite:

1. Shall report to work in a manner fit to do their job;
2. Shall not be under the influence of or in possession of any alcoholic beverages or of any controlled substance (except a controlled substance as prescribed by a physician so long as the performance or safety of the Work is not affected thereby); and
3. Shall not have been convicted of any serious criminal offense which, by its nature, may have a discernible adverse impact on the business or reputation of the Agency.

- B. Compliance: Contractor shall advise all personnel and associated third parties of the requirements of this Contract ("Fitness for Duty Requirements") before they enter on the Jobsite and shall immediately remove from the Jobsite any employee determined to be in violation of these requirements. Contractor shall impose these requirements on its Subcontractors. Agency may cancel the Contract if Contractor violates these Fitness for Duty Requirements.

10. LEGAL RELATIONS AND RESPONSIBILITIES:

- A. Professional Responsibility: The Contractor shall be responsible, to the level of competency presently maintained by other practicing professionals performing the same or similar type of work.
- B. Status of Contractor: The Contractor is retained as an independent Contractor only, for the sole purpose of providing the services described herein, and is not an employee of the Agency.
- C. Observing Laws and Ordinances: The Contractor shall keep itself fully informed of all existing and future state and federal laws and all county and city ordinances and regulations which in any manner affect the conduct of any

services or tasks performed under this Contract, and of all such orders and decrees of bodies or tribunals having any jurisdiction or authority over the same. The Contractor shall at all times observe and comply with all such existing and future laws, ordinances, regulations, orders and decrees, and shall protect and indemnify, as required herein, the Agency, its officers, employees and agents against any claim or liability arising from or based on the violation of any such law, ordinance, regulation, order or decree, whether by the Contractor, its employees, or subcontractors.

- D. Subcontract Services: Any subcontracts for the performance of any services under this Contract shall be subject to the written approval of the Project Manager and shall comply with State of California, Department of Industrial Relations, SB 854 requirements.
- E. Travel and Subsistence Pay: The Contractor shall make payment to each worker for travel and subsistence payments which are needed to complete the work and/or service, as such travel and subsistence payments are defined in an applicable collective bargaining agreements with the worker.
- F. Indemnification: Contractor shall indemnify the Agency, its directors, employees, and assigns, and shall defend and hold them harmless from all liabilities, demands, actions, claims, losses and expenses, including reasonable attorneys' fees, which arise out of, or are related to, the negligence, recklessness or willful misconduct of the Contractor, its directors, employees, agents, and assigns, in the performance of work under this contract.
- G. Conflict of Interest: No official of the Agency, who is authorized in such capacity and on behalf of the Agency to negotiate, make, accept or approve, or to take part in negotiating, making, accepting or approving this Contract, or any subcontract relating to services or tasks to be performed pursuant to this Contract, shall become directly or indirectly personally interested in this Contract.
- H. Equal Opportunity: During the performance of this Contract, the Contractor shall not unlawfully discriminate against any employee or employment applicant because of race, color, religion, sex, age, marital status, ancestry, physical or mental disability, sexual orientation, veteran status or national origin. The Agency is committed to creating and maintaining an environment free from harassment and discrimination.
- I. Disputes:
  - 1. All disputes arising out of or in relation to this Contract shall be resolved in accordance with this section. The Contractor shall pursue the work to completion in accordance with the instruction of the Agency's Project Manager notwithstanding the existence of a dispute. By entering into this Contract, both parties are obligated, and hereby agree, to submit



all disputes arising under or relating to the Contract which remain unresolved after the exhaustion of the procedures provided herein, to independent arbitration. Except as otherwise provided herein, arbitration shall be conducted under California Code of Civil Procedure Sections 1280, et seq., or their successor.

2. Any and all disputes prior to the work starting shall be subject to resolution by the Agency's Project Manager; and the Contractor shall comply, with the Agency Project Manager instructions. If the Contractor is not satisfied with the resolution directed by the Agency Project Manager, they may file a written protest with the Agency Project Manager within seven (7) calendar days after receiving written directive of the Project Manager's decision. Failure by Contractor to file a written protest within seven (7) calendar days shall constitute waiver of protest, and acceptance of the Project Manager's resolution. The Project Manager shall submit the Contractor's written protests to the General Manager, together with a copy of the Project Manager's written decision, for his or her consideration within seven (7) calendar days after receipt of the protest-related documents. The General Manager shall make his or her determination with respect to each protest filed with the Project Manager within ten (10) calendar days after receipt of the protest-related documents. If Contractor is not satisfied with any such resolution by the General Manager, they may file a written request for arbitration with the Project Manager within seven (7) calendar days after receiving written notice of the General Manager's decision.
3. In the event of arbitration, the parties to this contract agree that there shall be a single neutral Arbitrator who shall be selected in the following manner:
  - a. The Demand for Arbitration shall include a list of five names of persons acceptable to the Contractor to be appointed as Arbitrator. The Agency shall determine if any of the names submitted by Contractor are acceptable and, if so, such person will be designated as Arbitrator.
  - b. In the event that none of the names submitted by Contractor are acceptable to Agency, or if for any reason the Arbitrator selected in Step (a) is unable to serve, the Agency shall submit to Contractor a list of five names of persons acceptable to Agency for appointment as Arbitrator. The Contractor shall, in turn, have seven (7) calendar days in which to determine if one such person is acceptable.
  - c. If after Steps (a) and (b), the parties are unable to mutually agree upon a neutral Arbitrator, the matter of selection of an

Arbitrator shall be submitted to the San Bernardino County Superior Court pursuant to Code of Civil Procedure Section 1281.6, or its successor. The costs of arbitration, including but not limited to reasonable attorneys' fees, shall be recoverable by the party prevailing in the arbitration. If this arbitration is appealed to a court pursuant to the procedure under California Code of Civil Procedure Section 1294, et seq., or their successor, the costs of arbitration shall also include court costs associated with such appeals, including but not limited to reasonable attorneys' fees which shall be recoverable by the prevailing party.

4. Association in Mediation/Arbitration: The Agency may join the Contractor in mediation or arbitration commenced by a contractor on the Project pursuant to Public Contracts Code Sections 20104 et seq. Such association shall be initiated by written notice from the Agency's representative to the Contractor.

- J. Workers' Legal Status: For performance against this Contract, Contractor shall only utilize employees and/or subcontractors that are authorized to work in the United States pursuant to the Immigration Reform and Control Act of 1986.

11. OWNERSHIP OF MATERIALS AND DOCUMENTS/CONFIDENTIALITY: The Agency retains ownership of any, and all, partial or complete reports, drawings, plans, notes, computations, lists, and/or other materials, documents, information, or data prepared by the Contractor and/or the Contractor's subcontractor(s) pertaining to this Contract. Said materials and documents are confidential and shall be available to the Agency from the moment of their preparation, and the Contractor shall deliver them to the Agency whenever requested to do so by the Project Manager and/or Agency representative. The Contractor agrees that all documents shall not be made available to any individual or organization, private or public, without the prior written consent of an Agency representative. Provided, however that notwithstanding anything to the contrary herein, Contractor's work papers and audit documentation are its sole and exclusive property.

12. TITLE AND RISK OF LOSS:

- A. Documentation: Title to the Documentation shall pass to the Agency when prepared; however, a copy may be retained by Contractor for its records and internal use. Contractor shall retain such Documentation in a controlled access file, and shall not reveal, display, or disclose the contents of the Documentation to others without the prior written authorization of the Agency or for the performance of Work related to the Scope of Work described in this Contract.

- B. Material: Title to all Material, field or research equipment, and laboratory models, procured or fabricated under the Contract shall pass to the Agency when procured or fabricated, and such title shall be free and clear of any and all encumbrances. Contractor shall have risk of loss of any Material or Agency-owned equipment of which it has custody.
- C. Disposition: Contractor shall dispose of items to which the Agency has title as directed, in writing, by the Project Manager and/or an Agency representative.

13. PROPRIETARY RIGHTS:

- A. Rights and Ownership: Agency's rights to inventions, discoveries, trade secrets, patents, copyrights, and other intellectual property, including the Information and Documentation, and revisions thereto (hereinafter collectively referred to as "Proprietary Rights"), used or developed by Contractor in the performance of the Work, shall be governed by the following provisions:
  - 1. Proprietary Rights conceived, developed, or reduced to practice by Contractor in the performance of the Work shall be the property of Agency, and Contractor shall cooperate with all appropriate requests to assign and transfer same to Agency.
  - 2. If Proprietary Rights conceived, developed, or reduced to practice by Contractor prior to the performance of the Work are used in and become integral with the Work, or are necessary for Agency to have complete control of the Work, Contractor shall grant to Agency a non-exclusive, irrevocable, royalty-free license, as may be required by Agency for the complete control of the Work, including the right to reproduce, correct, repair, replace, maintain, translate, publish, use, modify, copy or dispose of any or all of the Work and grant sublicenses to others with respect to the Work.
  - 3. If the Work includes the Proprietary Rights of others, Contractor shall procure, at no additional cost to Agency, all necessary licenses regarding such Proprietary Rights so as to allow Agency the complete control of the Work, including the right to reproduce, correct, repair, replace, maintain, translate, publish, use, modify, copy, or dispose of any or all of the Work; and to grant sublicenses to others with respect to the Work. All such licenses shall be in writing and shall be irrevocable and royalty-free to Agency.

14. NOTICES: Any notice may be served upon either party by delivering it in person, or by depositing it in a United States Mail deposit box with the postage thereon fully prepaid, and addressed to the party at the address set forth below:

Agency: Warren T. Green

Manager of Contracts and Procurement  
Inland Empire Utilities Agency  
P.O. Box 9020  
Chino Hills, CA 91709

Contractor: Nitin Patel, CPA, Principal  
CliftonLarsonAllen, LLP (CLA)  
2875 Michelle Drive, Suite 300  
Irvine, CA 92606

Any notice given pursuant to this section shall be deemed effective in the case of personal delivery, upon receipt thereof, or, in the case of mailing, at the moment of deposit in the course of transmission through the United States Postal Service.

15. SUCCESSORS AND ASSIGNS: All of the terms, conditions and provisions of this Contract shall take effect to the benefit of and be binding upon the Agency, the Contractor, and their respective successors and assigns. No assignment of the duties or benefits of the Contractor under this Contract may be assigned, transferred, or otherwise disposed of, without the prior written consent of the Agency; and any such purported or attempted assignment, transfer, or disposal without the prior written consent of the Agency shall be null, void, and of no legal effect whatsoever.
16. PUBLIC RECORDS POLICY: Information made available to the Agency may be subject to the California Public Records Act (Government Code Section 6250 et seq.) The Agency's use and disclosure of its records are governed by this Act. The Agency shall use its best efforts to notify Contractor of any requests for disclosure of any documents pertaining to this work. In the event of litigation concerning disclosure of information Contractor considers exempt from disclosure; (e.g., Trade Secret, Confidential, or Proprietary) Agency shall act as a stakeholder only, holding the information until otherwise ordered by a court or other legal process. If Agency is required to defend an action arising out of a Public Records Act request for any of the information Contractor has marked "Confidential," "Proprietary," or "Trade Secret," Contractor shall defend and indemnify Agency from all liability, damages, costs, and expenses, in any action or proceeding arising under the Public Records Act.
17. RIGHT TO AUDIT: The Agency reserves the right to review and/or audit all Contractor's records related to the Work. The option to review and/or audit may be exercised during the term of the Contract, upon termination, upon completion of the Contract, or at any time thereafter up to twelve (12) months after final payment has been made to the Contractor. The Contractor shall make all records and related documentation available within three (3) working days after said records are requested by the Agency.
18. INTEGRATION: The Contract Documents represent the entire Contract made and entered into by and between the Agency and the Contractor as to those matters contained in this contract. No prior oral or written understanding shall be of any force

or effect with respect to those matters covered by the Contract Documents. This Contract may not be modified, altered, or amended except by written mutual agreement by the Agency and the Contractor.

19. **GOVERNING LAW:** This Contract is to be governed by and constructed in accordance with the laws of the State of California, in the County of San Bernardino.
20. **TERMINATION FOR CONVENIENCE:** The Agency reserves and has the right to immediately suspend, cancel or terminate this Contract at any time upon written notice to the Contractor. In the event of such termination, the Agency shall pay Contractor for all authorized and Contractor-invoiced services up to the date of such termination, as approved by the Project Manager.
21. **FORCE MAJEURE:** Neither party shall hold the other responsible for the effects of acts occurring beyond their control; e.g., war, riots, strikes, natural disasters, etcetera.
22. **NOTICE TO PROCEED:** No services shall be performed or provided under this Contract unless and until this document has been properly signed by all responsible parties and a notice to proceed has been issued to the Contractor by the Project Manager.
23. **AUTHORITY TO EXECUTE CONTRACT:** The Signatories, below, each represent, warrant, and covenant that they have the full authority and right to enter into this Contract on behalf of the separate entities shown below.
24. **DELIVERY OF DOCUMENTS:** The Parties to this Contract and the individuals named to facilitate the realization of its intent, with the execution of the Contract, authorize the delivery of documents via facsimile, via email, and via portable document format (PDF) and covenant agreement to be bound by such electronic versions.

The parties hereto have caused the Contract to be entered as of the day and year written above.

**INLAND EMPIRE UTILITIES AGENCY:**  
*\*A MUNICIPAL WATER DISTRICT*

**CLIFTONLARSONALLEN, LLP:**

\_\_\_\_\_  
Shivaji Deshmukh P.E. (Date)  
General Manager

*Nitin Patel* 3/1/2021  
\_\_\_\_\_  
Nitin Patel (Date)  
CPA, Principal

# Audit Committee Meeting

## Contract Award for Financial Audit Services



**Teresa V. Velarde,**  
**Manager of Internal Audit**  
**March 2021**

# Request for Proposal

- Requirement to switch auditors
- Scope of Work
- Financial Audit Services for:
  - IEUA – Financial Audit & Single Audit
  - CBRFA – Financial Audit
  - IERCA – Financial Audit

# Evaluation Process

- Evaluation Team
  - Internal Audit, Finance & Accounting, Grants & Audit Committee Advisor
- 7 firms submitted written proposals
  - all qualified
  - all close and similar in pricing
  - all local



# 7 Firms submitted Proposals

<b>CliftonLarsonAllen (CLA)</b>
<b>Davis Farr</b>
<b>Eadie and Payne</b>
<b>Eide Bailly</b>
<b>Lance, Soll &amp; Lunghard *</b>
<b>Moss Levy Hartzheim</b>
<b>Rogers Anderson Malody Scott</b>

# Proposals Received

	IEUA	Single Audit	IEUA Total	CBRFA	IERCA	Total
<b>Current Fees for Incumbent - LSL</b>	<b>\$31,270</b>	<b>\$4,710</b>	<b>\$35,980</b>	<b>\$4,400</b>	<b>\$4,400</b>	<b>\$44,780</b>
<b>Proposed Fees for FY 2021</b>						
<b>Proposals</b>	<b>IEUA Financial Audit</b>	<b>IEUA Single Audit</b>	<b>IEUA Total</b>	<b>CBRFA</b>	<b>IERCA</b>	<b>Total</b>
CliftonLarsonAllen	\$31,750	\$5,865*	<b>\$37,615</b>	\$4,360	\$4,935	\$46,910
Davis Farr	\$32,950	\$3,500	<b>\$36,450</b>	\$4,000	\$6,000	\$46,450
Eadie and Payne	\$25,600	\$4,400	<b>\$30,000</b>	\$5,000	\$5,000	\$40,000
Eide Bailly	\$33,000	\$5,000	<b>\$38,000</b>	\$4,500	\$5,000	\$47,500
Lance, Soll & Lunghard	\$30,480	\$5,470	<b>\$35,950</b>	\$4,310	\$4,310	\$44,570
Moss Levy Hartzheim	\$28,060	\$3,500	<b>\$31,560</b>	\$4,195	\$4,195	\$39,950
Rogers Anderson Malody Scott	\$32,900	\$4,845	<b>\$37,745</b>	\$5,500	\$5,500	\$48,745

\* Single Audit Pricing includes any additional major programs, all other firms, pricing provided only includes one major program, additional major programs were quoted at an additional amount ranging between \$2,000 - \$3500 for each additional major program.

# 5 Firms selected and Invited to Interview

<b><i>CliftonLarsonAllen (CLA)</i></b>
<b>Davis Farr</b>
<b>Eide Bailly</b>
<b>Lance Soll &amp; Lunghard</b>
<b>Rogers Anderson Malody Scott</b>

# CliftonLarsonAllen, LLP

- Formerly White, Nelson Diehl Evans
- Irvine office
- Joined CliftonLarsonAllen (with over 60 years of experience conducting similar audits)
- Most Single Audits



[www.claconnect.com](http://www.claconnect.com)



Nitin P. Patel, CPA  
Engagement Principal  
34+ years of experience



Tiffany Fung, CPA  
Engagement Manager  
10+ years of experience



Kassie Radermacher, CPA, CFE  
Assurance Principal  
15+ years of experience



Daphne Liu, CPA  
Field Manager  
11+ years of experience

# CliftonLarsonAllen, LLP (CLA)

- 8<sup>th</sup> largest accounting firm
- Had the most knowledge of the Agency and its operations
- Mentioned the WIFIA loan and capital construction projects
- Most single audits completed nationwide
- Only firm to mentioned that they do expect we will have more than one major program for the Single Audit and their pricing already includes that
- Acknowledged the audit work done by Internal Audit
- Will provide training to Agency staff
- Most comparable experience

# Contract

3 separate Contracts:

IEUA: Financial and Single Audit for 3 years, NTE \$115,115, with the 2 single-year options

	IEUA	Single Audit	Total IEUA Contract	Total CBRFA Contract	Total IERCA Contract
FY 2021	\$ 31,750.00	\$5,865.00	<b>\$ 37,615.00</b>	\$ 4,360.00	\$ 4,935.00
FY 2022	32,400.00	6,000.00	<b>38,400.00</b>	4,400.00	5,000.00
FY 2023	33,000.00	6,100.00	<b>39,100.00</b>	4,500.00	5,100.00
<b>TOTAL 3 YEARS</b>			<b>\$ 115,115.00</b>	<b>\$ 13,260.00</b>	<b>\$ 15,035.00</b>
Optional Year 1 FY 2024	33,700.00	6,200.00	<b>\$ 39,900.00</b>	\$ 4,600.00	\$ 5,200.00
Optional Year 2 FY 2025	34,400.00	6,300.00	<b>\$ 40,700.00</b>	\$ 4,700.00	\$ 5,300.00

# Recommendation

- *Award a 3-year contract for financial and single audit services with two individual optional years, to CliftonLarsonAllen, LLP in the amount of \$115,115; and*
- *Authorize the GM to execute the contract*



# Contract Award for Financial Audit Services

*The Contract award for Financial and Single Audit Services is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by being transparent and following recommended practices for the procurement of external financial audit services to ensure the completion of the required annual audits by an independent certified public accountant and comply with state requirements, Agency's Fiscal Ordinance and best practices.*

Audit Committee

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INFORMATION  
ITEM  
2A



**Date:** March 17, 2021

**To:** The Honorable Board of Directors

**Committee:** Audit

*Teresa Velarde*

**From:** Teresa Velarde, Manager of Internal Audit

03/08/21

**Manager Contact:** Teresa Velarde, Manager of Internal Audit

**Subject:** Report on The Audit Function

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**Executive Summary:**

The Inland Empire Utilities Agency Internal Audit Department and the Audit Committee were established by Board action on April 21, 2004. The Audit Function was established as a response to increased responsibilities for financial reporting and audit compliance requirements of various regulatory agencies. Specifically risks related to the financial growth of the Agency associated with the issuance of bonds and receipt of increasing grant funding, along with the administration of rebate programs and the active roles and projects with various joint powers and member agencies. As documented in the March 17, 2004 Board Letter, the Audit Function was the staff recommendation to provide greater Board oversight of External Auditor activities, to perform internal audits and provide recommendations, to adopt Government Finance Officers Association and Institute of Internal Auditors guidance and comply with California legislation anticipated changes in audit reporting requirements. The purpose of the Audit Function is to assist the Agency in achieving its goals and objectives, additionally, to ensure the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations. See Report.

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**Staff's Recommendation:**

This is an information item.

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**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 16, 2020, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters which document responsibilities for the Audit Function.

On April 21, 2004, the Board of Directors approved the establishment of an Audit Committee and the position of Internal Auditor (currently, Manager of Internal Audit)

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**Environmental Determination:**

Not Applicable

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**Business Goal:**

This report summarizing the IEUA Audit Function is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing the functions, roles and responsibilities of the Internal Audit Department, the Audit Committee, External Financial Auditors and the Audit Committee Advisor to ensure the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.

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**Attachments:**

Attachment 1 - Report: The Audit Function

Attachment 2 - Additional Reference Material - [Click to Download](#)

Attachment 3 - PowerPoint




# The Audit Function

*This report evaluating the IEUA Audit Function is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing the functions, roles and responsibilities of the Internal Audit Department and providing an overview of the components which make up The Audit Function for the purpose of ensuring the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.*

Prepared by:  
Internal Audit Department  
March 8, 2021



6075 Kimball Avenue • Chino, CA 91708  
P.O. Box 9020 • Chino Hills, CA 91709  
TEL (909) 993-1600 • FAX (909) 993-1985  
www.ieua.org

DATE: March 8, 2021  
TO: Honorable Board of Directors  
Shivaji Deshmukh  
General Manager  
FROM: Teresa V. Velarde   
Manager of Internal Audit

**SUBJECT: The Audit Function**

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) and the Audit Committee were established by Board action on April 21, 2004. The Audit Function was established as a response to increased responsibilities for financial reporting and audit compliance requirements of various regulatory agencies, specifically related to the financial growth of the Agency associated with the issuance of bonds and receipt of increasing grant funding, along with the administration of rebate programs and the active roles and projects with various joint powers and member agencies. As documented in the March 17, 2004 Board Letter, the Audit Function was the staff recommendation to provide greater Board oversight of External Auditor activities, to perform internal audits and submit audit reports with recommendations for improvements, to adopt the Government Finance Officers Association (GFOA) and the Institute of Internal Auditors (IIA) guidance and comply with California legislation modifying audit reporting requirements. Additionally, to ensure the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.

For purposes of this report, “The Audit Function” refers to: the Internal Audit Department, the External Financial Auditors, the Audit Committee Financial Expert and the Audit Committee. The purpose of the Audit Function is to assist the Agency in achieving its organizational goals and objectives.

The Internal Audit Department is charged with the responsibility to ensure the oversight obligations of the Audit Function are met. The Internal Audit Department seeks to add value and improve the organization’s operations through independent, objective audits, reviews and evaluations and recommendations provided. Internal Auditors must adhere to a strict Code of Conduct, professional standards and principles and follow a systematic, disciplined approach in performing internal audits, evaluating operations and make recommendations.

***Water Smart - Thinking in Terms of Tomorrow***

Jasmin A. Hall  
President

Michael E. Camacho  
Vice President

Steven J. Elie  
Secretary/Treasurer

Paul Hofer  
Director

Marco Tule  
Director

Shivaji Deshmukh  
General Manager

The current structure of the Agency's Internal Audit Department follows best practices and guidelines provided the Government Finance Officers Association (GFOA), the Institute of Internal Auditors (IIA) and the American Institute of Certified Public Accountants (AICPA). Consistent with those best practices, the Internal Audit Department reports functionally to the Board through the Audit Committee to establish independence and objectivity. Also, consistent with best practices, the Internal Audit Department reports administratively to the General Manager for planning and coordinating audit projects, establishing the department's budget and staffing needs and other administrative items. The purpose, authority and responsibilities of the Internal Audit Department are documented in the Board-approved Charter.

The IEUA Audit Committee is composed of two members of the Board and an outside member that serves as the Financial Expert and Advisor to the Audit Committee, as prescribed by best practices. GFOA, AICPA and the IIA recommend the Audit Committee meet at minimum quarterly and discuss audit matters with Executive Management, the Internal Auditor, the Financial Advisor and the External Auditors and report to the Board any significant issues that warrant attention. The roles of the Audit Committee are documented in the Board approved Audit Committee Charter.

The attached report provides additional information about the purpose of the various components of The Audit Function including:

- Background information about the establishment of the IEUA Internal Audit Department and the Audit Committee
- Internal Audit Department
- Audit Committee
- Audit Committee Financial Advisor
- External Financial Auditor
- Types of Audits performed by Internal Audit
- The Annual Audit Plan
- Best Practices for The Audit Function as recommended by:
  - Government Finance Officers Association (GFOA)
  - Institute of Internal Auditors (IIA)
  - American Institute of Certified Public Accountants (AICPA)
- Additional Resources related to The Audit Function

IEUA has adopted best practices in structuring and establishing an effective Audit Function. IEUA was a leader in the local government sector to achieve structuring the Audit Function as recommended by best practice guidance. The report that follows provides details about the Audit Function at IEUA with greater discussion focused on the Internal Audit Department.

The Internal Audit Department appreciates the opportunity to provide this comprehensive report on the Audit Function of IEUA and request direction, feedback and/or changes for the fulfillment of audit responsibilities and future Audit Committee Meetings. The Manager of Internal Audit is available to provide additional information or answer any questions.

***This report evaluating the IEUA Audit Function is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing the functions, roles and responsibilities of the Internal Audit Department and providing an overview of the components which make up the Audit Function for the purpose of ensuring the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.***

Attachment – Additional Reference Material related to the Audit Function

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## *The Audit Function*

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The purpose of the Audit Function is to assist the Agency in achieving its organizational goals and objectives. Additionally, to assist the Board of Directors achieve its oversight responsibilities over for financial reporting, internal controls, and compliance with legal and regulatory requirements and to assist management by providing objective evaluations and recommendations. “The Audit Function” refers to:

*The Internal Audit Department*  
*External Financial Auditors*  
*The Audit Committee Financial Expert*  
*The Audit Committee*

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### *Background – Establishing the Audit Function*

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On April 21, 2004, The Board of Directors established the IEUA’s Internal Audit Department and Audit Committee (Board letter attached in the additional references attached). The Board of Directors had requested staff conduct research and recommendations on the best structure for the Internal Audit Department and the Audit Committee. Based on the research completed and recommendations by Agency staff, the Board approved the “best practices” model suggested by the Government Finance Officers Association (GFOA), the Institute of Internal Auditors (IIA), and the Agency’s General Counsel. This has remained the model since its establishment:

- An Audit Committee composed of three committee members, two members of the Board of Directors and an Audit Committee Member, with no voting rights, to serve as the Financial Expert with experience in conducting financial audits, as suggested by best practices. (taken from the original Board letter).
- The position of Manager of Internal Audit reporting functionally to the Board through the Audit Committee and reporting administratively to the General Manager. (taken from the original Board letter).

According to the Board report presented in 2004, this structure was established: *“to address this increase in responsibility”* (from increased auditing requirements and reporting of expenditures for special districts by the California Legislature), *“to ensure administrative and financial accountability to standards required by federal and state regulatory agencies and bondholders, to better define staff’s administrative responsibilities,*

*and to provide the Board with a consistent means of monitoring the Agency's financial responsibilities".*

GFOA recommends that every government consider the feasibility of establishing a formal internal audit function (GFOA recommended practice, 1997). Further, GFOA recommends the Internal Audit Function be established formally by Charter. IEUA has adopted best practices and has established the Internal Audit Department by Board-approved Charter.

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### *Internal Audit Department Charter & Audit Committee Charter*

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As part of the establishment of the Internal Audit Department and the Audit Committee in April of 2004, the Board adopted the first Internal Audit Department Charter and the Audit Committee Charter. The Internal Audit Department Charter document the purpose, authority and responsibilities of the Internal Audit Department. The Audit Committee Charter documents the Audit Committee's purpose, composition, authority and responsibilities. Both charters follow best practices and guidance set forth by the IIA. The purpose of the charters is to assist the Board of Directors and the Audit Committee in fulfilling their oversight responsibilities. Those responsibilities are fulfilled through the various planned audit projects, discussions with Executive Management, the External Financial Auditor and the Audit Committee Financial Expert, as well as discussions with the Audit Committee.

The Charters are provided for Audit Committee and Board review and/or discussion each year. The Internal Audit Department evaluates changes in best practices and suggestions by the External Financial Advisor and the External Auditor in making changes/edits to the Charters. The Charters are posted on the Internal Audit Department webpage on the Agency's intranet website.

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### *Mission Statement of The Internal Audit Department*

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*The Internal Audit Department seeks to improve the operations of the Agency by providing unbiased and objective assessments to ensure Agency resources are efficiently and effectively managed in order to achieve Agency goals and objectives. The Internal Audit Department will help the Agency achieve its goals and objectives, improve operations, and instill confidence among its employees and citizens it serves by providing independent, objective assurance and consulting services and provide management and the Board of Directors with recommendations to:*

- *Promote 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 with a high degree of professionalism*
- *Assist the Board of Directors and senior management achieve organizational goals and objectives*

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### *The Internal Audit Department*

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The purpose of the Internal Audit Department is to assist the Board of Directors and the Audit Committee in fulfilling their oversight responsibilities for financial reporting, internal controls, compliance with legal and regulatory requirements applicable to Agency operations, and to provide objective assurance about the Agency's operations. The Internal Audit Department seeks to add value and improve the organization's operations through independent, objective audits, reviews and evaluations and recommendations provided. The Internal Audit Department is charged with ensuring that the responsibilities of all the components that make up The Audit Function are fulfilled. This report provides an overview of the components and the responsibilities of each component. All responsibilities are documented in the Board approved Charters.

#### Staffing

The Internal Audit Department is currently staffed with one full-time Manager of Internal Audit and one full-time Senior Internal Auditor. As required by the Board-approved Charter, the Manager of Internal Audit, reports functionally to the Board through the Audit

Committee, and administratively to the General Manager. See Organizational Structure below for additional information.

The purpose of the Internal Audit Department can be summarized as follows:

- Assists the Agency achieve its goals
- Evaluates risks
- Assesses the reliability of internal controls
- Provides recommendations for improving operations
- Promotes a strong ethical culture
- Reviews processes and procedures
- Provides on-going monitoring and compliance
- Raises potential red flags
- Communicates results to management, the Audit Committee and the Board
- Serves as the “eyes and ears” of the Board of Directors

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### *Internal Auditors & Code of Ethics*

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Internal Auditors must adhere to a strict Code of Conduct and abide by the *International Standards for the Professional Practice of Internal Auditing* (IPPF), both issued by the Institute of Internal Auditors (IIA). These are best practice guidance and professional standards and principles to ensure auditors follow a systematic, disciplined approach in performing internal audits. The standards and additional information can be found on the IIA website at: <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

The IIA Code of Ethics purpose is to promote an ethical culture in the profession of internal auditing. The Code of Ethics includes the following principles and rules of conduct that apply to individuals and entities that perform internal audit services:

#### *IIA Code of Ethics Principles:*

1. *Integrity: The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.*
2. *Objectivity: Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant*



*circumstances and are not unduly influenced by their own interests or by other in forming judgements.*

3. *Confidentiality: Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is legal or professional obligation to do so.*
4. *Competency: Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.*

### Continuing Professional Education

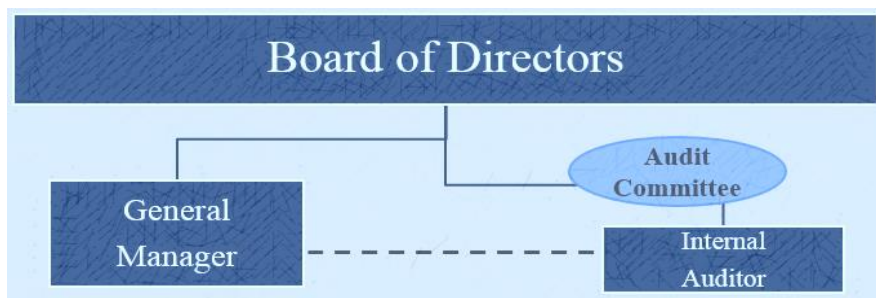
The IIA *Standards* and the IAD Charter also require that internal auditors engage in continuous professional education and development to enhance their knowledge, skills, and other competencies, stay abreast of developing audit trends and risks. Additionally, to ensure they possess the knowledge, skills and other competencies required of internal auditors to effectively carry out their responsibilities. This includes 2 hours of Ethics training annually. Specifically, both Agency auditors hold the certification of Certified Government Audit Professional (CGAP) issued by the IIA and requires 40 hours of

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### *Organizational Structure*

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continuing professional education every 2 years. The educational requirements are met. The current structure of the Agency's Internal Audit Department follows best practices and guidance provided by the Institute of Internal Auditors (IIA), the Government Finance Officers Association (GFOA), and the American Institute of Certified Public Accountants (AICPA). Consistent with those best practices, the Internal Audit Department reports functionally to the Board through the Audit Committee to establish the independence of IA and to foster an environment where IA can work free from potential pressures of management and have the ability to perform audit work and responsibilities objectively and independently. Additionally, consistent with best practices, the Internal Audit Department reports administratively to the General Manager for planning and coordinating audit projects, establishing the department's budget and staffing resources and other administrative items.



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## *Best Practices Recommendations for Internal Audit Structure*

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### **Government Finance Officers Association (GFOA)**

- *“Every government should consider the feasibility of establishing a formal internal audit function because such a function can play an important role in helping management to maintain a comprehensive framework of internal controls. As a rule, a formal internal audit function is particularly valuable for those activities involving a high degree of risk (e.g., complex accounting systems, contracts with outside parties, a rapidly changing environment). If it is not feasible to establish a separate internal audit function, a government is encouraged to consider either 1) assigning internal audit responsibilities to its regular employees or 2) obtaining the services of an accounting firm (other than the independent auditor) for this purpose;*
- *The internal audit function should be established formally by charter, enabling resolution, or other appropriate legal means;*
- *It is recommended that internal auditors of state and local governments conduct their work in accordance with the professional standards relevant to internal auditing contained in the U.S. General Accounting Office’s publication Government Auditing Standards, including those applicable to the independence of internal auditors;*
- *At a minimum, the head of the internal audit function should possess a college degree and appropriate relevant experience. It also is highly desirable that the head of the internal audit function hold some appropriate form of professional certification (e.g., certified internal auditor, certified public accountant, certified information systems auditor) ; and*
- *All reports of internal auditors, as well as the annual internal audit work plan, should be made available to the government’s audit committee or its equivalent.”*

### **American Institute of Certified Public Accountants (AICPA)**

*“First and foremost, the internal audit department will understand that its responsibilities are primarily to the audit committee. A strong internal audit function may also include audit committee oversight of the internal audit group’s budget approval process and its policies regarding hiring, evaluation, training, and termination of internal audit staff. Terminating or transferring high level internal audit personnel will be ultimately determined by the audit committee.*

*Executive sessions with the head of the internal audit function at every audit committee meeting provide the audit committee a unique opportunity to engage in candid discussions with him or her about the possible risk of management override of internal control and any indications of improper conduct by senior management.*

*The audit committee, by understanding and assisting in developing the internal auditors' annual audit plan, will influence the internal auditors' agenda by directing the plan's emphasis to areas of particular interest to the audit committee. These areas might include fraud risks—particularly matters that surfaced during the brainstorming session—and controls over judgments and estimates and key information processes. A properly directed internal audit staff can serve as the “eyes and ears” of the audit committee.”*

### **The Institute of Internal Auditors (IIA)**

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

*Reporting to executive management and having direct access to the audit committee well positions the internal audit activity within an organization. Internal audit independence is furthered by periodic private meetings between the audit committee and the CAE, during which time sensitive issues are discussed without management's presence.”*

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### ***Definition of Internal Auditing:***

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*As provided by the IIA: Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

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### ***Annual Audit Plan***

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The Annual Audit Plan is a responsibility under the requirements of the Board approved IAD Charter. The Audit Plan allows the Manager of Internal Audit to carry out the responsibilities of the Internal Audit Department by prioritizing projects and allocating necessary resources where audit efforts are deemed appropriate and necessary. The Audit Plan is a flexible plan of internal audit activities developed using an appropriate risk-based methodology to prioritize audit projects. The proposed audit projects are selected based on risks considered, requests by management and inquiries of the Agency's management, External Auditors, the Audit Committee Advisor, general counsel and

others. The plan is meant to address risk areas and to evaluate and contribute to improving effectiveness of Agency operations. The Annual Audit Plan is submitted for Audit Committee review and to the Board for approval every year in June. When changes and amendments to the Audit Plan are necessary, these are submitted through the Audit Committee for approval.

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### *Types of Audits*

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The Internal Audit Department performs operational audits. An operational audit is designed to evaluate an activity's effectiveness and efficiency of operations. IA's operational audits also incorporate elements of program, financial and compliance audits to evaluate financial transactions and overall compliance with policies and procedures and the effectiveness of the activity. Prior to finalizing an audit, discussions take place between IA and the auditee about the audit results and resulting audit findings and recommendations. The auditee is always provided with opportunities to provide resolutions, responses or additional information prior to IA finalizing the audit report and

proposed recommendations. Results of audits are documented in a formal audit report and discussed during Audit Committee meetings. Auditees can provide a written response and include corrective action plans. Any resulting open/outstanding audit recommendations are followed-up as scheduled through the Annual Audit Plan until full implementation is achieved or alternate controls are incorporated.

IA has completed audits in multiple areas of the Agency's operations, including:

- Warehouse Operations
- Human Resources – Benefit processes, Hiring and Promotions processes
- Finance & Accounting – Accounts Payable, Accounts Receivable, Petty Cash
- Finance & Accounting – Payroll, Wire Transfers Interfund Transactions
- Construction Management
- Contracts and Procurement
- Laboratory
- Environmental Compliance
- Pre-Treatment and Source Control
- Planning and Environmental Resources
- Integrated Systems Services – IT equipment
- Vehicle Inventory & Security
- Energy/Utility Bills
- Regional Contract Audits of the 7 contracting agencies
- P-Cards and Credit Cards
- Garden In Every School Program



- Grants – processes, Agency Covid-19 expenses
- Policy review and recommendations
- Miscellaneous projects and requests

All audit reports are discussed during the regular Audit Committee Meetings and can be accessed through the Agency Information Management (AIM), the Agency's intranet site, also available on the Internal Audit Department webpage on AIM, through the Board Reports on the main IEUA webpage or available upon request from the Manager of IA.

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### *The Audit Committee*

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The IEUA Audit Committee structure follows recommended best practices and professional standards. The April 21, 2004 Board report included the following structural recommendation about the creation of an Audit Committee as a separate committee of the Board of Directors:

*“An Audit Committee of the Board of Directors be established to oversee the audit and grants’ responsibilities of the current Chief Financial Officer position. The Committee would be responsible to meet at least quarterly with the Agency’s Internal Auditor and Agency staff, for overseeing the acquisition of the Agency’s outside Auditor, developing the scope of work for the annual audit, approving the annual audit work plan, directing special internal audits, reviewing and approving the internal auditing work plans, evaluating the performance of the internal audit activities, and providing policy direction to the Agency’s Audit and Grants Department. The Audit Committee would meet at least quarterly with the Internal Auditor to review work plans, audit activities and the draft/final audit reports. The Audit Committee would submit all audit management reports to the Board for review and policy direction, as appropriate.”*

This recommendation was developed based upon research performed by IEUA staff. IEUA staff discussed the structure of the Audit Committee and Internal Audit Department with the “Agency’s bond counsel, investment banker, the External Auditor, The Agency’s General Counsel, and the Metropolitan Water District’s Chief Financial Officer who suggested the proposed reorganization was in the best interests of the Agency.”

The Audit Committee meets quarterly and is comprised of three members: two Board Members and one External Financial Expert. The Manager of IA is responsible for preparing all agenda items for the Audit Committee meetings.

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## *Best Practices Recommendations for the Audit Committee Structure*

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### **Government Finance Officers Association**

- *“The governing body of every state and local government should establish an audit committee or its equivalent.*
- *The audit committee should be . . . made directly responsible for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.*
- *All members of the audit committee should be members of the governing body.*
- *It is the responsibility of the audit committee to provide independent review and oversight of a government’s financial reporting processes, internal controls and independent auditors.*
- *The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans.”*

### **American Institute of Certified Public Accountants**

*“Government entities are faced with ongoing challenges related to the governance of their organization, risks associated with achieving their organization’s objectives, and compliance with revised and emerging laws and regulations. Responsibilities are ultimately identified by the governing body and assigned to various governing committees, including the audit committee . .*

*The audit committee assists the governing body in its oversight of*

- *integrity of the organization’s financial statements;*
- *internal control including internal control over financial reporting;*
- *independent auditor’s qualifications, independence, and performance;*
- *internal audit function’s qualifications, independence, and performance;*
- *the organization’s risk management and overall governance process; and*
- *the organization’s ethics and compliance program, which includes legal and regulatory requirements.”*

### **The Institute of Internal Auditors**

*“The cornerstones of effective governance are the board of directors, executive management, the internal auditors, and the external auditors. No single committee of the board is more focused on or better in tune with governance than the audit committee. What is the audit committee’s role in governance? In a nutshell, the audit committee should provide oversight of financial reporting, risk management, internal control, compliance, ethics, management, internal auditors, and the external auditors. Some detailed audit committee responsibilities include:*

- *Ensuring that financial statements are understandable, transparent, and reliable.*
- *Ensuring the risk management process is comprehensive and ongoing, rather than partial and periodic.*
- *Helping achieve an organization-wide commitment to strong and effective internal controls, emanating from the tone at the top.*
- *Reviewing corporate policies relating to compliance with laws and regulations, ethics, conflicts of interest, and the investigation of misconduct and fraud.*
- *Reviewing current and pending corporate-governance-related litigation or regulatory proceedings to which the organization is a party.*
- *Continually communicating with senior management regarding status, progress, and new developments, as well as problematic areas.*
- *Ensuring the internal auditors' access to the audit committee, encouraging communication beyond scheduled committee meetings.*
- *Reviewing internal audit plans, reports, and significant findings.*
- *Establishing a direct reporting relationship with the external auditors."*

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### *The Role of the Audit Committee Financial Expert*

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The April 2004 recommendation that established the Audit Committee and the Internal Audit Department did not discuss the role of an external financial expert in providing counsel and advice to the Audit Committee. The Audit Committee Advisor/Financial Expert serves as a resource to the Audit Committee, the Internal Audit Department and Executive Management. The Financial Advisor serves as a checks and balance for the Internal Audit Department for the Audit Committee and serves as an interpreter for the Audit Committee.

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### *Best Practices Recommendations for the Audit Committee Financial Expert*

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#### **Government Finance Officers Association**

*"The audit committee also should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a 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”*

#### **American Institute of Certified Public Accountants**

*“If no individual member of the audit committee possesses the attributes required for financial expertise, and the committee members collectively do not possess such attributes, two options might be considered:*

- *Engage a financial professional to provide financial expertise as a consultant to the audit committee. Such an individual must otherwise be independent with respect to the entity (that is, must have no other financial arrangements with the government entity).*
- *Pursue a training program for audit committee members to develop the financial expertise. Such training can include participation in professional development classes or programs offered by the AICPA, associations, or the specific sector in which the government entity participates, or in-house training programs led by members of the government entity’s financial management team.”*

#### **The Institute of Internal Auditors**

*“The audit committee charter should define membership requirements, **include a provision for a financial expert**, allow for yearly reviews and changes . . . “*

The IEUA Audit Committee has as the Financial Expert, Mr. Travis C. Hickey, CPA through the firm Rogers, Anderson, Malody, and Scott, LLP to be the Audit Committee Advisor. Mr. Hickey is a Certified Public Accountant and has several years of experience auditing and providing recommendations to agencies like IEUA. Over the past years, Mr. Hickey has been a valuable resource to the Audit Committee and the Internal Audit Department by providing consulting and advisory services.

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### *The Role of the External Financial Auditor*

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State law and the Agency’s Fiscal Ordinance requires that an independent certified public accountant audit the Financial Statements of the Agency. The purpose of a financial audit is to demonstrate that the Agency’s financial statements were 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. The

role of the External Auditors is also to evaluate the adequacy and accuracy of the accounts, test internal controls and complete the audit in accordance with generally accepted auditing standards. The auditors are only providing an opinion as to the representations provided by the Agency. The purpose of the annual financial audit is to receive an independent audit opinion as to the fairness of the financial statements. The opinion is relied upon by readers of the financial statements such as lenders, rating agencies and other stakeholders. The scope of the audit and the materiality threshold set for the audit testing and procedures are determined based on the auditor's risk assessment, professional guidelines and their professional judgment. The audit is not meant to detect fraud. The External Financial Auditors must be licensed as Certified Public Accountants in the State of California and follow a rigorous set of guidelines established by the American Institute of Certified Public Accountants for the performance of financial audits. The Agency currently has a contract with Lance, Soll & Lunghard, LLP, located in Brea, CA for financial auditing and single audit services.

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*Best Practices Recommendations for the Internal Audit Department Charter*

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**Government Finance Officers Association**

*“The internal audit function should be established formally by charter, enabling resolution, or other appropriate legal means.”*

**American Institute of Certified Public Accountants**

The AICPA also recommends that one aspect of the audit committee's oversight responsibilities for Internal Audit includes: *“Approve the internal audit department charter.”*

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*Best Practices Recommendations for the Audit Committee Charter*

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**Government Finance Officers Association**

*“The audit committee should be formally established by charter, enabling resolution or other appropriate legal means and . . . the written documentation establishing the audit committee should proscribe the scope of the committee's responsibilities, as well as its structure, processes, and membership requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy.”*

**American Institute of Certified Public Accountants**

*“Specific responsibilities assigned to an audit committee are set forth in an audit committee charter . . . that is approved by the governing body. An audit committee charter should address the audit committee process, procedures, and responsibilities. Audit committee responsibilities*

*can vary by government entity due to factors such as size of the entity, the type of entity, and the complexity of the government entity's service or business model."*

**American Institute of Certified Public Accountants**

*"The audit committee's charter is its blueprint for operations. Highly customized to best meet the needs of an organization's industry, mission, and culture, the charter should clearly delineate audit committee processes, procedures, and responsibilities that have been sanctioned by the entire board."* (The document further provides specific recommendations for what to include in an Audit Committee Charter and provides a sample document for reference.)

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*Conclusion*

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Based on the analysis and information gathered and provided through this report and the accompanying additional resources related to the Audit Function, we are pleased to report that IEUA has structured and aligned the Internal Audit Department and the Audit Committee in accordance with best practices and professional guidance to ensure an independent function. The components of The Audit Function work together and independently to achieve the requirements of the Board approved Charters and fulfill the Board's oversight responsibilities. It should be noted that external auditors and other agencies often compliment that IEUA has taken the lead to ensure these functions are established according to best practices and professional guidance and support independent evaluations for the benefit of the organization.

Internal Audit Department staff has compiled the accompanying "Additional resources related to the Audit Function" for reference on the various topics discussed throughout this report.

The Internal Audit Department appreciates the opportunity to provide this comprehensive information report on The Audit Function of IEUA and looks forward to direction and requests for audit projects.

***The Audit Function Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing the functions, roles and responsibilities of the Internal Audit Department, the Audit Committee, External Financial Auditors and the Audit Committee Advisor and a plan to ensure the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.***

# The Audit Function at Inland Empire Utilities Agency



# Background

- Formation of Internal Audit Department & Audit Committee
  - 2004
  - 2005
  - 2017

- **Guidance over Internal Audit activities:**

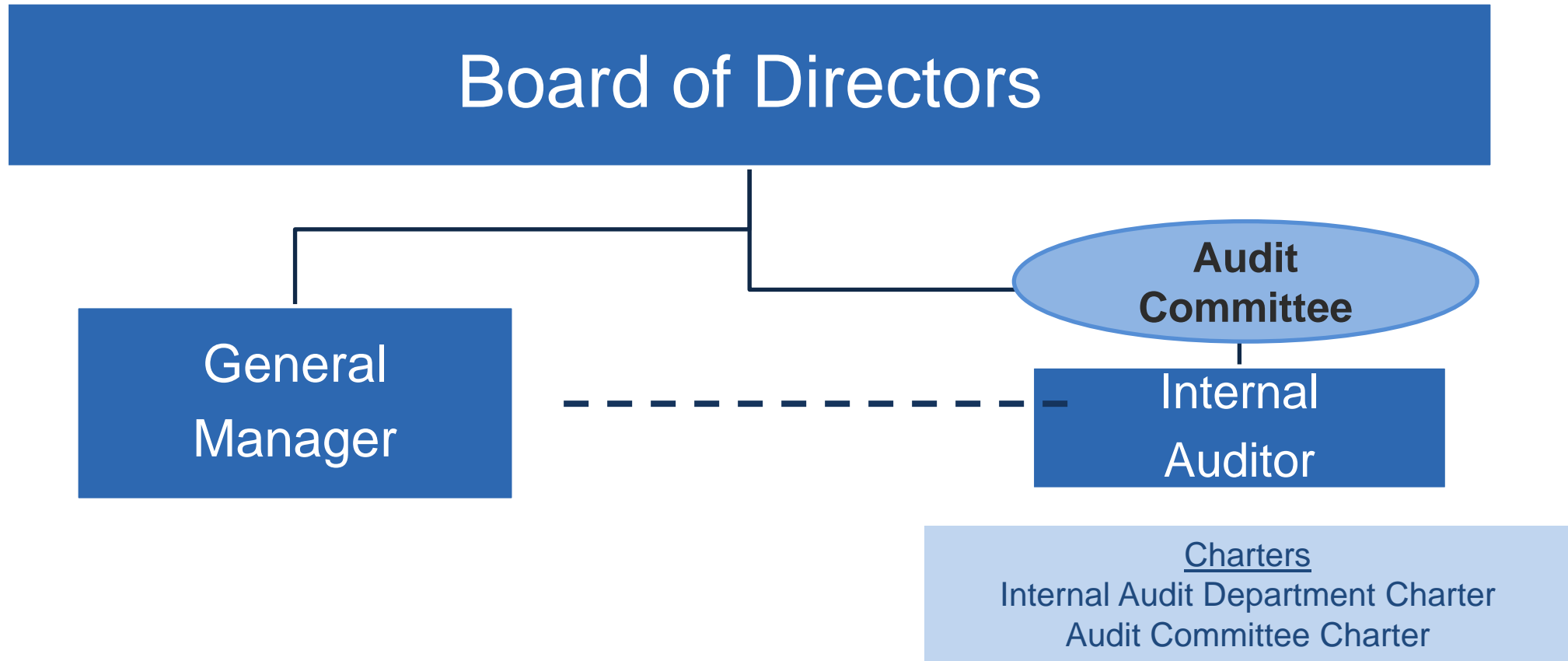
- IIA: Institute of Internal Auditors
- GFOA: Government Finance Officers Association
- AICPA: American Institute of Certified Public Accountants





# The Audit Function

This reporting model is supported by best practices and guidance recommended by IIA, GFOA and AICPA



# The Audit Function & Audit Committee Resources



# Charter Requirements

## Audit Oversight & Responsibilities

- Internal Audit Department
- External Audit
- Financial Reporting
- Internal Controls
- Risk Management
- Compliance



### 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.

# The Role of the Internal Audit Department

- Serve as the “Eyes and ears” of the Board
- Objective and independent evaluations and reviews
- Assist the Agency in achieving its goals
- Assess internal controls
- Provide assurance on processes and procedures
- Promote strong ethical culture
- On-going monitoring and compliance
- Assist in safeguarding assets
- Raise any potential red flags
- Make recommendations to improve operations
- Communicate results & provide audit reports

## **Definition of Internal Auditing**

(as defined by the Institute of Internal Auditors)

**Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.**

# Types of Audits Performed by Internal Audit



# Internal Audit Department Responsibilities

- Operational Audits
- Make recommendations to improve operations
- Follow-ups Reviews
- Agency Policy reviews
- Special Requests
- Quality Control Review of CAFR
- Ethics Point
- Annual Audit Plan
- RFP for External Financial Audit Services
- Charters & Standard Operating Procedures
- Continuous Professional Development
- IAD Website on AIM
- Administrative requirements

## **Mission Statement**

*The Internal Audit Department seeks to improve the operations of the Agency by providing unbiased and objective assessments to ensure Agency resources are efficiently and effectively managed in order to achieve Agency goals and objectives. The Internal Audit Department will help the Agency achieve its goals and objectives, improve operations, and instill confidence among its employees and citizens it serves by providing independent, objective assurance and consulting services and provide management and the Board of Directors with recommendations to:*

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

# Audit Committee Meetings

- Audit Reports
  - Scope
  - Observations & Recommendations
  - Auditee Response & Discussion
  - Direction to Proceed
- Required and/or Routine Audit Items
  
- Administrative Items

# Prior Internal Audit Department Audits

- Warehouse Operations
- Human Resources – Benefit processes, Hiring and Promotions processes
- Finance & Accounting – Accounts Payable, Accounts Receivable, Petty Cash
- Finance & Accounting – Payroll, Wire Transfers Interfund Transactions
- Construction Management
- Contracts and Procurement
- Laboratory
- Environmental Compliance
- Pre-Treatment and Source Control
- Planning and Environmental Resources
- Integrated Systems Services – IT equipment
- Vehicle Inventory & Security
- Energy/Utility Bills
- Regional Contract Audits of the 7 contracting agencies
- P-Cards and Credit Cards
- Garden In Every School Program
- Grants – processes, Agency Covid-19 expenses
- Policy review and recommendations
- Miscellaneous projects and requests



# Next Steps and Plans

- Audit Projects
- Risk Assessment
- Resources
- Annual Audit Plan

# Additional Resources related to The Audit Function (Electronic Documents - hyperlinked)

- IEUA Board Approved Charters
- 2004 Board Letter establishing the Audit Function
- The IIA's Guidance and best practice information
- IAD – Standard Operating Procedure
- GFOAs guidance and best practice information
- AICPA's guidance and best practice information
- Association of Certified Fraud Examiner's 2020 Report to the Nations on Occupational Fraud and Abuse

## Provide direction for Audit Responsibilities and future Audit Committee Meetings

*The Audit Function Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing the functions, roles and responsibilities of the Internal Audit Department, the Audit Committee, External Financial Auditors and the Audit Committee Advisor and a plan to ensure the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.*

INFORMATION  
ITEM  
2B



**Date:** March 17, 2021

**To:** The Honorable Board of Directors

**Committee:** Audit

*Teresa Velarde*

**From:** Teresa Velarde, Manager of Internal Audit

03/08/21

**Manager Contact:** Teresa Velarde, Manager of Internal Audit

**Subject:** Internal Audit Department Quarterly Status Report for March 2021

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**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 the following projects: Request For Proposals for External Audit Services and Single Audit Services for Inland Empire Utilities Agency, Chino Basin Regional Financing Authority, and Inland Empire Regional Composting Authority; and the Report on The Audit Function. IA assisted various departments and requests including review of policies, processes and finalizing the financial statement reviews. IA has multiple projects that are in process in addition to the 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.

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**Staff's Recommendation:**

This is an information item.

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**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 16, 2020, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters.

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**Environmental Determination:**

Not Applicable

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**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.

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**Attachments:**

Attachment 1 - Internal Audit Departemnt Quarterly Status Report for March 2021

# Internal Audit Department Quarterly Status Report for March 2021

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## Projects Completed This Period

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**Project:**

**Coordinate the Request for Proposal, Evaluations and Selection Process for External Financial Audit and Single Audit Services for Inland Empire Utilities Agency (IEUA), the Chino Basin Regional Financing Authority (CBRFA) and Inland Empire Regional Composting Authority (IERCA).**

**Scope:**

To secure the best qualified professional services of an independent public accounting firm to perform the annual financial audit and single audits of IEUA, financial audits of the CBRFA and IERCA. To comply with California Government Code and industry best practices to ensure proper auditor rotation for audit services. Additionally, to ensure a qualified certified public accounting firm performs the required financial audits in accordance with all regulatory requirements and the Agency's Fiscal Ordinance to help fulfill the Audit Committee's oversight responsibilities for financial reporting.

**Status:           **COMPLETE****

The current contract with Lance, Soll and Lunghard, LLP for External Financial Auditing Services expired on December 31, 2020. The Agency is required to rotate auditors every 6 years. IA took the lead on working with the Contracts Department to release a Request for Proposal. IA coordinated with representatives from Finance and Accounting and the Grants Departments and the Audit Committee Advisor to form an evaluation committee. Seven firms submitted a proposal, after the initial evaluation of proposals, five firms were selected for a virtual interview. The evaluation committee recommends CliftonLarsonAllen LLP to serve as the Agency's Financial Auditors for the upcoming years.

*Additional details of the evaluation process and the firm are included under a separate cover.*

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**Project:           **Report: The Audit Function & Reference Material****

**Scope:**

To provide a report about the Agency's Audit Function, including historical information, purpose and roles of the Internal Audit Department, the Audit Committee, the Audit Committee's Financial Advisor and the External Auditors. Additionally, to provide information about the types of audits performed by the Internal Audit Department and the chartered responsibilities of the Internal Audit Department.

**Status:           **COMPLETE****

The IAD has completed a comprehensive report, power-point presentation and reference handbook describing the best practices and recommended guidance for the Audit Function as outlined by the Government Financial Officers Association, the American Institute of Certified Public Accountants (AICPA) and the Institute of Internal Auditors (IIA). The handbook contains various resources and toolkits from IIA, GFOA and AICPA to assist the Audit Function in exercising their duties and provide additional information.

*The items are included under a separate cover.*

---

**Project:           **Quality Control Review of Inland Empire Regional Composting Authority's (IERCA) FY 2019/20 Annual Financial Report****

**Scope:**

Perform a Quality Control Review of the IERCA's Annual Financial Report to review that financial information transfers accurately between the financial schedules and within the narratives, check for mathematical accuracy and for overall professional presentation.

## Internal Audit Department Quarterly Status Report for March 2021

IA's review includes the following procedures:

- Verified that the FY 2019 amounts/totals for all financial statements were transferred accurately from the FY 2019 published Annual Financial Report to the FY 2020 Annual Financial Report.
- 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 Annual Financial Report to ensure consistency and a professional presentation.

**Status:**           **COMPLETE**

The Annual Financial Report is prepared by the Agency's Finance and Accounting Department. If identified, IA provided comments and recommendations for their review and consideration. The final report is presented during the scheduled IERCA Board Meeting.

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### *Projects in Progress*

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**Project:**    **Review the Agency's practice and use of Electronic Signatures**

**Scope:**

Business Information Services (BIS) requested the assistance of IA to evaluate the Agency's current use of electronic signatures using DocuSign®, a secured signature service.

**Status:**           **In Progress**

Due to the current remote work status and in response to ensure all transactions are processed timely, to not disrupt business continuity and ensure all necessary documents are approved and signed as required, the use of electronic approvals and signatures has increased. This initial and preliminary evaluation focused on how the Agency's electronic methods for signatures, such as DocuSign®, Adobe Acrobat and other electronic signatures are being used within the Agency. IA reviewed the various Agency internal and external forms and documents that require electronic signatures and evaluated the types of electronic signatures that may be practical and necessary. IA has discussed the preliminary results of the evaluation and recommendations with BIS management and the Executive Management team for their consideration. Additional evaluation of these processes will be completed once remote work status transitions to the original on-site work status. A final report or results will be documented at that time.

---

**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 and understand Agency risks, represent the department and be a resource to provide feedback and recommendations.

**Status:**           **On-going**

During this quarter, IA staff participated in monthly meetings for each. Understanding Agency priorities and potential risks assists in audit planning. These meetings require approximately 1 hour each per month and do not compromise the independence of the auditors or the Internal Audit Department.

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**Project:**    **Sewer System Management Plan Audit**

**Scope:**

IA participated in the ad-hoc committee to perform the required 5-year audit and the biannual review of the Agency's Sewer System Management Plan (SSMP) as required by the State Water Regional Control Board



## Internal Audit Department Quarterly Status Report for March 2021

(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**

This project required approximately 45 hours of staff time. The project is owned by the Operations Department, IA participated as one of the review team members to evaluate the Board-approved SSMP and provide recommendations to update and improve the document by the required SWRCB deadline. This project did not compromise the independence of the auditor or the Internal Audit Department.

---

**Project: FY 2019/20 Single Audit filing for IEUA**

**Scope:**

IA works closely with the External Financial Auditor and the Grants Department to ensure the completion and filing of the required Agency's Single Audit Report with all required regulatory agencies.

**Status: In Progress**

According to the Uniform Guidance (Title 2, *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F— Audit Requirements) any non-federal entities that expend \$750,000 or more in federal awards in a fiscal year are required to have a Single Audit performed in accordance with the Single Audit Act. Single Audit reporting packages are due nine months after the fiscal year end, by March 31<sup>st</sup> of the following year. A Single Audit has been required for the Agency every year since FY 2006/07.

Lance, Soll and Lunghard, LLP completed the Agency's Single Audit for FY 2019/20 at the end of February 2021. IA and the Grants Department have reviewed the Single Audit report. LSL is in the process of finalizing the report and submitting it to the federal government. IA certifies the submission and takes the lead to ensure the Single Audit Reporting package is filed with all the required regulatory agencies. IA continues to work closely with LSL and the Grants Department to finalize the filing of the Single Audit Reporting package before the required due date of March 31, 2021.

A status update on this project will be provided in the next Internal Audit Department Quarterly Status Report for June 2021.

---

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

**Scope:**

The original evaluation reviewed 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 the expenses are in compliance with all Agency policies and procedures, follow proper internal controls and contain the required supporting documentation.

**Status: In Progress**

In the Fall of 2020, IA worked closely with the Grants Department to evaluate the COVID-19 expenditures incurred by the Agency and submitted for possible reimbursement by the Federal Emergency Management Agency (FEMA). As of October 31, 2020, the Agency has incurred approximately \$600,000 in expenses for 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.

## Internal Audit Department Quarterly Status Report for March 2021

IA plans to coordinate with the Grants Department to determine if there are any other COVID-19 expenses incurred by the Agency since the interim report was issued in December 2020 and/or to provide a status update if any reimbursements have been received by FEMA.

*A final report will be presented to the Audit Committee when final financial information is available.*

---

**Project:**           **IEUA Internal Audit Department –  
Department Presentation for Human Resources Monthly Brown Bag Series**

**Scope:**

The Agency's Human Resources Department (HR) developed a series of high-level Brown Bag workshops that are facilitated by Agency staff on various Agency's functions and programs. Presentations are conducted virtually via Microsoft Teams and approximately 100 employees attend. IA has been asked to participate in this Brown Bag series and host a 1-hour presentation on the role of IA.

**Status:**           **In Progress**

IA plans to participate in the Brown Bag series in 2021, date to be determined. IA appreciates the opportunity to provide an overview of the IA department's mission, purpose, function, roles and responsibilities.

*Additional details will be documented in the next Internal Audit Department Quarterly Status Report.*

---

**Project:**           **Follow-Up IT Equipment Audit – Integrated Systems Services (ISS)**

**Scope:**           **In Progress**

To evaluate the status of the two open recommendations from the original Information Technology (IT) Equipment audit completed in 2012. The recommendations are:

- Original Recommendation # 3 (dated August 2012): ISS implement appropriate tracking systems that include relevant information on IT purchases (i.e., serial numbers, etc.), are updated timely and are complete and accurate. ISS should establish procedures to enter, modify, and delete information in the tracking systems that address areas such as timeliness for updates, responsibilities for maintaining the systems, and the types of items included in the tracking system.
  
- Original Recommendation # 1 (dated November 2012): ISS should ensure that any services procured with P-Cards are expressly authorized by the Manager of CAP, CFO, AGM or GM prior to committing to services.

**Status:**

IA will meet with ISS to evaluate the remaining two recommendations. Based on the results of the discussions with the Operations Division and ISS Management, IA will assess the feasibility to expand the scope of the audit to evaluate additional areas to provide added value to the department and Agency.

*Additional details will be documented in the next Internal Audit Department Quarterly Status Report.*

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# Internal Audit Department

## Quarterly Status Report for March 2021

### Report on Open Audit Recommendations as of March 2021

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: On-going**

As of March 2021, there are 74 outstanding audit recommendations. 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 and/or the department audited. The audited business units are encouraged to submit additional information for IA review if they determine the recommendation has been satisfied.

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA*	Planned Follow-Up
Accounts Payable Follow-Up <i>(Deferred Recommendations related to Agency Policies)</i>	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
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
<b>Total Outstanding Audit Recommendations</b>		<b>74</b>	

Recommendations related to the Regional Contract Review <small>(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)</small>			
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.*

# Internal Audit Department

## Quarterly Status Report for March 2021

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### *Management Requests*

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**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.

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### *Special Projects*

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**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.

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### *Internal Audit Staffing and Professional Development*

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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.

During this quarter, the Manager of IA attended a multi-day training on Crucial Conversations as required by Agency Management. In January 2021, staff attended a 1-hour training called Developing the Leaders Around You. Additionally, in January, staff attended the Women in Water webinar hosted by Eastern Municipal Water District. In February 2020, staff attended the 2021 California Society Municipal Finance Officers (CSMFO) Virtual Annual Conference *Together Toward Tomorrow*. In this month, IA staff also attended a 2-hour webinar on the Ethical Considerations for Internal Auditors hosted by the IIA San Gabriel Valley Chapter. 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 the same local Chapter and holds an officer position, Chapter Secretary.

## Internal Audit Department Quarterly Status Report for March 2021

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 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.

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The Internal Audit Department is staffed as follows:

- 1 Full-time Manager of Internal Audit
  - 1 Full-time Senior Internal Auditor
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### *Future Audit Committee Meetings*

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- *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*
  - *Monday, March 7, 2022 – Regularly Scheduled Audit Committee Meeting*
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